

Villa Select Limited

Report and Financial Statements

31 October 2004

 ERNST & YOUNG



Villa Select Limited

Registered No: 1737937

Directors

J R Ball
P Ball

Secretary

P Ball

Auditors

Ernst & Young LLP
One Colmore Square
Birmingham
B4 6HQ

Bankers

National Westminster Bank
PO Box 68
Queen Square
Wolverhampton
WV1 1TR

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 2004.

Results and dividends

The loss for the year amounted to £50,854. 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 ending 31 October 2004 proved to be even more challenging than the disappointing year previous. The company has reported its first loss since 1992, the year of the first Gulf War. The excellent weather during the summer of 2003 was not repeated during 2004, however there was still a significant slowdown in the overseas holiday market, particularly in the peak months of July and August. The reason for this is not absolutely clear, however this downturn was industry wide, but was particularly felt in Spain and the Balearic Islands which have recorded a 25% drop in tourism this year. The family market completely dried up in High Season during the school holidays, and we were faced, as were our competitors, with discounting these high revenue weeks.

The impact of the Internet, and the meteoric rise in the low cost airlines sector has impacted on our normal selling technique. Advertising on the internet has been a major cost factor not experienced in previous years. This, together with the practice of clients holding off for late booking deals have all compounded to this most difficult trading year.

On the positive side, turnover was similar to that enjoyed in 2003, and 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 for the future.

Future developments

We have decided for the time being to concentrate on the six resorts in Europe that have been so successful for us in the past. Obviously the success of this business is a greater flexibility surrounding the villa owners and their fixed price guarantees. Considerable effort is being made to reduce our fixed cost base for the 2005 season, with the owners taking more of the risk when villas are not sold at brochure price.

The repeat clientele is very much the backbone of the company and its success. We have spent much time and effort therefore 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 also developing a much closer link with the independent ABTA travel agents and this is an area where we can see substantial growth. Over the years, many such companies as ourselves have been taken over by the larger tour operators, who are now reducing their range of villa holidays as they are finding it too specialised, and there is a definite gap opening up through the travel agency route and this is one we are keen to foster.

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 Licence from the Civil Aviation Authority. Whilst the Directors are taking a very cautious approach to 2005, we are very upbeat regarding the company's future development.

Villa Select Ltd 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. After 21 years in the 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' report (continued)

Directors and their interests

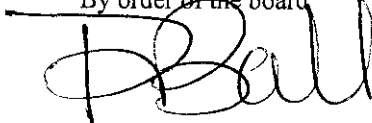
The directors at 31 October 2004 and their interests in the share capital of the company were as follows:

	<i>At 31 October 2004 Ordinary shares</i>	<i>At 1 November 2003 Ordinary shares</i>
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
Secretary

11/2/2005

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.

Independent auditors' report to the members of Villa Select Limited

We have audited the company's financial statements for the year ended 31 October 2004 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 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 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young LLP
Registered Auditor
Birmingham

17/21 2005

Profit and loss account

for the year ended 31 October 2004

	Notes	2004 £	2003 £
Turnover	2	5,543,232	5,690,615
Cost of sales		(4,688,922)	(4,833,487)
Gross profit		854,310	857,128
Administrative expenses		(930,683)	(814,620)
Operating (loss)/profit	3	(76,373)	42,508
Bank interest receivable	6	20,931	21,130
Interest payable and similar charges	7	(8,525)	-
		12,406	21,130
(Loss)/profit on ordinary activities before taxation		(63,967)	63,638
Tax on loss/(profit) on ordinary activities	8	13,113	(13,294)
(Loss)/profit on ordinary activities after taxation		(50,854)	50,344
Dividends:			
ordinary dividends on equity shares	9	-	561,000
Loss for the financial year	18	(50,854)	(510,656)

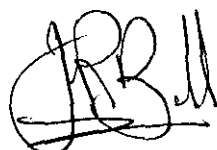
Statement of total recognised gains and losses

There are no recognised gains or losses other than the loss of £50,854 attributable to the shareholders for the year ended 31 October 2004 (2003 - profit of £50,344).

