

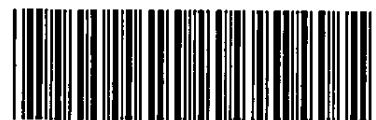
FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

**DIRECTORS' REPORT AND
FINANCIAL STATEMENTS**

**for the year ended
30 September 2008**

Company number: 1450256

THURSDAY



L12 *L2L5IBZ5* 30/07/2009 148
COMPANIES HOUSE

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

Directors' report for the year ended 30 September 2008

The Directors submit their report and the audited financial statements of First Choice Holidays & Flights Limited ("the Company") for the year ended 30 September 2008.

Principal activity

The Company's principal activity continued to be that of a tour operator. The results for the period include the following trading names which operate under the same ATOL licence held by First Choice Holidays & Flights Limited:

First Choice
Eclipse
Falcon
Flexi Conference & Incentive
JWT Holidays
2wentys
Sovereign
Sunstart

As part of a group wide legal entity restructure, on 1 October 2008, First Choice Holidays & Flights Limited transferred its trade, assets and liabilities to TUI UK Limited.

Enhanced business review

The package holiday market during 2008 faced challenging trading conditions. During the year, the Company continued to see the benefit of greater visibility and brand awareness. The First Choice brand has a wide representation in key high street locations and the Company will examine all opportunities to enhance this further in the future.

Results and dividends

The Company's loss on ordinary activities after taxation for the year ended 30 September 2008 was £177.4m (11-month period ended 30 September 2007: £59.6m). In the year ended 30 September 2008, other operating expenses include exceptional restructuring costs for the period of £80.2m (11-month period ended 30 September 2007: £39.8m). No dividends were paid in the period (11-month period ended 30 September 2007: £nil). The Directors do not recommend the payment of a final dividend (11-month period ended 30 September 2007: £nil).

Principal risks and uncertainties

During the year, the Directors managed the risks and uncertainties of the Company in co-ordination with its fellow subsidiaries in the TUI Travel PLC group of companies ("the Group"). The Directors review the Company's risks and uncertainties in the context of the Group. The Directors of the Company believe that this review process is appropriate given that the Company's operations are managed in co-ordination with those of the Group's Mainstream Sector. The principal risks and uncertainties which are common to the Group and the Company are:

Economic downturn

Subsequent to the year end the current economic environment is increasingly challenging. The Directors consider that the Company has, within the context of the Group, appropriate planning processes in place to address this future uncertainty and the Directors continue to monitor the trading outlook carefully and take appropriate mitigating action.

Geo-political events and natural disasters

The nature of our business means that we are at risk of geo-political events or natural disasters. It is for this reason that we ensure we operate with a flexible and efficient business model and minimise the reliance on any one destination.

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED
Directors' report for the year ended 30 September 2008 (continued)

Commercial relationships

We have well established and close relationships with our customers and suppliers and spread our risk by not placing over-reliance on any one supplier in any particular area. However, if a relationship were lost or damaged with a major supplier this could have a detrimental effect on our business. The management team meets regularly with suppliers to maintain good working relationships and to understand the supplier's financial position.

Information technology

The Company is heavily reliant upon information technology. Investment is being made to ensure that we have advanced and efficient systems in place but there is a risk if there were a major failure – particularly if it were to affect selling systems. Procedures are in place to minimise the time a selling system is unavailable in the event of such a failure.

Environmental risk

As a tour operator we use aircraft to take people on holidays, sometimes to countries where tourism is just developing. This does have an impact on the environment and we take our corporate and social responsibilities seriously at every level. We work with the authorities and suppliers in the destinations we serve to ensure that any local environmental impact is minimised in the best interest of the indigenous population.

Financial risk

The treasury function is managed centrally in the Group and supports the business activities and financial risks faced by the Company. The Directors identify, monitor and manage the financial risks faced by the Company including foreign exchange.

Funding and liquidity

The Directors have considered the funding and liquidity position of the Company and of its intermediate parent company, TUI Travel PLC. Following this review, the Directors consider it appropriate to continue to prepare the financial statements on the going concern basis.

Key performance indicators

As the Directors manage the Company in co-ordination with the management of the TUI Travel Mainstream Sector businesses, they take the view that analysis using key performance indicators ("KPIs") for the Company alone is not necessary or appropriate for an understanding of the development, performance and positioning of its business.

