Villa Select Limited

Report and Financial Statements

31 October 2005

ERNST & YOUNG

Registered No: 1737937

Directors
J R Ball
P Ball

Secretary
P Ball

Auditors
Ernst & Young LLP
No 1 Colmore Square
Birmingham
B4 6HQ

Bankers
HSBC
Market Place
Willenhall
WV13 2AS

Registered office
Arden Court
Arden Road
Alcester
Warwickshire
B49 6HN

ABTA Membership No.
Tour operator W0389
Retail F9679

Directors' report

The directors present their report and financial statements for the year ended 31 October 2005.

Results and dividends

The profit for the year, after taxation, amounted to £80,130. The directors do not recommend the payment of any dividends.

Principal activities and review of the business

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

The year ended 31 October 2005 proved to be much more successful than the disappointing year of 2004 which we always considered to be a "one-off" after years of sustained profitability. Sales for August bounced back strongly with a return of the family market, which had dried up so badly the previous year. The repeat clientele is very much the backbone of the company and its success, and we are pleased that over 60% of our business is achieved from clients who have previously holidayed with s.

The impact of the Internet and the rise in the low cost airlines sector continues to be a challenge, however we have been able to successfully adapt our contracting commitments with many of our owners to counteract this competition. Although sales for charter aircraft seats were down 23% on 2004, our villa sales increased by some 6% and this together with the reduction of fixed guarantees on many villa contracts has resulted in a substantial profit for the year. The upside of this also means that the necessity for discounting is greatly reduced. Market forces however still dictate that our most popular houses, usually the very best available for rental in each resort, carry a guarantee to ensure that they stay loyal to Villa Select. These villas do however carry a very high occupancy level and remain the core of our business. All other villas are now contracted on a more fluid lower risk arrangement and we plan to increase the number of ad-hoc contracts throughout our programme.

A switch from advertising in the traditional "broad sheet" press, to the click based Internet servers has been a major change in our marketing techniques and we are continually updating and improving our web site "www.villaselect.com" to keep up with modern trends. Clients can now check availability on a 24 hour basis, new villas, updated photographs and special offers added in a matter of minutes. We have also totally revamped the style and image of our 2006 brochure, which has been very well received by clients both old and new, and is already proving very worthwhile.

Once again this year we have marketed our product through a selection of independent ABTA travel agents. This has proved to be most successful particularly the agencies with a "home worker" network which seems to fit in well with our own clients profile.

Directors' report

Future developments

For many years we have concentrated on the six resorts in Europe that have been so successful for us in the past. For 2006 however we have introduced two new resorts in Greece, these being Crete and the Ionian Island of Cephalonia. In both areas we have been most fortunate in finding a really professional and well established agent to handle our programme and although the number of villas are small for this first season, they are proving a great success with our regular clientele. We plan to expand in 2007 in each of these areas and also introduce at least one other new destination.

We also have plans to introduce a number of special activity holidays based on our villa holiday programme. This particular aspect of the travel industry is one of the fastest growing segments showing a rise of some 30% year on year. These will include sailing, boating, scuba diving and golf instruction across 4 or 5 of our resorts.

Following the success of our 2005 season we are very upbeat regarding the company's future development. Villa Select has established itself as one of the leading independent, privately owned villa holiday specialists in the UK. We are very proud of our product and reputation and many owners and agents from all over Europe are eager to work with us. After 22 years in business the company enjoys a very strong position in a niche market and therefore in our opinion 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 2005 and their interests in the share capital of the company were as follows:

	At 31 October 2005 Ordinary shares	*At 1 November 2004 Ordinary shares*
J R Ball	25,000	25,000
P Ball	25,000	25,000

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

P Ball
Secretary
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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 period. 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.

Ernst & Young

Independent auditors' report
to the members of Villa Select Limited

We have audited the company's financial statements for the year ended 31 October 2005 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet, Cash Flow Statement, and the related notes 1 to 19. 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 2005 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
Date 23/2/06.

Profit and loss account

for the year ended 31 October 2005

	Notes	2005 £	2004 £
Turnover	2	5,390,097	5,543,232
Cost of sales		(4,441,534)	(4,688,922)
Gross profit		948,563	854,310
Administrative expenses		(858,057)	(930,683)
Operating profit/(loss)	3	90,506	(76,373)
Bank interest receivable	6	24,169	20,931
Interest payable and similar charges	7	(13,895)	(8,525)
		10,274	12,406
Profit/(loss) on ordinary activities before taxation		100,780	(63,967)
Tax on profit/(loss) on ordinary activities	8	(20,650)	13,113
Profit/(loss) for the financial year transferred to/(from) reserves	18	80,130	(50,854)

Statement of total recognised gains and losses

There are no recognised gains or losses other than the profit of £80,130 attributable to the shareholders for the year ended 31 October 2005 (2004 - loss of £50,854).