Balance sheet
at 31 October 2004

	Notes	2004 £	2003 £
Fixed assets			
Tangible assets	10	76,767	67,694
Current assets			
Debtors	11	326,092	356,359
Cash at bank		460,808	367,960
		786,900	724,319
Creditors: amounts falling due within one year	12	(516,199)	(664,165)
Net current assets		270,701	60,154
Total assets less current liabilities		347,468	127,848
Creditors: amounts falling due after more than one year	13	(271,174)	-
Provisions for liabilities and charges			
Deferred taxation	8	(3,200)	(3,900)
		73,094	123,948
Capital and reserves			
Called up share capital	17	50,000	50,000
Profit and loss account	18	23,094	73,948
Equity shareholders' funds	18	73,094	123,948

ERNST & YOUNG



J R Ball
Director

11/2/ 2005



P Ball
Director

11/2/ 2005

Statement of cash flows

for the year ended 31 October 2004

	Notes	2004 £	2003 £
<i>Net cash inflow from operating activities</i>	19(a)	(160,572)	(46,482)
<i>Returns on investments and servicing of finance</i>	19(b)	12,406	21,130
<i>Taxation</i>	19(c)	(13,772)	(43,494)
<i>Capital expenditure and financial investment</i>	19(d)	(23,374)	(6,423)
<i>Equity dividends paid</i>		–	(561,000)
<i>Financing</i>	19(e)	278,160	–
<i>Increase/(decrease) in cash</i>		<u>92,848</u>	<u>(636,269)</u>
Reconciliation of net cash flow to movement in net funds			
		2004 £	2003 £
Increase/(decrease) in cash		92,848	(636,269)
Capital element of finance leases and hire purchase payments		(17,019)	–
Long-term amounts owed to directors		(261,141)	–
		<u>(185,312)</u>	<u>(636,269)</u>
Change in net funds	19(f)	(185,312)	(636,269)
Net funds at 1 November	19(f)	<u>367,960</u>	<u>1,004,229</u>
Net funds at 31 October	19(f)	<u>182,648</u>	<u>367,960</u>

Notes to the financial statements

at 31 October 2004

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 2004

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:

	2004 £	2003 £
United Kingdom	<u>5,543,232</u>	<u>5,690,615</u>

3. Operating (loss)/profit

This is stated after charging/(crediting):

	2004 £	2003 £
Auditors' remuneration - audit services	6,550	6,215
- non-audit services	<u>215</u>	<u>215</u>
Depreciation of owned fixed assets	11,250	16,192
Depreciation of assets held under finance leases	4,469	-
	<u>15,719</u>	<u>16,192</u>
Profit on disposal of fixed assets	(1,418)	-
Operating lease rentals - land and buildings	15,000	15,000
- plant and machinery	<u>647</u>	<u>-</u>

4. Staff costs

	2004 £	2003 £
Wages and salaries	377,298	320,748
Social security costs	<u>38,616</u>	<u>35,381</u>
	<u>415,914</u>	<u>356,129</u>

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

	2004 No.	2003 No.
Management	2	2
Administrative	9	9
	<u>11</u>	<u>11</u>

5. Directors' emoluments

	2004 £	2003 £
Emoluments	<u>209,918</u>	<u>196,973</u>
Value of company pension contributions to money purchase schemes	<u>19,200</u>	<u>19,200</u>

Notes to the financial statements

at 31 October 2004

5. Directors' emoluments (continued)

	2004 No.	2003 No.
Members of money purchase pension schemes	<u>2</u>	<u>2</u>

6. Interest receivable

	2004 £	2003 £
Bank interest receivable	<u>20,931</u>	<u>21,130</u>

7. Interest payable and similar charges

	2004 £	2003 £
Interest payable on hire purchase	490	–
Other interest payable	5,176	–
Interest on amounts due to directors	2,859	–
	<u>8,525</u>	<u>–</u>

8. Taxation on ordinary activities

(a) Tax on (loss)/profit on ordinary activities
The tax (credit)/charge is made up as follows:

	2004 £	2003 £
<i>Current tax:</i>		
UK corporation tax	–	14,500
Tax over provided in previous years	(12,413)	(106)
Total current tax (note 8(b))	<u>(12,413)</u>	<u>14,394</u>
<i>Deferred tax:</i>		
Origination and reversal of timing differences	(700)	(1,100)
Tax on (loss)/profit on ordinary activities	<u>(13,113)</u>	<u>13,294</u>

Notes to the financial statements

at 31 October 2004

8. Taxation on ordinary activities (continued)

(b) Factors affecting current tax charge

The tax assessed on the (loss)/profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 19% (2003 - 19%). The differences are reconciled below:

	2004 £	2003 £
(Loss)/profit on ordinary activities before taxation	<u>(63,967)</u>	<u>63,638</u>
Profit on ordinary activities multiplied by the rate of tax	(12,154)	12,091
Capital allowances in advance of depreciation	(689)	673
Expenses not deductible for tax purposes	1,808	1,742
Adjustments in respect of prior years	(12,413)	(106)
Others	-	(6)
Tax losses carried back to prior years	11,035	-
Total current tax (note 8(a))	<u>(12,413)</u>	<u>14,394</u>

(c) Deferred tax

	2004 £	2003 £
Capital allowances in advance of depreciation	<u>(3,200)</u>	<u>(3,900)</u>
Provision for deferred taxation	<u>(3,200)</u>	<u>(3,900)</u>
		£
At 1 November 2003		(3,900)
Profit and loss account movement arising during the year		700
At 31 October 2004		<u>(3,200)</u>

9. Dividends

No dividend has been recommended for the year ended 31 October 2004.

Notes to the financial statements

at 31 October 2004

10. Tangible fixed assets

	<i>Fixtures & Fittings</i> £	<i>Motor Vehicles</i> £	<i>Total</i> £
Cost:			
At 1 November 2003	124,257	65,954	190,211
Additions	1,477	30,647	32,124
Disposals	–	(30,895)	(30,895)
At 31 October 2004	<u>125,734</u>	<u>65,706</u>	<u>191,440</u>
Depreciation:			
At 1 November 2003	83,629	38,888	122,517
Provided during the year	6,316	9,403	15,719
Disposals	–	(23,563)	(23,563)
At 31 October 2004	<u>89,945</u>	<u>24,728</u>	<u>114,673</u>
Net book value:			
At 31 October 2004	<u>35,789</u>	<u>40,978</u>	<u>76,767</u>
At 1 November 2003	<u>40,628</u>	<u>27,066</u>	<u>67,694</u>

Included within the net book value above, are assets held under finance leases, with a net book value of £26,148.

11. Debtors

	2004 £	2003 £
Trade debtors	2,410	14,910
Corporation tax repayable	11,685	–
Prepayments and accrued income	311,997	341,449
	<u>326,092</u>	<u>356,359</u>

12. Creditors: amounts falling due within one year

	2004 £	2003 £
Obligations under finance leases and hire purchase contracts (note 14)	6,986	–
Trade creditors	102,115	254,562
Corporation tax	–	14,500
Other taxation and social security	67,125	14,220
Other creditors	277,359	368,809
Accruals and deferred income	62,614	12,074
	<u>516,199</u>	<u>664,165</u>

Notes to the financial statements

at 31 October 2004

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

	2004	2003
	£	£
Obligations under finance leases and hire purchase contracts (note 14)	10,033	–
Amounts owed to directors	261,141	–
	<u>271,174</u>	<u>–</u>

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.

14. Obligations under finance leases and hire purchase contracts

The maturity of these amounts is as follows:

	2004	2003
	£	£
Amounts payable:		
Within one year	6,986	–
In two to five years	10,033	–
	<u>17,019</u>	<u>–</u>

15. Commitments under operating leases

At 31 October 2004 the company had annual commitments under non-cancellable operating leases as set out below:

	2004		2003	
	<i>Land and buildings</i>	<i>Other</i>	<i>Land and buildings</i>	<i>Other</i>
	£	£	£	£
Operating leases which expire:				
In two to five years	<u>15,000</u>	<u>797</u>	<u>15,000</u>	<u>–</u>

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

	2004		<i>Authorised</i> 2003	
	£		£	
Ordinary shares of £1 each	<u>100,000</u>		<u>100,000</u>	
	<i>Allotted, called up and fully paid</i>			
	<i>No.</i>	<i>2004</i> £	<i>No.</i>	<i>2003</i> £
Ordinary shares of £1 each	50,000	<u>50,000</u>	50,000	<u>50,000</u>

Notes to the financial statements

at 31 October 2004

18. Reconciliation of shareholders' funds and movement on reserves

	<i>Share capital</i>	<i>Profit and loss</i>	<i>Total share-</i>
	£	account	holders' funds
	£	£	£
At 1 November 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
Loss for the year	–	(50,854)	(50,854)
At 31 October 2004	50,000	23,094	73,094

