First Choice Retail Limited

Directors' report and financial statements

Registered number 1456086

Year ended 31 October 2001

Contents

Directors' report

The directors present their annual report together with the financial statements for the year ended 31 October 2001.

Principal activity

The principal activity of the Company is the business of travel agency.

Business review

The result for the year is shown in the profit and loss account on page 6. The loss for the year transferred to reserves is £15,012,000 (2000: *loss £9,947,000*). During the year, the Company continued to increase its turnover and expand its retail shop chain.

Proposed dividend

The directors do not recommend the payment of a dividend. (2000: Nil)

Directors and directors' interests

The directors at the date of this report are:

A D Martin (appointed 28 September 2001)
H D Thomas (appointed 31 January 2002)
J Wimbleton (appointed 21 September 2001)

Other directors who served in the year were as follows:

M Gifford (resigned 31 January 2002)
D Howell (resigned 3 May 2001)
G Reilly (resigned 9 May 2001)
P D K Shanks (resigned 30 September 2001)

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

As at 31 October 2001 the interests of the directors in the ordinary share capital of the ultimate parent company, First Choice Holidays PLC, were as follows:

	Ordinary Shares		Options				Restricted Shares			
	31 Oct 2001	31 Oct 2000*	31 Oct 2000*	Granted	Exercised	**31 Oct. 2001**	31 Oct. 2000*	Granted	Exercised	**31 Oct 2001**
M Gifford	**37,639**	19,387	-	-	-	-	50,723	50,000	(30,421)	**70,302**
J Wimbleton	**34,811**	81,743	6,601	-	-	6,601	314,678	-	(8,112)	**306,566**

* or at date of appointment.

The interests of A D Martin are disclosed in the accounts of the ultimate parent undertaking, First Choice Holidays PLC.

Directors' report *(continued)*

Directors and directors' interests *(continued)*

	Number of shares	Date exercisable
M Gifford		
Restricted Share Plan	4,495	6 October 2001
	15,807	15 December 2002
	50,000	12 December 2003
J Wimbleton		
Restricted Share Plan	5,780	6 October 2001
	26,108	16 December 2001
	152,727	15 December 2002
	121,951	12 December 2003
Savings Related Share Options Scheme	3,724	1 November 2001
	2,877	1 October 2003

The following exercises took place during the year under the restricted share plan.

	Number of shares	Exercise Date
M Gifford	17,119	3 January 2001
	6,992	2 July 2001
	6,310	19 October 2001
J Wimbleton	8,112	19 October 2001

For full details of the above schemes, reference should be made to the Annual Report and Accounts of First Choice Holidays PLC.

Employee Policy
Involvement, Health, Safety and Disability Policies

The Company recognises the importance of involving and developing its employees wherever practical. Employees are updated on corporate performance, business objectives and developments through various formal and informal channels of communication in order to promote a better understanding of the Company's business. Involvement of employees in the Company's performance is also encouraged by the availability of performance related bonuses and similar schemes.

It is the Company's policy to place the utmost importance upon and maintain a high standard of health and safety at work. It is our responsibility to endeavour to ensure the prevention of personal injuries and to investigate and encourage means by which the health, safety and welfare of employees can be improved. Accordingly, all safety precautions are kept under review to ensure that the highest standards are maintained.

Where it is reasonable and practical, all employees, including disabled people, are treated in the same way in matters relating to employment, training, career development and promotion. Proper attention is paid to the opportunities, training and work prospects of people who become disabled during their employment with the Company.

Directors' report *(continued)*

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 suppliers are made aware of the terms of payment and both parties abide by those terms.

At the year end the Company's average creditor payment days was 27 (2000: 42 days).

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.

Introduction of the Euro

The Company has made preparations to trade and operate in the Euro and this has been achieved without significant additional costs being incurred.

The Board consider that the Company is prepared for the introduction of the Euro and that no operational difficulties will arise from the currency's implementation.

