

CITALIA HOLIDAYS LIMITED

**Directors' report and consolidated
financial statements**

Registered number 446617

31 December 2003



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Directors' report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2003.

Principal activity

The principal activity of the Company continued to be as a tour operator for Italy and Spain, with tours supported by quality accommodation in villas, hotels and paradors.

Results and dividends

The Group's profit on ordinary activities before taxation was £2,004,249 (2002: £2,654,943). The results for the year are shown in the consolidated profit and loss account on page 5.

The directors do not propose the payment of a dividend. (2002: £nil)

Accounting reference date

Following the year end the company changed its accounting reference date to 31 October

Directors and their interests

The directors at the date of this report are:

D Blastland
P J Long
A Malone
C Meyrick
M T Olszowski

Other directors who served during the year were:

V C Chang (resigned 9 March 2004)
C De Simone (resigned 31 March 2004)

None of the directors had any beneficial interest in the shares of the Company at any time during the year.

As at 31 December 2003, the interests of the directors in the share capital of First Choice Holidays PLC, the ultimate parent company, were as follows:

	-----Ordinary Shares-----		-----Options-----	
	31 December 2003	31 December 2002	Granted	Exercised
Ordinary Shares				
M T Olszowski	54,594	50,000	-	7,658

The interests of P J Long and D Blastland are disclosed in the Annual Report and Accounts of the ultimate parent company First Choice Holidays PLC.

Directors' Insurance

The ultimate parent company maintains insurance policies on behalf of all the Directors of the Company against liability arising from negligence, breach of duty and breach of trust in relation to the Company.

Payment of Creditors

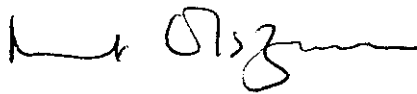
It is the Company's policy that payments to suppliers, whether in advance or after the provision of goods and services, are made on the basis of the terms that have been agreed with them. At the year end the Company's average creditor payment days was 3 (2002: 2 days).

Due to the nature of the Company's operations, and common to the industry as a whole, payments are often made in advance of the provision of goods and services.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



M T Olszowski

Director

9 July 2004

First Choice House
London Road
Crawley
West Sussex
RH10 9GX

Statement of directors' responsibilities

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 the group and of the profit or loss 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;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.



PO Box 695
8 Salisbury Square
London EC4Y 8BB
United Kingdom

Independent auditor's report to the members of Citalia Holidays Limited

We have audited the financial statements on pages 5 to 19.

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 auditor's 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

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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.

Basis of audit opinion

We conducted our audit in accordance with 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 the company and group's affairs as at 31 December 2003 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

W.M.G. Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

9th July 2004

Consolidated profit and loss account

for the year ended 31 December 2003

	<i>Note</i>	2003 £	2002 £
Turnover	<i>1</i>	41,288,473	44,589,021
Cost of sales		(34,317,126)	(37,117,394)
Gross profit		6,971,347	7,471,627
Administrative expenses		(5,460,658)	(5,591,433)
Other operating income		176,689	228,827
Operating profit		1,687,378	2,109,021
Profit on disposal of fixed assets		-	313,600
Other interest receivable and similar income	<i>5</i>	380,579	311,386
Interest payable and similar charges	<i>6</i>	(63,708)	(79,064)
Profit on ordinary activities before taxation	<i>2</i>	2,004,249	2,654,943
Tax on profit on ordinary activities	<i>7</i>	(579,109)	(970,038)
Profit on ordinary activities after taxation		1,425,140	1,684,905
Dividends		-	-
Retained profit for the year		1,425,140	1,684,905

All results relate to continuing operations

There were no recognised gains or losses other than the profit for the year.