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Balance sheet
at 31 October 2005

	Notes	2005 £	2004 £
Fixed assets			
Tangible assets	9	63,760	76,767
Current assets			
Debtors	10	308,316	326,092
Cash at bank		559,282	460,808
		867,598	786,900
Creditors: amounts falling due within one year	11	(514,802)	(516,199)
Net current assets		352,796	270,701
Total assets less current liabilities		416,556	347,468
Creditors: amounts falling due after more than one year	12	(261,232)	(271,174)
Provisions for liabilities and charges	14	(2,100)	(3,200)
		153,224	73,094
Capital and reserves			
Called up share capital	17	50,000	50,000
Profit and loss account	18	103,224	23,094
Equity shareholders' funds	18	153,224	73,094

J R Ball
Director

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P Ball
Director

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Statement of cash flows
for the year ended 31 October 2005

	Notes	2005 £	2004 £
Net cash inflow/(outflow) from operating activities	19(a)	87,950	(160,572)
Returns on investments and servicing of finance	19(b)	10,274	12,406
Taxation	19(c)	13,258	(13,772)
Capital expenditure	19(d)	(3,065)	(23,374)
Financing	19(e)	(9,943)	278,160
Increase in cash		98,474	92,848

Reconciliation of net cash flow to movement in net funds

	Notes	2005 £	2004 £
Increase in cash		98,474	92,848
Cash used to repay capital element of finance leases and hire purchase payments		7,084	(17,019)
Cash outflow from decrease in/inflow from increase in long-term amounts owed to directors		2,859	(261,141)
		108,417	(185,312)
Change in net funds	19(f)	108,417	(185,312)
Net funds at 1 November	19(f)	182,648	367,960
Net funds at 31 October	19(f)	291,065	182,648

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Notes to the financial statements
at 31 October 2005

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.

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Pensions

The company operates a defined contribution scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Notes to the financial statements
at 31 October 2005

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:

	2005	*2004*
	£	*£*
United Kingdom	5,390,097	5,543,232

3. Operating profit/(loss)
This is stated after charging/(crediting):

	2005	*2004*
	£	*£*
Auditors' remuneration - audit services	6,983	6,550
- non-audit services	–	215
Depreciation of owned fixed assets	16,072	15,719
Profit on disposal of fixed assets	–	(1,418)
Operating lease rentals - land and buildings	15,000	15,000
- plant and machinery	797	647

4. Staff costs

	2005	*2004*
	£	*£*
Wages and salaries	357,430	377,298
Social security costs	38,035	38,616
	395,465	415,914

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

	2005	*2004*
	No.	*No.*
Management	2	2
Administrative	9	9
	11	11

5. Directors' emoluments

	2005	*2004*
	£	*£*
Emoluments	196,264	209,918
Value of company pension contributions to money purchase schemes	19,200	19,200

Notes to the financial statements
at 31 October 2005

5. Directors' emoluments (continued)

	2005 No.	2004 No.
Members of money purchase pension schemes	2	2

The emoluments in respect of the highest paid director are:

	2004 £
Emoluments	153,754
Value of company pension contributions to money purchase schemes	12,000

6. Interest receivable

	2005 £	2004 £
Bank interest receivable	24,169	20,931

7. Interest payable and similar charges

	2005 £	2004 £
Interest payable on hire purchase	840	490
Other interest payable	–	5,176
Interest on amounts due to directors	13,055	2,859
	13,895	8,525

8. Taxation on ordinary activities

(a) Tax on profit/(loss) on ordinary activities

The tax charge/(credit) is made up as follows:

	2005 £	2004 £
Current tax:		
UK corporation tax	21,750	–
Tax overprovided in previous years	–	(12,413)
Total current tax (note 8(b))	21,750	(12,413)
Deferred tax:		
Origination and reversal of timing differences (note 14)	(1,100)	(700)
Tax on profit/(loss) on ordinary activities	20,650	(13,113)

Notes to the financial statements
at 31 October 2005

8. Taxation on ordinary activities (continued)
(b) Factors affecting current tax charge/(credit)

The tax assessed on the profit/(loss) on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 19% (2004 - 19%).

The differences are reconciled below:

	2005 £	*2004* £
Profit/(loss) on ordinary activities before tax	100,780	(63,967)
Profit on ordinary activities multiplied by the rate of tax	19,148	(12,154)
Capital allowances in advance of depreciation	1,084	(689)
Expenses not deductible for tax purposes	1,439	1,808
Adjustments in respect of prior years	–	(12,413)
Others	79	–
Tax losses carried back to prior years	–	11,035
Total current tax (note 8(a))	21,750	(12,413)

(c) Deferred tax

	2005 £	*2004* £
Capital allowances in advance of depreciation	(2,100)	(3,200)
Provision for deferred taxation (note 14)	(2,100)	(3,200)

9. Tangible fixed assets

	Fixtures and fittings £	*Motor vehicles* £	*Total* £
Cost:			
At 1 November 2004	125,734	65,706	191,440
Additions	3,065	–	3,065
At 31 October 2005	128,799	65,706	194,505
Depreciation:			
At 1 November 2004	89,945	24,728	114,673
Provided during the year	5,827	10,245	16,072
At 31 October 2005	95,772	34,973	130,745
Net book value:			
At 31 October 2005	33,027	30,733	63,760
At 1 November 2004	35,789	40,978	76,767

Included within the net book value above are assets held under finance leases with a net book value of £19,633 (2004: £26,178).