Auditors

The Company has elected to dispense with the holding of Annual General Meetings, the laying of accounts before the members in General Meeting and the appointment of auditors annually. Accordingly, KPMG Audit Plc will continue in office as auditors.

By order of the board

J Walter
Company Secretary

First Choice House
London Road
Crawley
West Sussex
RH10 9GX

Date: 26 April 2002

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 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; 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 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.

kpmg

KPMG Audit Plc
100 Temple Street
Bristol
BS1 6AG
United Kingdom

Report of the independent auditors to the members of First Choice Retail Limited

We have audited the financial statements on pages 6 to 18.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, 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's affairs as at 31 October 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

26 APRIL 2002

KPMG Audit Plc
Chartered Accountants
Registered Auditor

Profit and loss account
for the year ended 31 October 2001

	Note	**2001** **£000**	2000 £000
Turnover	*2*	**54,488**	39,256
Other operating income and charges (including exceptional costs of £790,000 in 2001 – see note 4)	*3*	**(75,037)**	(56,877)
Operating loss		**(20,549)**	(17,621)
Interest receivable and similar income	*5*	**-**	62
Interest payable and similar charges	*6*	**-**	(25)
(Loss)/Profit on disposal of fixed assets		**(45)**	276
Loss on ordinary activities before taxation	*2*	**(20,594)**	(17,308)
Taxation	*8*	**5,582**	7,361
Loss for the financial year	*16*	**(15,012)**	(9,947)

All results arose from continuing activities.

There is no material difference between the result disclosed in the profit and loss account and the result as given on an unmodified historical cost basis.

Balance sheet
at 31 October 2001

	Note	2001		2000	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	*9*		**1,089**		1,152
Tangible assets	*10*		**24,882**		23,888
Investments	*11*		**-**		-
			25,971		25,040
Current assets					
Debtors	*12*	**43,310**		45,576	
Cash at bank and in hand		**2,036**		10,428	
		45,346		56,004	
Creditors: amounts falling due within one year	*13*	**(33,438)**		(78,495)	
Net current assets/(liabilities)			**11,908**		(22,491)
Total assets less current liabilities			**37,879**		2,549
Provisions for liabilities and charges	*14*		**(1,702)**		(1,360)
Net assets			**36,177**		1,189
Capital and reserves					
Called up share capital	*15*		**73,000**		23,000
Profit and loss account	*16*		**(36,823)**		(21,811)
Equity shareholders' funds			**36,177**		1,189

These financial statements were approved by the board of directors on 26 April 2002 and were signed on its behalf by:

Hywel Thomas
Director

Statement of total recognised gains and losses
for the year ended 31 October 2001

	2001	2000
	£000	£000
Loss for the financial year	**(15,012)**	(9,947)
Total recognised gains and losses for the financial year	**(15,012)**	(9,947)
Prior year adjustment	-	(5,513)
Total gains and losses recognised since last annual report	**(15,012)**	(15,460)

Reconciliation of movements in shareholders' funds
for the year ended 31 October 2001

	2001	2000
	£000	£000
Loss for the financial year	**(15,012)**	(9,947)
New share capital subscribed	**50,000**	22,555
Net increase in shareholders' funds	**34,988**	12,608
Opening shareholders' funds	**1,189**	(11,419)
Closing shareholders' funds	**36,177**	1,189

Notes

(forming part of the financial statements)

1 Accounting Policies

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention.

The following accounting policies have been consistently applied in dealing with items considered material in relation to the accounts. The Company has adopted during the year, to the extent set out below, the requirements of the following new Financial Reporting Standards (FRS):

FRS 18: Accounting policies – The Company complies with this Standard which gives guidance relating to the selection, application and disclosure of accounting policies applied in the financial statements. The adoption of FRS 18 has had no material impact on the Company's accounts.

FRS 19: Deferred tax – The Company has fully adopted the Standard, which requires full rather than partial provision for deferred tax liabilities. This has resulted in a change in accounting policy for the Company. However, in prior periods, the Company has had no unprovided deferred tax timing differences and hence the new policy has not required a prior period adjustment. The additional disclosure requirements of FRS 19 are included in the notes to the accounts.