Balance sheets
at 31 December 2003

	Note	Group		Company	
		2003 £	2002 £	2003 £	2002 £
Fixed assets					
Tangible assets	8	3,777,908	3,964,110	3,777,908	3,964,110
Investments	9	-	-	20,000	20,000
		<u>3,777,908</u>	<u>3,964,110</u>	<u>3,797,908</u>	<u>3,984,110</u>
Current assets					
Debtors and prepayments	10	13,077,897	10,760,011	13,077,897	10,760,011
Cash at bank and in hand		1,084,609	1,894,987	1,084,609	1,894,987
		<u>14,162,506</u>	<u>12,654,998</u>	<u>14,162,506</u>	<u>12,654,998</u>
Creditors: amounts falling due within one year	11	(5,433,193)	(5,335,494)	(6,003,825)	(5,873,324)
Net current assets		<u>8,729,313</u>	<u>7,319,504</u>	<u>8,158,681</u>	<u>6,781,674</u>
Total assets less current liabilities		<u>12,507,221</u>	<u>11,283,614</u>	<u>11,956,589</u>	<u>10,765,784</u>
Creditors: amounts falling due after more than one year	12	(930,000)	(1,100,000)	(930,000)	(1,100,000)
Provisions for liabilities and charges	13	(77,606)	(109,139)	(77,606)	(110,264)
Net assets		<u>11,499,615</u>	<u>10,074,475</u>	<u>10,948,983</u>	<u>9,555,520</u>
Capital and reserves					
Called up share capital	14	3,760,000	3,760,000	3,760,000	3,760,000
Revaluation reserve	15	1,480,510	1,537,635	1,480,510	1,537,635
Profit and loss account	15	6,259,105	4,776,840	5,708,473	4,257,885
Equity shareholders' funds		<u>11,499,615</u>	<u>10,074,475</u>	<u>10,948,983</u>	<u>9,555,520</u>

These financial statements were approved by the board of directors on 9 July 2004 and were signed on its behalf by:



M T Olszowski
Director

Consolidated cash flow statement
for the year ended 31 December 2003

	<i>Note</i>	2003 £	2002 £
Cash flow from operating activities	18	70,049	1,774,042
Returns on investments and servicing of finance	19	316,871	232,322
Taxation paid		(614,910)	(810,758)
Capital expenditure and financial investment	19	(39,645)	753,616
		<hr/>	<hr/>
Cash (outflow)/inflow before financing		(267,635)	1,949,222
Financing	19	(170,000)	(170,000)
		<hr/>	<hr/>
(Decrease)/increase in cash in the period		(437,635)	1,779,222
		<hr/>	<hr/>

Reconciliation of net cash flow to movement in net debt

	2003 £	2002 £
(Decrease)/increase in cash in the period	(437,635)	1,779,222
	<hr/>	<hr/>
Cash outflow from decrease in debt and lease financing	170,000	170,000
	<hr/>	<hr/>
Movement in net debt in the period	(267,635)	1,949,222
Net funds/(debt) at the start of the period	77,307	(1,871,915)
	<hr/>	<hr/>
Net (debt)/funds at the end of the period	(190,328)	77,307
	<hr/>	<hr/>

Note of consolidated historical cost profits and losses
for the year ended 31 December 2003

	2003 £	2002 £
Reported profit on ordinary activities before taxation	2,004,249	2,654,943
Realisation of property revaluation gains of previous years	-	386,400
Difference between a historical cost depreciation charge and the actual depreciation charge of the year, calculated on the revalued amount	57,125	83,654
	<hr/>	<hr/>
Historical cost profit on ordinary activities before taxation	2,061,374	3,124,997
	<hr/>	<hr/>
Historical cost profit for the year retained after taxation and dividends	1,482,265	2,154,959
	<hr/>	<hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules, modified to include the revaluation of freehold land and buildings.

Basis of consolidation

The consolidated accounts incorporate the accounts of the company and its subsidiary Citalia Transport Ltd. As a consolidated profit and loss account is published, a separate profit and loss of the parent undertaking is omitted from the group accounts by virtue of the exemption granted by section 230 of the Companies Act 1985.

Turnover

Turnover, which relates to continuing activities only, represents total invoiced sales in the United Kingdom, excluding VAT, in respect of tours and travel services for which the company acts as principal. Revenue is recognised on the date of departure and all direct costs of the holidays are charged to the profit and loss account on the same basis. Turnover excludes intra-group transactions and is stated after deduction of discounts.

Marketing costs

Brochure and other marketing costs are charged to the profit and loss account in the season to which they relate.