The development, performance and positioning of the Mainstream Sector of TUI Travel PLC, which includes the Company, is discussed in the Business Review within TUI Travel PLC's annual report, which does not form part of this report.

Employee matters

The Group operates a global portfolio of businesses, employing approximately 50,000 people across the Group – including Europe, the USA, Canada, Asia and Australia. Although businesses within the portfolio are at various stages of development and maturity, together we share a common vision and set of values. Our aim is to build the most capable and engaged teams to deliver optimum business performance and thereby support the goals of delivering high performance to create superior shareholder value and career fulfilment for all of our colleagues.

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED
Directors' report for the year ended 30 September 2008 (continued)

Our commitment is to:

- Engage employees in our aims and success – and in issues that affect them.
- Promote a positive workplace.
- Reward them in a way that is relevant to them and reflects their contribution to the Group's success.

Our Commitment to attracting, developing and retaining talent

We are proud of the commitment and dedication of our colleagues in delivering the levels of service and efficiency which make us stand out from our competitors. Everyone is valued for their skills and talents and every effort is made to support them to achieve their full potential. We are committed to using the most effective recruitment methods in the countries in which we operate and to building skills and knowledge in ways which suit both the business and our colleagues.

Our leadership capability is key to our success and we therefore continue to invest in developing our leaders. A number of our senior managers had the opportunity of attending a leadership programme working in the community in Costa Rica. This is a Group-wide programme, which builds the skills and capability of those with the greatest responsibility for leadership and strategy, as well as supporting our sustainable tourism goals. There is also a Group-wide management programme targeted at middle management and an international trainee programme through which we recruit and develop young talent. Investment in the capability of our colleagues is a priority and they get the opportunity for dialogue on their training needs each year.

Everyone also has the opportunity to meet their line manager at least once annually to discuss their performance and to make plans for development in the coming year. A range of performance and development tools enable individuals to identify training opportunities, understand the role they play in our success and support the setting of personal objectives linked to our business plans.

Retaining key people is critical to our continued business success particularly in times of change. Talent across the Group is reviewed regularly at Board level and our focus is to retain and develop individuals to drive the business forward. We actively promote people to career opportunities across the Group to enhance the mix of professional, entrepreneurial and general management skills. To meet seasonal demands, where possible, we move our top performing frontline colleagues between retail, overseas representation and airline cabin crew roles. This develops a multi-skilled workforce with year-round experience of delivering service to our customers.

Rewarding people and valuing their contribution

We have a reward strategy developed around Group-wide principles ensuring alignment to our business objectives, with flexibility to enable successful local implementation across many differing geographies. Recognising and rewarding our colleagues in ways that are effective for them is a key driver for engagement and high performance. Our reward strategy includes base pay, competency pay, incentives, benefits and non-cash based rewards. We make every effort to measure the input and results of individuals and teams. Many people participate in share based incentives giving them an interest in the financial performance of the Group.

We encourage participation and meet our social and formal obligations through a wide range of representation forums. Opinion surveys, including a specific leadership survey across the Group's senior managers, are conducted to monitor our colleagues' knowledge of business direction, the level of engagement in our vision and values and views on the Group's practices and policies. colleagues can confidentially raise matters of this nature which may concern them.

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

Directors' report for the year ended 30 September 2008 (continued)

As a Group we operate in many diverse cultures and accept our responsibility to rule out discrimination on any grounds including ethnicity, gender, sexual orientation, disability and age. We continue to develop policies on non-discrimination and inclusiveness in line with best practice and, where possible, they are incorporated into training for line managers as a key part of induction programmes. Unfair treatment of any colleague is not tolerated and confidential reporting mechanisms are available through which

Ensuring that everyone shares our aims and is involved in matters which affect them is a key challenging to which we are committed. People work with us in many countries around the world – a significant number of whom are engaged on a seasonal basis. A key priority is that we hire people who we believe share our passion for our customers and products. We then build engagement through involvement, consultation and by providing regular local and global updates in ways which suit our working environment and local cultures.

A Group extranet, 'Discover', enhances communications across the businesses within the Group. The website provides a central source where everyone can find external and internal information about our businesses, the sectors and the Group. This is in addition to, and complements, Sector communication tools and processes which are tailored to meet Sector-specific needs.

Policy and practice on payment of creditors

It is the Company's policy wherever possible to agree terms of payment with suppliers in advance to ensure that they are made aware of the terms of payment and both parties abide by those terms. 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. The Company has not calculated the average creditor settlement period as, due to the differing terms in force, any such average would not be comparable.

