Villa Select Limited

Report and Financial Statements

31 October 2003

Ernst & Young

Registered No: 1737937

Directors
J R Ball
P Ball

Secretary
P Ball

Auditors
Ernst & Young LLP
One Colmore Row
Birmingham
B3 2DB

Bankers
National Westminster Bank
PO Box 68
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WV1 1TR

Registered office
Arden Court
Arden Road
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ABTA Membership No.
Tour operator W0389
Retail F9679

Directors' report

The directors present their report and financial statements for the year ended 31 October 2003.

Results and dividends

The profit for the year, after taxation, amounted to £50,344. Ordinary dividends of £561,000 were paid during the year.

Principal activities and review of the business

The company's principle activity during the year continued to be Tour operators and travel agents.

The year ending October 2003 proved to be one of the most difficult yet in our 20 years of trading. The previous year, 2002, showed a slow down in the overseas holiday market following the September 11th terrorist attacks on New York. This paled into insignificance during 2003 however, as the build up and then implementation of the Gulf War in Iraq in March played total havoc with the booking pattern of last summer season. The demand for overseas holidays completely dried up and although the war was relatively short in terms of time, the impact was such that there was no time for the industry to recover for summer 2003. We suffered in the following manner;

a) the majority of bookings taken were late bookings
b) to generate these bookings the whole industry was forced to discount prices to an uneconomical level, sometimes by up to 50%
c) Even these discounts did not always fill up vacant accommodation and so we were dealt a blow with a double edged sword as both sales and margins were badly hit during the year.

Further factors also had an impact. Firstly the strength of the Euro against the pound increased costs by some 12%. Secondly although we as a company had cut back on our fixed contracts where possible, we still experienced over capacity in all resorts. The problem here is that for the sake of current stability and the future ongoing of the business, we could not risk upsetting our owners of many years standing by cancelling contracts without redress. Thirdly in the Balearic Islands the second season of the Ecotax deterred customers from our resorts in Mallorca and Menorca. Finally the hot and prolonged British summer did little to persuade our clients from taking a holiday in the UK in 2003. It is a year therefore that we would like to put behind us.

As is evident from these accounts, both overseas and UK costs have been either reduced or maintained and great care has been taken to improve our standards both here in the UK and abroad. The Directors are of the opinion that the company is well placed to enjoy continued success in the future.

Directors' report

Future developments

Although our 2004 season is again proving to be a challenge, many in our industry are stating that it is an even greater challenge than 2003. We however are currently performing better than last year. The terrorism factor is as evident as in previous years, however this has now shifted to the UK just as much as in other areas of Europe. Everyone is now on a level playing field. We have spent much time and effort in directly marketing our product and special deals, as they become late sales. This has been undertaken through our own substantial client mailing list. We are constantly improving our website and now offer clients availability as well as a greater range of photographs and up to the minute "special offer" pages. It is our opinion that the overseas holiday cycle revolves around a 3-4 year period and we are hopeful that 2005 will be the turning point again for the niche market that we enjoy. Everything points to a quick return to pre-2002 profitability. The further expansion of the "no frills" airlines has encouraged the independent holidaymaker towards our product. We have also moved towards this market by introducing odd duration and short break villa holidays.

As this report is being finalised we are in the final stages of applying for our ATOL license from the Civil Aviation Authority. Whilst the Director's are taking a very cautious approach to plan for 2005 we are very upbeat regarding the company's future development and the possibility of expanding into one or two new resorts.

Villa Select has established itself as one of the leading independent, privately owned villa holiday specialists in the UK. We are proud of our product and reputation. After almost 21 years in business the company now enjoys a niche market, which is thankfully not affected by the same criteria as the large tour operators. The name of the game is specialisation and therefore the future for Villa Select Ltd remains very bright, in what has become a fast changing industry.

Directors and their interests

The directors at 31 October 2003 and their interests in the share capital of the company were as follows:

	At 31 October 2003 Ordinary shares	*At 1 November 2002 Ordinary shares*
J R Ball	25,000	25,000
P Ball	25,000	25,000

Directors' report

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

By order of the board

P Ball
Secretary

Dated 29/3/04

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that year. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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Independent auditors' report

to the members of Villa Select Limited

We have audited the company's financial statements for the year ended 31 October 2003 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Statement of Cash Flows and the related notes 1 to 17. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31 October 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst + Young LLP

Ernst & Young LLP
Registered Auditor
Birmingham

Dated 29th March 2004

Profit and loss account
for the year ended 31 October 2003

	Notes	2003 £	2002 £
Turnover	2	5,690,615	6,356,025
Cost of sales		4,833,487	5,308,518
Gross profit		857,128	1,047,507
Administrative expenses		814,620	862,804
Operating profit	3	42,508	184,703
Bank interest receivable	6	21,130	41,292
Interest payable	7	–	(491)
		21,130	40,801
Profit on ordinary activities before taxation		63,638	225,504
Tax on profit on ordinary activities	8	13,294	48,995
Profit on ordinary activities after taxation		50,344	176,509
Dividends:			
ordinary dividends on equity shares	9	561,000	338,500
Loss for the financial year		(510,656)	(161,991)

Statement of total recognised gains and losses
There are no recognised gains or losses other than the profit of £50,344 attributable to the shareholders for the year ended 31 October 2003 (2002 - profit of £176,509).