Depreciation

Depreciation is provided so as to write off the cost of fixed assets in equal annual instalments over their estimated useful lives. The rates used are as follows:

Land	-	nil
Freehold buildings	-	4%
Office equipment	-	20%
Motor vehicles	-	33 $\frac{1}{3}$ %
Computers	-	33 $\frac{1}{3}$ %

Notes (continued)

1 Accounting policies (continued)

Deferred taxation

Except as otherwise required by accounting standards, full provision without discounting is made for all timing differences which have arisen but not reversed at the balance sheet date. Timing differences arise when items of income and expenditure are included in tax computations in periods different from their inclusion in the financial statements.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling on the date of the transaction or the contracted rate if the transaction is covered by a forward exchange contract.

Monetary assets and liabilities denominated in a foreign currency are retranslated at the rate of exchange ruling at the balance sheet date or if appropriate at the forward contract rate and any exchange differences arising are taken to the profit and loss account.

Pensions

The company contributes to a defined contribution pension scheme. Contributions are charged to the accounting period in which they fall due.

Leases and hire purchase commitments

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

Assets held under finance leases 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 to 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.

2 Profit on ordinary activities before taxation

	2003 £	2002 £
<i>Profit on ordinary activities before taxation is stated after charging/(crediting):</i>		
Depreciation of owned fixed assets	225,847	273,525
Auditor's remuneration (Group and company) - audit services (Audit fees in 2003 were borne by another group company)	-	21,000
Loss on translation of foreign currency monetary assets and liabilities (included within administration expenses)	280,965	100,120
	<u>280,965</u>	<u>100,120</u>

Notes (continued)

3 Remuneration of directors

	2003 £	2002 £
Emoluments	463,403	519,588
Pension contributions	32,607	58,472
	<u>496,010</u>	<u>578,060</u>

The amount in respect of the highest paid director are as follows:

Emoluments	150,000	295,980
Pension contributions	-	34,020
	<u>150,000</u>	<u>330,000</u>

4 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, was as follows:

Number of employees	
2003	2002
<u>101</u>	<u>95</u>

The aggregate payroll costs of these persons were as follows:

	2003 £	2002 £
Wages and salaries	2,308,116	2,294,163
Social security costs	207,195	230,818
Other pension costs	97,362	127,840
	<u>2,612,673</u>	<u>2,652,821</u>

Notes (continued)

5 Interest receivable

	2003 £	2002 £
Interest receivable on bank deposits	89,783	109,498
Interest receivable on amounts due from related undertakings	290,796	201,888
	<u>380,579</u>	<u>311,386</u>

6 Interest payable

	2003 £	2002 £
Interest payable on bank loans and overdrafts	63,708	79,064
	<u>63,708</u>	<u>79,064</u>

7 Taxation

The tax charge in the 31 December 2003 accounts can be summarised as follows:

	2003 £	2002 £
Tax on profit on ordinary activities:		
(i) Analysis of charge in year		
Current tax:		
UK corporation tax on profits of the year	690,363	808,807
Adjustments in respect of previous periods:		
- permanent	(94,714)	(3,513)
- origination of timing differences	14,993	30,829
Total current tax	<u>610,642</u>	<u>836,123</u>
Deferred tax:		
Origination and reversal of timing differences:		
- current year UK	(16,540)	4,423
- adjustment in respect of previous periods	(14,993)	129,492
Total deferred tax	<u>(31,533)</u>	<u>133,915</u>
Tax on profit on ordinary activities	<u>579,109</u>	<u>970,038</u>

Notes (continued)

7 Taxation (continued)

(ii) Factors affecting tax charge for year

The tax charge for the year is different to the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2003 £	2002 £
Profit on ordinary activities before tax	2,004,249	2,654,943
Profit on ordinary activities at the standard rate of UK corporation tax of 30% (2002: 30%)	601,275	796,483
Effects of:		
- Expenses not deductible for tax purposes	72,548	16,747
- Capital allowances for year less than/(exceed) depreciation	16,540	(4,423)
- Adjustment to tax charge in respect of previous periods	(79,721)	27,316
Current tax charge for year	610,642	836,123

8 Tangible fixed assets (Group & Company)

	Freehold land and buildings £	Office equipment and motor vehicles £	Total £
Cost or valuation:			
At 31 December 2002	4,128,108	1,077,330	5,205,438
Additions	-	62,502	62,502
Disposals	-	(51,428)	(51,428)
At 31 December 2003	4,128,108	1,088,404	5,216,512
Depreciation			
At 31 December 2002	316,078	925,250	1,241,328
Provided during the year	154,820	71,027	225,847
Disposals	-	(28,571)	(28,571)
At 31 December 2003	470,898	967,706	1,438,604
Net book value			
At 31 December 2003	3,657,210	120,698	3,777,908
At 31 December 2002	3,812,030	152,080	3,964,110

Notes (continued)

8 Tangible fixed assets (Group & Company) (continued)

The freehold land and buildings were valued at their open market value for existing use on 31 December 2000. The valuation of the remaining property; the head office, Marco Polo House, at £4,125,000, is based on an external valuation by Stiles Harold Williams.