19. Notes to the statement of cash flows

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

	2004	2003
	£	£
Operating (loss)/profit	(76,373)	42,508
Depreciation	15,719	16,192
Profit on disposal of fixed assets	(1,418)	–
Decrease/(increase) in debtors	41,952	(5,325)
Decrease in creditors	(140,452)	(99,857)
Net cash outflow from operating activities	(160,572)	(46,482)

(b) Returns on investments and servicing of finance

	2004	2003
	£	£
Interest received	20,931	21,130
Interest paid	(8,525)	–
	12,406	21,130

(c) Taxation

	2004	2003
	£	£
Corporation tax paid	(13,772)	(43,494)

Notes to the financial statements

at 31 October 2004

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

(d) Capital expenditure

	2004 £	2003 £
Payments to acquire tangible fixed assets	(32,124)	(6,423)
Receipts from sales of tangible fixed assets	8,750	-
	<u>(23,374)</u>	<u>(6,423)</u>

(e) Financing

	2004 £	2003 £
Long-term amounts owed to directors	261,141	-
Capital element of finance leases and hire purchase contracts	17,019	-
	<u>278,160</u>	<u>-</u>

(f) Analysis of changes in net funds

	<i>At</i> <i>1 November</i> 2003 £	<i>Cash flows</i> £	<i>At</i> <i>31 October</i> 2004 £
Cash at bank and in hand	367,960	92,848	460,808
Debt due after one year	-	(261,141)	(261,141)
Finance leases and hire purchase contracts	-	(17,019)	(17,019)
	<u>367,960</u>	<u>(185,312)</u>	<u>182,648</u>

Management information

for the year ended 31 October 2004

The following pages do not form part of the statutory financial statements
which are the subject of the independent auditors' report on page 5.

Detailed profit and loss account

for the year ended 31 October 2004

	2004	2003
	£	£
Turnover	5,543,232	5,690,615
Cost of sales		
Villas	2,419,108	2,397,653
Flights	1,004,349	1,098,386
Car Hire	284,064	332,995
Holiday operations	787,357	833,171
Holiday insurance	27,793	30,331
Credit card charges	4,202	4,170
Overseas VAT	43,847	40,368
Tour operator margin scheme (VAT)	118,202	96,413
	<u>4,688,922</u>	<u>4,833,487</u>
Gross profit	854,310	857,128
Overheads		
Administrative expenses	930,683	814,620
Operating (loss)/profit	<u>(76,373)</u>	<u>42,508</u>
Bank interest receivable	20,931	21,130
	<u>(55,442)</u>	<u>63,638</u>
Interest payable	(8,525)	-
(Loss)/profit on ordinary activities	<u><u>(63,967)</u></u>	<u><u>63,638</u></u>

Notes to the detailed profit and loss account

for the year ended 31 October 2004

	2004	2003
	£	£
Administrative expenses		
Personnel costs		
Directors remuneration	211,775	161,496
Salaries	165,523	159,252
Social security costs	38,616	35,381
	<u>415,914</u>	<u>356,129</u>
Establishment expenses		
Rent	15,000	15,000
Rates	4,242	5,232
Heat, light and water	1,382	1,023
Insurance	12,907	12,807
Repairs	4,394	6,179
	<u>37,925</u>	<u>40,241</u>
General expenses		
Motor expenses	6,104	6,186
General travel	8,341	6,320
Telephone and fax	13,991	20,134
Printing and stationery	19,791	24,555
Postage	52,332	52,005
Villa contracting expenses	6,263	7,028
Computer	7,937	11,746
Staff training	1,900	1,731
Sundries	11,482	11,346
Subscriptions	2,789	1,403
ABTA bond and charges	8,295	10,308
Advertising and brochure costs	272,489	205,511
Promotions and entertainment	23,616	22,118
Professional charges	12,790	9,859
Audit and accountancy	6,550	6,215
Depreciation	15,719	16,192
Profit on disposal of fixed assets	(1,418)	–
	<u>468,971</u>	<u>412,657</u>
Financial costs		
Operating lease: Equipment	647	–
Bank charges	7,226	5,593
	<u>7,873</u>	<u>5,593</u>
	<u>930,683</u>	<u>814,620</u>
Interest receivable		
Bank interest receivable	20,931	21,130
Interest payable		
Interest payable on hire purchase	490	–
Other interest payable	5,176	–
Interest on amounts due to directors	2,859	–
	<u>8,525</u>	<u>–</u>