Directors

The Directors of the Company at the date of this report are:

D Blastland	
A L John	(appointed 15 October 2007)
N G Morris	
E Sutton	(appointed 26 October 2007)
D M Taylor	(appointed 14 April 2008)
A C Woodcraft	

Other Directors who served during the period were:

A D Smith	(resigned 29 February 2008)
P J Long	(resigned 13 August 2008)

Directors' insurance

The intermediate parent company, TUI Travel PLC, maintains Directors' & Officers' Liability insurance policies on behalf of the Directors of the Company.

Charitable contributions

The Company made charitable donations during the year of £52,564 (11-month period ended 30 September 2007: £29,525).

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED
Directors' report for the year ended 30 September 2008

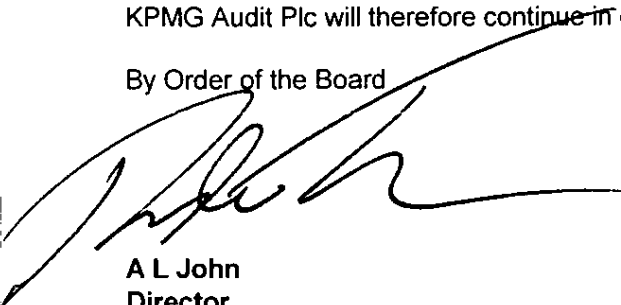
Statement as to disclosure of information to auditors

The Directors confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be re-appointed and KPMG Audit Plc will therefore continue in office.

By Order of the Board



A L John
Director

Date: 30 July 2009

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

Statement of Directors' Responsibilities in respect of the Directors' report and the financial statements for the year ended 30 September 2008

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). The financial statements are required by law to 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 these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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 that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its 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 Company* and to prevent and detect fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT

to the members of FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

We have audited the financial statements of First Choice Holidays & Flights Limited for the year ended 30 September 2008 which comprise the profit and loss account, the balance sheet, and the related notes. These financial statements have been prepared under 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 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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 6. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 whether in our opinion the information given in the Directors' Report is consistent with the financial statements. In addition, we report to you if, in our opinion, 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 other transactions 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 International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 30 September 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985;
- and the information given in the Directors' Report is consistent with the financial statements.

KPMG Audit Plc

KPMG Audit Plc

Chartered Accountants

Registered Auditor, 8 Salisbury Square, London, EC4Y 8BB

Date: 30 July 2009

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED
Profit and loss account
for the year ended 30 September 2008

	Note	Year ended 30 September 2008 £'000	11-month period ended 30 September 2007 £'000
Turnover		1,318,868	1,085,488
Cost of sales		(1,278,954)	(1,066,287)
Gross profit		39,914	19,201
Operating expenses	2	(209,179)	(114,288)
Other operating income		3,800	3,483
Operating loss		(165,465)	(91,604)
Interest receivable and similar income	4	-	8,713
Interest payable and similar charges	5	(5,343)	(206)
Loss on ordinary activities before taxation	6	(170,808)	(83,097)
Tax (charge)/ credit on loss on ordinary activities	7	(6,613)	23,552
Loss for the year / period	15	(177,421)	(59,545)

Operating expenses include exceptional restructuring costs for the year of £80.2m (11-month period ended 30 September 2007: £39.8m).

A note on historical cost profits and losses has not been included as part of these financial statements as the results as disclosed in the profit and loss account are prepared on an unmodified historical cost basis.

The results stated above are all derived from discontinued operations.

The Company has no other recognised gains or losses other than as disclosed in the profit and loss account. Accordingly, a statement of total recognised gains and losses is not presented.

The notes on pages 10 to 23 form part of these financial statements.

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED
Balance Sheet
at 30 September 2008

	Note	30 September 2008 £'000	30 September 2007 £'000
Fixed assets			
Intangible fixed assets	8	3,058	3,290
Investments	9	2	2
		<u>3,060</u>	<u>3,292</u>
Current assets			
Debtors	10	319,026	295,737
Cash in bank		19,945	8,753
		<u>338,971</u>	<u>304,490</u>
Creditors: amounts falling due within one year	11	<u>(558,113)</u>	<u>(349,704)</u>
Net current liabilities		<u>(219,142)</u>	<u>(45,214)</u>
Total assets less current liabilities		<u>(216,082)</u>	<u>(41,922)</u>
Creditors: amounts falling due after more than one year	12	<u>(120,900)</u>	<u>(124,700)</u>
Net liabilities		<u>(336,982)</u>	<u>(166,622)</u>
Capital and reserves			
Called up share capital	14	225,061	225,061
Share premium account		269	269
Profit and loss account	15	(562,312)	(391,952)
Equity shareholders' deficit	16	<u>(336,982)</u>	<u>(166,622)</u>