The group's and company's tangible fixed assets stated at revalued amounts would have been included on an historical cost basis at:

	2003 £	2002 £
Cost	3,830,781	3,819,707
Depreciation	(1,533,383)	(1,393,232)
	<u>2,297,398</u>	<u>2,426,475</u>

9 Investment in subsidiary undertakings

The investments comprises:

	2003 £	Company 2002 £
Citalia Transport Limited, 20,000 ordinary shares of £1 each	<u>20,000</u>	<u>20,000</u>

The Company owns the whole of the issued share capital of Citalia Transport Limited. It is registered in England and Wales. The principal activity of the company is the purchase of airline tickets and other services, which are sold to Citalia Holidays Limited for amounts that are sufficient to cover the costs incurred.

10 Debtors

	2003 £	Group 2002 £	2003 £	Company 2002 £
Trade debtors	101,013	105,771	101,013	105,771
Prepayments	822,750	633,753	822,750	633,753
Amounts owed by group undertakings	11,034,444	8,888,480	11,034,444	8,888,480
Suppliers contracted in advance	826,194	1,013,593	826,194	1,013,593
Other debtors and advances	293,496	118,414	293,496	118,414
	<u>13,077,897</u>	<u>10,760,011</u>	<u>13,077,897</u>	<u>10,760,011</u>

Notes (continued)

11 Creditors: amounts falling due within one year

	Group		Company	
	2003	2002	2003	2002
	£	£	£	£
Bank loan	170,000	170,000	170,000	170,000
Bank overdrafts	174,937	547,680	174,937	547,680
Trade creditors	293,661	197,308	293,661	197,308
Cash received in advance	835,862	917,886	835,862	917,886
Other creditors and accruals	2,889,277	2,592,814	2,889,277	2,592,814
Taxes and social security costs	195,794	259,387	195,794	259,387
Current corporation tax	345,366	484,634	345,366	471,615
Amounts owed to group undertakings	393,296	165,785	393,296	165,785
Amounts owed to subsidiary undertakings	-	-	587,237	550,849
Group Relief	135,000	-	118,395	-
	<u>5,433,193</u>	<u>5,335,494</u>	<u>6,003,825</u>	<u>5,873,324</u>

12 Creditors: amounts falling due after more than one year

	Group and company	Group and Company
	2003	2002
	£	£
Bank loans		
Amounts falling due:		
In more than one year but not more than two years	170,000	170,000
In more than two years but not more than five years	510,000	510,000
In more than five years	250,000	420,000
	<u>930,000</u>	<u>1,100,000</u>

The bank loan is secured by fixed charges over the Company's freehold property, Marco Polo House. The interest rate payable on the loan is 1 percentage point above LIBOR.

13 Provisions for liabilities and charges

Deferred tax	Group	Company
	£	£
At 1 January 2003	109,139	110,264
Released in the year	(31,533)	(32,658)
At 31 December 2003	<u>77,606</u>	<u>77,606</u>

Notes (continued)

13 Provisions for liabilities and charges (continued)

The net deferred tax provision/(asset) as at 31 December 2003 is as follows:

	Group		Company	
	2003 £	2002 £	2003 £	2002 £
Accelerated capital allowances	78,371	112,889	78,371	112,889
Other short term timing differences	(765)	(3,750)	(765)	(2,625)
	<u>77,606</u>	<u>109,139</u>	<u>77,606</u>	<u>110,264</u>

14 Called up equity share capital

	2003 £	2002 £
<i>Authorised, allotted, called up and fully paid:</i>		
3,760,000 ordinary shares of £1 each	<u>3,760,000</u>	<u>3,760,000</u>