Balance sheet
at 31 October 2003

	Notes	2003 £	2002 £
Fixed assets			
Tangible assets	10	67,694	77,463
Current assets			
Debtors	11	356,359	351,034
Cash at bank		367,960	1,004,229
		724,319	1,355,263
Creditors: amounts falling due within one year	12	664,165	793,122
Net current assets		60,154	562,141
Total assets less current liabilities		127,848	639,604
Provisions for liabilities and charges			
Deferred taxation	8	3,900	5,000
		123,948	634,604
Capital and reserves			
Called up share capital	15	50,000	50,000
Profit and loss account	16	73,948	584,604
Equity shareholders' funds	16	123,948	634,604

J R Ball
Director

P Ball
Director

Dated 29/03/04

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Statement of cash flows
for the year ended 31 October 2003

	Notes	2003 £	2002 £
Net cash inflow from operating activities	17(a)	(46,482)	152,743
Returns on investments and servicing of finance	17(b)	21,130	40,801
Taxation	17(c)	(43,494)	(160,395)
Capital expenditure and financial investment	17(d)	(6,423)	(26,414)
Equity dividends paid		(561,000)	(338,500)
Financing	17(e)	–	(6,795)
Decrease in cash		(636,269)	(338,560)

Reconciliation of net cash flow to movement in net funds

		2003 £	2002 £
Decrease in cash		(636,269)	(338,560)
Cash used to repay capital element of finance leases and hire purchase payments		–	6,795
		(636,269)	(331,765)
Change in net funds	17(f)	(636,269)	(331,765)
Net funds at 1 November	17(f)	1,004,229	1,335,994
Net funds at 31 October	17(f)	367,960	1,004,229

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Notes to the financial statements
at 31 October 2003

1. Accounting policies
Basis of preparation
The financial statements are prepared under the historical cost convention.

Fixed assets
All fixed assets are initially recorded at cost.

Depreciation
Depreciation is provided on all tangible fixed assets, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition of each asset evenly over its expected useful life, as follows:

Fixtures & Fittings	- 15% reducing balance
Motor Vehicles	- 25% reducing balance

Deferred taxation
Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exception that deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies
Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences are taken to the profit and loss account.

Operating lease agreements
Rentals payable under operating leases are charged in the Profit and Loss Account on a straight line basis over the lease term.

2. Turnover
Turnover represents net invoiced sales to customers. Deposits received in advance are treated as income received on the scheduled date of departure relevant to each particular booking.

An analysis of turnover by geographical market is given below:

	2003	*2002*
	£	*£*
United Kingdom	5,690,615	6,356,025

Notes to the financial statements
at 31 October 2003

3. *Operating profit*

This is stated after charging/(crediting):

		2003 £	2002 £
Auditors' remuneration	- audit services	6,000	6,000
	- non-audit services	215	230
		6,215	6,230
Depreciation of owned fixed assets		16,192	14,801
Profit on disposal of fixed assets		–	(3,749)
Operating lease rentals	- land and buildings	15,000	15,000

4. Staff costs

	2003 £	2002 £
Wages and salaries	320,748	341,828
Social security costs	35,381	34,716
	356,129	376,544

The monthly average number of employees during the year was as follows:

	2003 No.	2002 No.
Management	2	2
Administrative	9	8
	11	10

5. Directors' emoluments

	2003 £	2002 £
Emoluments	196,973	186,422
Pension contributions	19,200	19,200

6. Interest receivable

	2003 £	2002 £
Bank interest receivable	21,130	41,292

Notes to the financial statements
at 31 October 2003

7. Interest payable

	2003 £	2002 £
Finance charges payable under finance leases and hire purchase contracts	–	491

8. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows:

	2003 £	2002 £
Current tax:		
UK corporation tax	14,500	43,600
Tax (over)/under provided in previous years	(106)	395
Total current tax (note 8(b))	14,394	43,995
Deferred tax:		
Origination and reversal of timing differences	(1,100)	5,000
Tax on profit on ordinary activities	13,294	48,995