The notes on pages 10 to 23 form part of these financial statements

The financial statements were approved by the Board on 30 July 2009 and were signed on its behalf by:



A L John
Director

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

Notes forming part of the financial statements for the year ended 30 September 2008

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 United Kingdom accounting standards and under the historical cost convention.

Under Financial Reporting Standard 1 (revised 1996), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

Related party transactions

The Company has taken advantage of the exemption contained in Financial Reporting Standard No. 8 "Related Party Disclosure" as it is a wholly-owned subsidiary of TUI Travel PLC. Therefore the Company has not disclosed transactions or balances with entities that form part of the group headed by TUI Travel PLC. Other related party transactions are disclosed in Note 18.

Going concern

At 30 September 2008 the Company had net liabilities of £337m and had incurred a loss after taxation in the year then ended of £177m. The accounts are prepared on the going concern basis as TUI Travel PLC has agreed to provide financial support to the Company in order that it can continue to trade and meet its liabilities as they fall due, for as long as it remains a member of the Group.

Group financial statements

The Company is exempt from preparing consolidated financial statements under S228 of the Companies Act 1985 as it is part of a larger company, registered in England and Wales, which is preparing consolidated financial statements drawn up at the same date. These financial statements therefore present information about the Company as an individual undertaking and not about its Group. Consequently, investments in subsidiaries are recorded at cost less amounts written off. Provisions are made for the permanent reductions in value.

Client money received in advance

Client money received at the balance sheet date relating to holidays commencing and flights departing after the period end is included in creditors.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate ruling at the date of the transaction or, where forward cover has been arranged, at the contractual rate. Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange rates ruling at the balance sheet date or at a contractual rate if applicable and any exchange differences arising are taken to the profit and loss account in the season to which the contract relates.

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

Notes forming part of the financial statements for the year ended 30 September 2008 (continued)

Turnover

Turnover represents the aggregate amount of revenue from inclusive tours and other services supplied to customers in the ordinary course of business. Revenue is recognised on the date of departure and the related costs of distribution and of providing the holidays and flights are charged to the profit and loss account on the same basis. Turnover is stated after deduction of trade discounts.

The turnover and pre-tax loss are attributed to tour operating activities of the Company which were all carried out in the United Kingdom.

Other operating income

Other operating income arising from the sale of trademarks and licences is recognised on a straight-line basis over the licence agreement term.

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.

Marketing and other direct sales costs

Marketing, advertising and other promotional costs, including those related to the production of brochures, are expensed as incurred.

Pensions

The Group operates a defined contribution pension scheme and charges are made to the Company for staff employed. Pension liabilities are charged to the profit and loss account as they fall due.

Goodwill

Goodwill arising on the purchase of businesses (representing the excess of the fair value of the consideration and associated costs given over the fair values of separable net assets acquired) is capitalised. Positive goodwill is amortised to nil by equal instalments over its estimated useful life, normally 20 years.

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

Notes forming part of the financial statements for the year ended 30 September 2008
(continued)

2 Operating expenses

	Year ended 30 September 2008	11-month period ended 30 September 2007
	£'000	£'000
Staff costs (see note 3)	70,361	45,494
Amortisation (see note 8)	232	213
Other operating expenses	125,483	57,126
Intercompany management charges	13,103	11,455
	<u>209,179</u>	<u>114,288</u>

In the year ended 30 September 2008, other operating expenses include exceptional restructuring costs for the year of £80.2m (11-month period ended 30 September 2007: £39.8m).

3 Staff costs

The average number of persons employed by the Company (including Directors) during the year, analysed by category, was as follows:

	2008	2007
Sales and marketing	418	437
Operational	1,159	1,416
Administration and management	506	435
	<u>2,083</u>	<u>2,288</u>

The aggregate payroll cost of these persons was as follows:

	Year ended 30 September 2008	11-month period ended 30 September 2007
	£'000	£'000
Wages and salaries	62,021	38,498
Social security costs	5,545	4,453
Pension costs	2,795	2,543
	<u>70,361</u>	<u>45,494</u>

Wages and salaries for the year ended 30 September 2009 includes £22.2m of restructuring related costs. In addition, the Company also incurred employees' relocation expenses of £12.1m. All the restructuring and relocation expenses are included in the exceptional restructuring costs for the year of £80.2m in note 2.