Basis of consolidation

The Company is exempt from preparing consolidated financial statements on the grounds that it is a wholly owned subsidiary and is included in the consolidated accounts of its ultimate parent undertaking, First Choice Holidays PLC. The consolidated financial statements of First Choice Holidays PLC, which include the Company are publicly available (address given in note 20). These financial statements therefore present information about the Company as an individual undertaking and not about its group.

Turnover

Turnover is the total amount receivable by the Company for commissions earned and services provided, excluding VAT and trade discounts. Commissions earned on the sale of holidays is credited to the profit and loss account on the date the final balance falls due from the customer.

Investments

Investments are included at cost. Profits or losses arising from disposals of fixed asset investments are treated as part of the result from ordinary activities.

Goodwill

Purchased goodwill (representing the excess of the fair value of the consideration and associated costs given over the fair values of the separable net assets acquired) arising on consolidation in respect of acquisitions since 1 November 1998 is capitalised. Positive goodwill is amortised to nil by equal instalments over its estimated useful life, normally 20 years. On the subsequent disposal or termination of a business acquired since 1 November 1998, the profit or loss on disposal or termination is calculated after charging the unamortised amount of any related goodwill.

Goodwill arising on consolidation prior to the adoption, on 1 November 1998, of FRS 10 - Goodwill and Intangible Assets has been charged directly to reserves. The goodwill which has been taken directly to reserves will be charged to the profit and loss account on disposal of the related business.

Fair value accounting adjustments are made in respect of acquisitions and these may be made on provisional estimates. Amendments may be made to those adjustments in the subsequent accounting period with a corresponding adjustment to goodwill in the light of post acquisition experience.

Notes *(continued)*

1 Accounting policies *(continued)*

Depreciation

Depreciation is calculated to write down the cost less the estimated residual value of all tangible fixed assets over their expected useful lives. The rates and periods generally applicable are:

Freehold property	2% per annum straight line
Leasehold property	Over the lease term
Computers, furniture and equipment	10% to 33 1/3% per annum straight line
Vehicles	25% per annum straight line

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 at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. All exchange differences are dealt with through the profit and loss account.

Contributions to pension funds

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

Leased assets

Assets acquired under finance leases and hire purchase contracts are capitalised and the outstanding future lease obligations are shown in creditors.

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

Cash flow

The Company is exempt from the requirements of Financial Reporting Standard 1 (revised 1996) to prepare a cash flow statement as it is a wholly owned subsidiary of First Choice Holidays PLC. The consolidated financial statements of First Choice Holidays PLC, which include the Company are publicly available (address given in note 20).

Notes *(continued)*

2 Turnover and profit on ordinary activities before taxation

Turnover and profit on ordinary activities before taxation are attributable to the business of travel agency.

The profit on ordinary activities is stated:

	2001	2000
After charging:	**£000**	£000
Auditors' remuneration:		
Audit services	**-**	-
Non audit services	**2**	-
Operating lease rentals:		
Land and buildings	**8,923**	7,606
Hire of plant and machinery	**218**	146
Depreciation and other amounts written off tangible fixed assets:		
Owned	**3,580**	2,486
Leased	**-**	3
Goodwill amortised	**63**	63
After crediting:		
Rent receivable	**116**	125

All audit fees are borne by other group companies.

3 Other operating income and charges

	2001	2000
	£000	£000
Other operating income	**(116)**	(125)
Staff costs (note 7)	**21,770**	16,246
Exceptional costs (note 4)	**790**	-
Depreciation	**3,580**	2,490
Other operating charges	**49,013**	38,266
	75,037	56,877

4 Exceptional Costs

Exceptional costs relate to redundancy and re-organisation costs provided and incurred during the year. The tax effect of these costs was £237,000.