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 19% (2002 - 19.41%). The differences are reconciled below:

	2003 £	2002 £
Profit on ordinary activities before taxation	63,638	225,504
Profit on ordinary activities multiplied by the rate of tax	12,091	43,770
Capital allowances in advance of depreciation	673	(2,732)
Expenses not deductible for tax purposes	1,742	1,412
Deferred tax provided at 30%	–	925
Adjustments in respect of prior years	(106)	395
Others	(6)	225
Total current tax (note 8(a))	14,394	43,995

(c) Deferred tax

	2003 £	2002 £
Capital allowances in advance of depreciation	(3,900)	(5,000)
Provision for deferred taxation	(3,900)	(5,000)

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Notes to the financial statements
at 31 October 2003

8. Tax (continued)

	£
At 1 November 2002	(5,000)
Profit and loss account movement arising during the year	1,100
At 31 October 2003	(3,900)

9. Dividends

	2003 £	*2002* £
Equity dividends on ordinary shares:		
Dividends paid	561,000	338,500

10. Tangible fixed assets

	Fixtures & Fittings £	*Motor Vehicles* £	*Total* £
Cost:			
At 1 November 2002	117,834	65,954	183,788
Additions	6,423	–	6,423
At 31 October 2003	124,257	65,954	190,211
Depreciation:			
At 1 November 2002	76,459	29,866	106,325
Provided during the year	7,170	9,022	16,192
At 31 October 2003	83,629	38,888	122,517
Net book value:			
At 31 October 2003	40,628	27,066	67,694
At 1 November 2002	41,375	36,088	77,463

11. Debtors

	2003 £	*2002* £
Trade debtors	14,910	2,788
Prepayments and accrued income	341,449	348,246
	356,359	351,034

Notes to the financial statements
at 31 October 2003

12. Creditors: amounts falling due within one year

	2003 £	2002 £
Trade creditors	254,562	324,511
Corporation tax	14,500	43,600
Other taxation and social security	14,220	52,342
Other creditors	368,809	360,696
Accruals and deferred income	12,074	11,973
	664,165	793,122

13. *Commitments under operating leases*

At 31 October 2003 the company had annual commitments under non-cancellable operating leases as set out below.

	Land and buildings	
	2003 £	*2002* £
Operating leases which expire:		
In two to five years	15,000	15,000

14. Related party transactions

No transactions with related parties were undertaken such as are required to be disclosed under Financial Reporting Standard 8.

15. Share capital

		Authorised
	2003 £	*2002* £
Ordinary shares of £1 each	100,000	100,000

	Allotted, called up and fully paid			
	2003			*2002*
	No.	£	*No.*	£
Ordinary shares of £1 each	50,000	50,000	50,000	50,000

Notes to the financial statements
at 31 October 2003

16. Reconciliation of shareholders' funds and movement on reserves

	Share capital	*Profit and loss account*	*Total share-holders' funds*
	£	*£*	*£*
At 1 November 2001	50,000	746,595	796,595
Profit for the year	–	176,509	176,509
Dividends	–	(338,500)	(338,500)
At 31 October 2002	50,000	584,604	634,604
Profit for the year	–	50,344	50,344
Dividends	–	(561,000)	(561,000)
At 31 October 2003	50,000	73,948	123,948

17. Notes to the statement of cash flows

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2003	*2002*
	£	*£*
Operating profit	42,508	184,703
Depreciation	16,192	14,801
Profit on disposal of fixed assets	–	(3,749)
Increase in debtors	(5,325)	(23,560)
Decrease in creditors	(99,857)	(19,452)
Net cash (outflow)/inflow from operating activities	(46,482)	152,743

(b) Returns on investments and servicing of finance

	2003	*2002*
	£	*£*
Interest received	21,130	41,292
Interest element of finance leases and hire purchase rentals payments	–	(491)
	21,130	40,801

(c) Taxation

	2003	*2002*
	£	*£*
Corporation tax paid	(43,494)	(160,395)

Notes to the financial statements

at 31 October 2003

17. Notes to the statement of cash flows *(continued)*

(d) Capital expenditure

	2003	*2002*
	£	*£*
Payments to acquire tangible fixed assets	(6,423)	(37,414)
Receipts from sales of tangible fixed assets	–	11,000
	(6,423)	(26,414)

(e) Financing

	2003	*2002*
	£	*£*
Repayment of capital element of finance leases and hire purchase contracts	–	(6,795)

(f) Analysis of changes in net funds

	At 1 November 2002	*Cash flows*	*At 31 October 2003*
	£	*£*	*£*
Cash at bank and in hand	1,004,229	(636,269)	367,960
	1,004,229	(636,269)	367,960

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