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED**Notes forming part of the financial statements for the year ended 30 September 2008
(continued)****3 Staff costs (continued)****Directors' remuneration**

	Year ended 30 September 2008	11-month period ended 30 September 2007
	£'000	£'000
Emoluments	1,370	967
Company contributions to defined contribution scheme	193	92
	1,563	1,059

	Year ended 30 September 2008	11-month period ended 30 September 2007
	£'000	£'000
Emoluments of highest paid Director	419	284
Pension contribution in respect of highest paid Director	27	19
	446	303

Retirement benefits are accruing to the following number of Directors for services in respect of First Choice Holidays & Flights Limited.

	2008	2007
	Number of Directors	
Money purchase pension schemes	4	4

Share award and option schemes

The intermediate parent company, TUI Travel PLC, operates a number of long-term incentive plans in which certain employees of the Company participate.

Long-term incentives**Deferred Annual Bonus Scheme**

Eligible participants participate in the Deferred Annual Bonus Scheme (DABS) which requires a minimum of 25% and a maximum of 50% of any annual performance bonus payable to be deferred into awards of shares. Matching shares may also be awarded up to four times the deferred amount and are subject to the achievement of stretching performance conditions. Awards of deferred and matching shares are subject to forfeiture conditions until the release date. The shares will normally be released at the end of three years following deferral.

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED

Notes forming part of the financial statements for the year ended 30 September 2008 (continued)

For awards of matching shares made during the year, no shares will vest unless the annual average of the ratio of the TUI Travel PLC Group's (the Group's) consolidated return on invested capital (ROIC) to the weighted average cost of capital (WACC) meets or exceeds one over the three-year period. A hurdle of ROIC, being at least equal to WACC, is used to ensure that the relevant long-term incentive awards pay out only when shareholder value is being created over the performance periods. If the ROIC/WACC hurdle is met, shares will only vest to the extent to which two further performance conditions are satisfied over the three-year period as follows:

- Up to three-quarters of the matching shares will vest based on growth in the Group's earnings per share (EPS), before amortisation of goodwill and business combination intangibles, goodwill impairment and separately disclosed items (as defined in the TUI Travel PLC Annual Report and Accounts 2008), in relation to the growth in the UK Retail Price Index (RPI) as shown in the table below:

Average annual EPS growth in excess of RPI growth	Proportion of matching shares vesting
Below 4%	0%
Between 4% and 13%	On a straight-line basis between 10% and 100%
13% or above	100%

- Up to one-quarter of the matching shares will vest based on the Group's ranking of total shareholder return (TSR) performance relative to companies ranked 30th to 100th by market capitalisation as at the date of the award as shown in the table below:

TSR Ranking	Proportion of matching shares vesting
Below median	0%
Between median and upper quartile	On a straight-line basis between 15% and 100%
At or above upper quartile	100%

Matching share awards lapse if the performance conditions are not met.

Performance Share Plan

The Performance Share Plan (PSP) allows eligible participants to receive share awards, subject to the satisfaction of performance conditions, set by the TUI Travel PLC Remuneration Committee (the Committee), which are measured over a three-year period. Awards are normally made annually.

For awards made during the year, no shares will vest unless the annual average of the ratio of the Group's ROIC to the WACC meets or exceeds one over the three-year period.

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED**Notes forming part of the financial statements for the year ended 30 September 2008
(continued)**

If the ROIC/WACC hurdle is met, shares will only vest to the extent to which two further performance conditions are satisfied over the three-year period as follows:

- Up to half of the shares will vest based on growth in the Group's EPS, before amortisation of goodwill and business combination intangibles, goodwill impairment and separately disclosed items, in relation to the growth in the UK.

RPI as shown in the table below:

Average annual EPS growth in excess of RPI growth	Proportion of shares vesting
Below 4%	0%
Between 4% and 13%	On a straight-line basis between 10% and 100%
13% or above	100%

- Up to half of the shares will vest based on the Group's ranking of TSR performance relative to companies ranked 30th to 100th by market capitalisation as at the date of the award as shown in the table below:

TSR Ranking	Proportion of matching shares vesting
Below median	0%
Between median and upper quartile	On a straight-line basis between 15% and 100%
At or above upper quartile	100%

Awards under the Performance Share Plan lapse if the performance conditions are not met.