Notes to the financial statements
at 31 October 2005

10. Debtors

	2005	*2004*
	£	*£*
Trade debtors	3,409	2,410
Corporation tax repayable	–	11,685
Prepayments and accrued income	304,907	311,997
	308,316	326,092

11. Creditors: amounts falling due within one year

	2005	*2004*
	£	*£*
Obligations under finance leases and hire purchase contracts (note 13)	6,985	6,986
Trade creditors	105,041	102,115
Corporation tax	23,323	–
Other taxation and social security	83,458	67,125
Other creditors	283,921	277,359
Accruals and deferred income	12,074	62,614
	514,802	516,199

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12. Creditors: amounts falling due after more than one year

	2005	*2004*
	£	*£*
Obligations under finance leases and hire purchase contracts (note 13)	2,950	10,033
Amounts owed to directors	258,282	261,141
	261,232	271,174

The loan from the shareholder/directors is covered by a deed of undertaking between the shareholder/directors, the company and the Association of British Travel Agents Limited signed on 23 June 2004. The loan is not repayable before 31 October 2006 and thereafter only with the consent of the Association of British Travel Agents Limited.
Interest is payable on the loan at 1.5% over the Bank of England base rate.

13. Obligations under finance leases and hire purchase contracts
The maturity of these amounts is as follows:

	2005	*2004*
	£	*£*
Amounts payable:		
Within one year	6,985	6,986
In two to five years	2,950	10,033
	9,935	17,019

Notes to the financial statements
at 31 October 2005

14. Provisions for liabilities and charges

	Deferred tax
	£
At 1 November 2004	3,200
Deferred tax charge in profit and loss account (note 8(a))	(1,100)
At 31 October 2005 (note 8(c))	2,100

15. Commitments under operating leases

At 31 October 2005 the company had annual commitments under non-cancellable operating leases as set out below:

		2005		*2004*
	Land and buildings	*Other*	*Land and buildings*	*Other*
	£	*£*	*£*	*£*
Operating leases which expire:				
In two to five years	15,000	797	15,000	797

16. Related party transactions

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

17. Share capital

		Authorised
	2005	*2004*
	£	*£*
Ordinary shares of £1 each	100,000	100,000

	Allotted, called up and fully paid			
		2005		*2004*
	No.	*£*	*No.*	*£*
Ordinary shares of £1 each	50,000	50,000	50,000	50,000

18. Reconciliation of shareholders' funds and movement on reserves

	Share capital	*Profit and loss account*	*Total share-holders' funds*
	£	*£*	*£*
At 1 November 2003	50,000	73,948	123,948
Loss for the year	–	(50,854)	(50,854)
At 31 October 2004	50,000	23,094	73,094
Profit for the year	–	80,130	80,130
At 31 October 2005	50,000	103,224	153,224

Notes to the financial statements
at 31 October 2005

19. Notes to the statement of cash flows

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

	2005 £	*2004* £
Operating profit/(loss)	90,506	(76,373)
Depreciation	16,072	15,719
Profit on disposal of fixed assets	–	(1,418)
Decrease in debtors	6,091	41,952
Decrease in creditors	(24,719)	(140,452)
Net cash inflow/(outflow) from operating activities	87,950	(160,572)

(b) Returns on investments and servicing of finance

	2005 £	*2004* £
Interest received	24,169	20,931
Interest paid	(13,895)	(8,525)
	10,274	12,406

(c) Taxation

	2005 £	*2004* £
Corporation tax received/(paid)	13,258	(13,772)

(d) Capital expenditure

	2005 £	*2004* £
Payments to acquire tangible fixed assets	(3,065)	(32,124)
Receipts from sales of tangible fixed assets	–	8,750
	(3,065)	(23,374)

(e) Financing

	2005 £	*2004* £
Repayment of long-term amounts owed to directors	(2,859)	261,141
Repayment of capital element of finance leases and hire purchase contracts	(7,084)	17,019
	(9,943)	278,160

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Notes to the financial statements
at 31 October 2005

19. Notes to the statement of cash flows (continued)

(f) Analysis of changes in net funds

	At 1 November 2004	*Cash flows*	*At 31 October 2005*
	£	£	£
Cash at bank and in hand	460,808	98,474	559,282
Debt due after one year	(261,141)	2,859	(258,282)
Finance leases and hire purchase contracts	(17,019)	7,084	(9,935)
	182,648	108,417	291,065

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