5 Interest receivable and similar income

	2001	2000
	£000	£000
Bank interest receivable	**-**	62
	-	62

Notes *(continued*

6 Interest payable and similar charges

	2001	2000
	£000	£000
On bank loans, overdrafts and other loans	-	25
	-	25

7 Directors and employees

Staff costs (including directors, but excluding exceptional costs) during the year were as follows:

	2001	2000
	£000	£000
Wages and salaries	**20,195**	14,857
Social security costs	**1,385**	1,165
Pension costs (note 18)	**190**	224
	21,770	16,246

The average number of employees of the Company (including directors) during the year was 1,814 (2000:*1,605*) made up as follows:

	2001	2000
	Number	Number
Administration and management	**55**	43
Sales	**1,759**	1,562
	1,814	1,605

Remuneration in respect of directors was as follows:

	2001	2000
	£000	£000
Emoluments	**144**	211
Pension contributions to money purchase pension schemes	**16**	23
	160	234

During the year 1 director (2000: *1 director*) participated in money purchase pension schemes.

Notes *(continued)*

7 Directors and employees *(continued)*

The emoluments in respect of the highest paid director, including amounts paid to other group companies, are as follows:

	2001	2000
	£000	£000
Emoluments	**144**	211
Pension contributions to money purchase pension schemes	**16**	23
	160	234

8 Taxation

The tax charge in the 31 October 2001 accounts can be summarised as follows:

Tax on loss on ordinary activities:

(i) Analysis of charge in year

	2001	2000
	£000	£000
Current tax:		
UK corporation tax on losses of the year	**(6,283)**	(5,914)
Adjustment in respect of previous periods:		
- permanent	**348**	(2,100)
- origination of timing differences	**11**	(164)
- utilisation of losses	**-**	-
Total current tax	**(5,924)**	(8,178)
Deferred tax:		
Origination and reversal of timing differences:		
- current year UK	**353**	653
- adjustment in respect of previous periods	**(11)**	164
Total deferred tax	**342**	817
Tax on loss on ordinary activities	**(5,582)**	(7,361)

Notes *(continued)*

8 Taxation *(continued)*

(ii) Factors affecting tax charge for the year

The tax credit for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2001 £000	2000 £000
Loss on ordinary activities before tax	**(20,594)**	(17,308)
Loss on ordinary activities at the standard rate of UK corporation tax of 30% (2000: 30%)	**(6,178)**	(5,192)
Effects of:		
- expenses not deductible for tax purposes	**31**	(192)
- capital allowanaces for year in excess of depreciation	**(136)**	(529)
- adjustment to tax charge in respect of previous periods	**359**	(2,265)
- non utilisation of tax losses	**-**	-
Current tax credit for the year	**(5,924)**	(8,178)

9 Intangible fixed assets

	Goodwill £000
Cost	
At 1 November 2000	**1,250**
On acquisitions in year	**-**
At 31 October 2001	**1,250**
Amortisation	
At 1 November 2000	**98**
Charged in year	**63**
At 31 October 2001	**161**
Net book value	
At 31 October 2001	**1,089**
At 31 October 2000	**1,152**

Goodwill is being amortised over 20 years, its useful estimated economic life.

Notes *(continued)*

10 Tangible fixed assets

	Short leasehold property £000	Computers, furniture and equipment £000	Vehicles £000	Total £000
Cost or valuation				
At 1 November 2000	18,379	9,534	85	27,998
Additions	1,366	3,645	-	5,011
Disposals	(239)	(279)	(50)	(568)
Re-classification	4,660	(4,660)	-	-
At 31 October 2001	24,166	8,240	35	32,441
Depreciation				
At 1 November 2000	2,750	1,306	54	4,110
Provided in the year	2,114	1,462	4	3,580
Disposals	(70)	(26)	(35)	(131)
Re-classification	596	(596)	-	-
At 31 October 2001	5,390	2,146	23	7,559
Net book value at				
At 31 October 2001	**18,776**	**6,094**	**12**	**24,882**
At 31 October 2000	15,629	8,228	31	23,888

The figures stated above include assets under finance leases and similar hire purchase contracts, as follows:

	Vehicles £000
Net book amount at 31 October 2001	-
Net book amount at 31 October 2000	**10**
Depreciation provided in year	-

Notes *(continued)*

11 Fixed asset investments

	Subsidiary undertakings £000	Participating interest £000	Total £000
Cost			
At November 2000 and 31 October 2001	**725**	**30**	**755**
Provisions			
At November 2000 and 31 October 2001	**(725)**	**(30)**	**(755)**
At end of year	-	-	-

The Company holds 100% of the ordinary share capital of the following companies:

Company name	***Activity***
Intachange Finance Limited	Dormant
Parador Travel Limited	Dormant

12 Debtors

	2001 £000	2000 £000
Trade debtors	**2,017**	4,347
Amounts owed by group companies	**17,989**	13,748
Corporation tax recoverable	-	2,029
Other debtors	**16,188**	18,134
Prepayments and accrued income	**7,116**	7,318
	43,310	45,576

All debtors fall due within one year.

13 Creditors: amounts falling due within one year

	2001 £000	2000 £000
Bank overdrafts	**2,699**	-
Obligations under finance leases and hire purchase contracts	-	10
Trade creditors	**18,321**	21,141
Amounts owed to group undertakings	**2,948**	43,305
Corporation tax	-	-
Taxation and social security	**477**	381
Other creditors	**2,411**	5,608
Accruals and deferred income	**6,582**	8,050
	33,438	78,495

Notes *(continued)*

14 Provisions for liabilities and charges

The amounts provided at a rate of 30% for deferred taxation and the amounts not provided are set out below:

	Amount provided		Amount unprovided	
	2001	2000	**2001**	2000
	£000	£000	**£000**	£000
Accelerated capital allowances	**1,717**	1,360	-	-
Other timing differences	**(15)**	-	-	-
Tax losses available	-	-	-	-
	1,702	1,360	-	-

	Deferred Taxation £000
At beginning of year	1,360
Change to the profit and loss account for the year	342
At end of year	1,702

15 Share capital

	2001 £000	2000 £000
Authorised:		
73,000,000 (2000: 23,000,000) ordinary shares of £1 each	**73,000**	23,000
Allotted, called up and fully paid		
73,000,000 (2000: 23,000,000) ordinary shares of £1 each	**73,000**	23,000

On 27 April 2001 the authorised share capital was increased to £73 million by the creation of a further 50,000,000 ordinary shares of £1 each and 50,000,000 ordinary shares of £1 each were allotted to Sovereign Tour Operations Limited at par and deemed fully paid.

16 Reserves

	Profit and Loss Account £000
At 1 November 2000	**(21,811)**
Retained loss for the year	**(15,012)**
At 31 October 2001	**(36,823)**

Notes *(continued)*

17 Commitments

(a) Capital commitments

	2001	2000 £000
Contracted for but not provided in these financial statements	-	804

(b) Annual commitment under non-cancellable operating leases are as follows:

		Other		Land and buildings
	2001 £000	2000 £000	**2001 £000**	2000 £000
Leases which expire:				
Within one year	-	-	**152**	35
In second to fifth years inclusive	**218**	146	**863**	389
Over five years	-	-	**7,843**	8,156
	218	146	**8,858**	8,580

18 Pensions

The Company operates a defined contribution pension scheme. The pension costs charged for the year represents contributions payable by the Company to the fund and amounted to £190,000 (2000: *£224,000*). The assets of the scheme are administered by trustees in a fund independent from those of the Company.

19 Related party disclosures

As the Company is a wholly owned subsidiary of First Choice Holidays PLC, the company has taken advantage of the exemption contained in FRS8 and has therefore not disclosed transactions or balances with entries which form part of the Group.

20 Ultimate parent company

First Choice Holidays PLC, a company registered in England and Wales, is the ultimate parent company. The immediate holding company is Sovereign Tour Operations Limited. First Choice Holidays PLC is the parent undertaking of the largest and smallest group of which First Choice Retail Limited is a member and for which group 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.