The Committee considers that EPS and TSR are the key performance conditions that are most relevant to the Group. EPS is a key indicator of the Group's underlying financial performance whilst TSR is a relative measure of shareholder value creation. A hurdle of ROIC, being at least equal to WACC, is used to ensure that the relevant long-term incentive awards pay out only when shareholder value is being created over the performance periods.

At 30 September 2008 the share awards outstanding in respect of ordinary shares, were as follows:

Share Award Scheme	No. of shares	Date of vesting
Performance Share Plan	504,319	14 December 2008
	8,123	19 June 2009
	913,586	13 February 2010
	1,356,045	13 September 2010
	1,071,603	19 December 2010
	85,346	19 May 2011
Deferred Annual Bonus Scheme		
	528,464	14 December 2008
	768,568	13 February 2010
	1,667,326	19 December 2010
	6,903,380	

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED**Notes forming part of the financial statements for the year ended 30 September 2008
(continued)**

The number of share awards at the beginning and end of the year / period is as follows:

	Number of awards 2008	Number of awards 2007
Outstanding at beginning of the year / period	7,502,541	14,803,540
Forfeited during the year / period	(80,187)	(270,334)
Released during the year / period	(3,135,966)	(11,503,840)
Awarded during the year / period	2,616,992	4,473,175
Outstanding at the end of the year	6,903,380	7,502,541

The fair value of services received in return for shares awarded during the year is measured by reference to the fair value of the shares awarded. The fair value at the date of award during the year has been estimated using a binomial methodology for all schemes except where there is a market-based performance condition attached to vesting, in which case a Monte Carlo simulation was used. The principal assumptions required by these methodologies were:

Information relating to fair values of shares awarded	2008	2007	2006	2005
Fair value at measurement date	£1.05-£2.42	£2.29 – £2.60	£1.35 – £2.02	£0.92 – £1.32
Share price	£2.51-£2.70	£2.02 – £2.31	£2.17 – £2.29	£1.52 – £1.53
Expected volatility	30.4%-34.8%	25.7% – 27.8%	23.4% – 27.8%	32.1% – 32.7%
Award life	3 years	3 years	3 years	3 – 4 years
Expected dividends	3.6%	3.8%	4.0%	4.0%
Risk free interest rate	4.52%-4.75%	5.35% – 5.64%	4.29% – 4.32%	4.4% – 4.5%

Participants are not entitled to dividends prior to vesting. Expected volatility is based on historic volatility adjusted for changes to future volatility indicated by publicly available information. Awards of shares are discretionary.

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED**Notes forming part of the financial statements for the year ended 30 September 2008
(continued)****Employee expenses for the year**

Employee expenses for the current year and prior period relating to share-based schemes are:

	Year ended 30 September 2008 £'000	11-month period ended 30 September 2007 £'000
Shares awarded in 2003	-	1,702
Shares awarded in 2004	-	191
Shares awarded in 2005	-	652
Shares awarded in 2006	658	2,867
Shares awarded in 2007	2,035	2,037
Shares awarded in 2008	1,446	-
Expense arising for share appreciation rights	2,922	-
	<u>7,061</u>	<u>7,449</u>

The future estimated expense for share award schemes outstanding at the balance sheet date is:

	30 September 2008 £'000	30 September 2007 £'000
To be incurred within one year	4,014	3,026
To be incurred after more than one year	3,500	3,412
	<u>7,514</u>	<u>6,438</u>

4 Interest receivable and similar income

	Year ended 30 September 2008 £'000	11-month period ended 30 September 2007 £'000
Bank interest receivable	-	10
Net exchange gain	-	8,703
	<u>-</u>	<u>8,713</u>

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED**Notes forming part of the financial statements for the year ended 30 September 2008
(continued)****5 Interest payable and similar charges**

	Year ended 30 September 2008 £'000	11-month period ended 30 September 2007 £'000
Bank interest payable	8	206
Net exchange loss	5,335	-
	<u>5,343</u>	<u>206</u>

6 Loss on ordinary activities before taxation

Loss is stated after charging:

	Year ended 30 September 2008 £'000	11-month period ended 30 September 2007 £'000
Amortisation of goodwill	232	213

In 2008 and 2007, auditors' remuneration was paid by another group company. The audit fee relating to the Company was as follows:

	Year ended 30 September 2008 £'000	11-month period ended 30 September 2007 £'000
Fees for the audit of the Company	<u>71</u>	<u>68</u>

Fees paid to the Company's auditors, KPMG Audit Plc, and its associates for services other than the statutory audit of the Company are not disclosed in these financial statements. This is on the basis that such non-audit fees are disclosed in the consolidated financial statements of the Company's intermediate parent company TUI Travel PLC.