15 Reserves

	Revaluation reserve £	Profit and loss account £	Total £
Group			
At 1 January 2003	1,537,635	4,776,840	6,314,475
Profit for the year	-	1,425,140	1,425,140
Transfers of depreciation on revalued fixed assets	(57,125)	57,125	-
	<u>1,480,510</u>	<u>6,259,105</u>	<u>7,739,615</u>
Company			
At 1 January 2003	1,537,635	4,257,885	5,795,520
Profit for the year	-	1,393,463	1,393,463
Transfers of depreciation on revalued fixed assets	(57,125)	57,125	-
	<u>1,480,510</u>	<u>5,708,473</u>	<u>7,188,983</u>

No profit and loss is presented for Citalia Holidays Limited as provided by Section 230 of the Companies Act 1985. The profit for the financial year was £1,393,463 (2002: £1,658,803).

Notes (continued)

16 Commitments

At 31 December 2003 the Group and companies had the following financial commitments

	2003 £	2002 £
<i>Contracted</i>		
Foreign currency purchases	19,439,646	15,969,100
Hotel costs	4,264,891	3,618,322
	<hr/> 23,704,537 <hr/>	<hr/> 19,587,422 <hr/>

17 Pension schemes

The Group operates a defined contribution pension scheme for certain of its employees. The assets of the scheme are held separately from those of the company by an independent professional company. There were no accrued or prepaid pension contributions at 31 December 2003 (2002: £nil)

18 Reconciliation of operating profit to net operating cash flow

	2003 £	2002 £
Operating profit	1,687,378	2,109,021
Depreciation	225,847	273,525
Increase in debtors	(2,317,886)	(606,277)
Increase/(decrease) in creditors	474,710	(2,227)
	<hr/> 70,049 <hr/>	<hr/> 1,774,042 <hr/>
Net cash inflow from operating activities	70,049	1,774,042

Notes (continued)

19 Analysis of cash flows

	2003 £	2002 £
Returns on investment and servicing of finance		
Interest received	380,579	311,386
Interest paid	(63,708)	(79,064)
	<u>316,871</u>	<u>232,322</u>
 Capital expenditure and financial investment		
Purchase of tangible fixed assets	(62,502)	(46,384)
Disposal of freehold land and vehicle	22,857	800,000
	<u>(39,645)</u>	<u>753,616</u>
 Financing		
Debt due within one year:		
Repayment of secured loan	(170,000)	(170,000)
	<u>(170,000)</u>	<u>(170,000)</u>

20 Analysis of net debt

	At 1 January 2003 £	Cash flow £	Other non-cash charges £	At 31 December 2003 £
Cash in hand at bank	1,894,987	(810,378)	-	1,084,609
Overdrafts	(547,680)	372,743	-	(174,937)
		<u>(437,635)</u>		
 Debt due within 1 year	(170,000)	170,000	(170,000)	(170,000)
Debt due after 1 year	(1,100,000)	-	170,000	(930,000)
	<u>77,307</u>	<u>(267,635)</u>	<u>-</u>	<u>(190,328)</u>

Notes *(continued)*

21 Related party disclosures

The Company is a wholly owned subsidiary of Maraheath Limited. The ultimate parent company is First Choice Holidays PLC.

The Company has had transactions, during the year under review, with related parties as defined in FRS 8 as follows:

- Forward foreign currency purchases contracted in 2003 with the ultimate parent company First Choice Holidays PLC amounted to £20,185,677 (2002: £19,270,810). As at 31 December 2003, the amount contracted with First Choice Holidays PLC for 2004 was £19,439,646 (2002: £15,969,100).
- As at 31 December 2003, 'amounts owed by group undertakings' include a loan granted for £3,350,000 to Maraheath Limited, the company's sole shareholder. The sum owed is to be set off against dividends in forthcoming financial years.

22 Ultimate parent company

First Choice Holidays PLC, a company registered in England and Wales is the ultimate parent company. The immediate holding company is Maraheath Limited. First Choice Holidays PLC is the parent undertaking of the largest and smallest group of which Citalia Holidays Limited is a member and for which consolidated company accounts are drawn up. Copies of these group accounts are available from the Company Secretary, First Choice Holidays PLC, First Choice House, London Road, Crawley, West Sussex RH10 9GX.