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED**Notes forming part of the financial statements for the year ended 30 September 2008
(continued)****7 Taxation**

The tax charge / (credit) in the financial statements can be summarised as follows:

	Year ended 30 September 2008 £'000	11-month period ended 30 September 2007 £'000
(i) Analysis of charge in the year/period		
Current tax:		
Group relief receivable	-	(23,088)
Adjustment in respect of previous periods:		
- permanent	6,749	(1,448)
Total current tax charge / (credit)	6,749	(24,536)
Deferred tax:		
Origination and reversal of timing differences:		
- current period UK	(42)	-
- adjustment in respect of previous periods	(94)	984
Total deferred tax (see Note 13)	(136)	984
Tax charge / (credit) on loss on ordinary activities	6,613	(23,552)

(ii) Factors affecting the current tax charge/ (credit) for the year/period

The current tax charge for the year is different to the standard rate of corporation tax in the UK (29%).
The differences are explained below:

	Year ended 30 September 2008 £'000	11-month period ended 30 September 2007 £'000
(Loss) on ordinary activities before tax	(170,808)	(83,097)
Loss on ordinary activities at the standard rate of UK corporation tax of 29% (2007: 30%)	(49,534)	(24,929)
Effects of:		
- Income / (expenses) not chargeable / (deductible) for tax purposes	3,378	1,841
- Short term timing differences	43	-
- Non-utilisation of tax losses	46,113	-
- Adjustment in respect of previous periods	6,749	(1,448)
Current tax charge/(credit) for the year / period	6,749	(24,536)

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED**Notes forming part of the financial statements for the year ended 30 September 2008
(continued)****7 Taxation (continued)****(iii) Factors affecting the future tax charge**

The rate of taxation is expected to follow the standard rate of UK corporation tax in future periods subject to the utilisation of prior year losses, as set out in note 13. On 1 October 2008, the Company transferred its trade, assets and liabilities to TUI UK Limited. With effect from 1 April 2008, the UK statutory rate of corporation tax reduced to 28%. This has resulted in a blended statutory rate of UK tax of 29% in the year ended 30 September 2008 which will reduce to 28% in future years.

8 Intangible fixed assets

	Goodwill £'000
Cost	
At 1 October 2007 and 30 September 2008	<u>4,645</u>
Provision for amortisation	
At 1 October 2007	1,355
Provided in the year	<u>232</u>
At 30 September 2008	<u>1,587</u>
Net book value	
At 30 September 2008	<u>3,058</u>
At 30 September 2007	<u>3,290</u>

9 Investments

	30 September 2008 £'000	30 September 2007 £'000
Cost	<u>2</u>	<u>2</u>

The Company's wholly-owned subsidiary, which has only ordinary share capital, is set out below:

Company	Nature of Business	Country of Registration	Carrying Value £'000
First Choice Aviation Limited	Scheduled Flight Supplier	England & Wales	2

FIRST CHOICE HOLIDAYS & FLIGHTS Limited**Notes forming part of the financial statements for the year ended 30 September 2008
(continued)****10 Debtors**

	30 September 2008 £'000	30 September 2007 £'000
Trade debtors	5,144	3,226
Amounts owed by fellow subsidiaries	180,464	131,839
Other debtors	18,956	35,557
Group relief receivable from fellow group undertakings	66,996	73,745
Deferred tax asset (Note 13)	143	7
Prepayments, payments in advance to suppliers and accrued income	47,323	51,363
	319,026	295,737

11 Creditors: amounts falling due within one year

	30 September 2008 £'000	30 September 2007 £'000
Bank overdrafts	345	47,892
Trade creditors	45,156	43,520
Revenue received in advance	112,440	151,051
Amount owed to fellow subsidiaries	262,168	2,787
Other creditors	28,431	24,101
Accruals and deferred income	109,573	80,353
	558,113	349,704

During the year, the Company traded with Sunshine Cruises Limited, a joint venture of TUI Travel PLC. The Company has charged Sunshine Cruises Limited for flying, administrative services and marketing contributions. At 30 September 2008 a balance due from Sunshine Cruises Limited of £1,433,563 (30 September 2007, credit balance of £6,588,000) is included within debtors.

12 Creditors: amounts falling due after more than one year

	30 September 2008 £'000	30 September 2007 £'000
Licence	20,900	24,700
Non interest bearing loan due to fellow subsidiary	100,000	100,000
	120,900	124,700

During 2004, the Company sold 11-year licences to fellow subsidiaries within the First Choice Holidays PLC Group for the use of the First Choice brand name and trademark. The licences were sold for a total lump sum receipt of £41.8m. The effective date of sale was 1 April 2004. Revenue is recognised on a straight line basis over 11 years. In the current period £3.8m revenue has been recognised (11-month period ended 30 September 2007: £3.5m).

FIRST CHOICE HOLIDAYS & FLIGHTS LIMITED**Notes forming part of the financial statements for the year ended 30 September 2008
(continued)****13 Deferred tax asset**

	30 September 2008 £'000	30 September 2007 £'000
At 1 October 2008 / 1 November 2007	7	991
Credit / (charge) in the year / period (Note 7)	136	(984)
At 30 September 2008/ 2007	143	7
The net deferred tax position is as follows:		
	30 September 2008 £'000	30 September 2007 £'000
Depreciation in excess of capital allowances	67	7
Other short term timing differences	76	-
	143	7

There is an unrecognised deferred tax asset in respect of unutilised losses carried forward of £44,666,000 (2007:Nil). These have not been recognised because Directors cannot be certain of the timing of any benefits that may arise.

There are no other unrecognised deferred tax assets or unprovided deferred tax liabilities at either 30 September 2008 or 30 September 2007.

14 Share capital

	30 September 2008 £'000	30 September 2007 £'000
Authorised		
600,000 deferred ordinary shares of 10p each	60	60
2,250,100,000 ordinary shares of 10p each	225,010	225,010
	225,070	225,070
Issued and fully paid		
600,000 deferred ordinary shares of 10p each	60	60
2,250,006,000 ordinary shares of 10p each	225,001	225,001
	225,061	225,061

FIRST CHOICE HOLIDAYS & FLIGHTS Limited

Notes forming part of the financial statements for the year ended 30 September 2008

(continued)

15 Reserves

	Profit and loss £'000
1 October 2007	(391,952)
Loss for the year	(177,421)
Share-based payment charges	7,061
At 30 September 2008	(562,312)

16 Reconciliation of movements in shareholders' deficit

	30 September 2008 £'000	30 September 2007 £'000
Loss for the financial year / period	(177,421)	(59,545)
Share-based payment charges	7,061	7,449
Net increase in shareholders' deficit	(170,360)	(52,096)
Opening shareholders' deficit	(166,622)	(114,526)
Closing shareholders' deficit	(336,982)	(166,622)
All shareholders' deficit relates to equity interests		

17 Commitments

Operating Leases and Capital Commitments are disclosed in the financial statements of First Choice Office Services Limited (a fellow subsidiary company)

18 Ultimate parent company

The Company is a subsidiary undertaking of TUI AG – a company registered in Berlin and Hanover (Federal Republic of Germany), which is the ultimate parent company. The intermediate holding company is TUI Travel PLC. With effect from 1 October 2008 the immediate parent undertaking is TUI UK Limited.

The largest group in which the results of the Company are consolidated is that headed by TUI AG. The smallest group in which the results of the Company are consolidated is that headed by TUI Travel PLC, incorporated in the United Kingdom. No other group financial statements include the results of the Company.

Copies of the TUI Travel PLC financial statements are available from TUI Travel House, Crawley Business Quarter, Fleming Way, Crawley, West Sussex RH10 9QL. Copies of the TUI AG financial statements are available from Investor Relations, TUI AG, Karl-Wiechert-Allee 4, D-30625, Hanover or from the website: www.tui-group.com

19 Contingent liabilities

The Company is, at any time, defending a number of actions against it arising in the normal course of business. Provision is made for these actions where this is deemed appropriate.

20 Post Balance Sheet events

As part of a group wide legal entity restructure on 1 October 2008, First Choice Holidays & Flights Limited transferred its trade, assets and liabilities to TUI UK Limited.