

FIRST CHOICE OFFICE SERVICES LIMITED

DIRECTORS' REPORT AND
FINANCIAL STATEMENTS

for the year ended
31 October 1997

Company Number 2469040



DIRECTOR'S REPORT

for the year ended 31 October 1997

FINANCIAL STATEMENTS

The Directors present their report and financial statements of First Choice Services Limited for the year ended 31 October 1997.

PRINCIPAL ACTIVITIES

The principal activity of the Company is that of provider of services to other companies within the First Choice Holidays PLC Group.

RESULTS AND DIVIDENDS

The profit for the year, after tax was £5,039,794 (1996: £762,582 loss). The Directors propose a dividend of £1,324,000 for the year ended 31 October 1997. The dividend paid of £1,324,000 in the year ended 31 October 1996 was repaid during 1997.

POLICY ON PAYMENT OF SUPPLIES

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. It is company policy that payments to suppliers, whether in advance or after the provision of the goods or services, are made on the basis of the terms that have been agreed with them.

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.

DIRECTOR'S REPORT**for the year ended 31 October 1997**

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 a 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.

DIRECTORS AND THEIR INTERESTS

The Directors of the Company are:

First Choice Holidays & Flights Limited

H Thomas	(appointed 12 June 1998)
D Howell	(appointed 5 January 1998)
L S Moir	(appointed 31 January 1997, resigned 31 July 1998)
R Roger	(resigned 12 June 1998)

Other Directors who served in the year are as follows:

D A Gill	(resigned 31 January 1997)
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None of the directors had any beneficial interest in the shares of the company at any time during the year.

As at 31 October 1997 the interests of the Directors in the share capital of First Choice Holidays PLC, the ultimate parent company were as follows:

At 31 October 1997

	Ordinary Shares Held	Restricted Share Plan	Preference Shares Held
R Roger	-	91,215	-

44,789 of the options are exercisable from 23 July 1999 and 46,426 are exercisable from 14 March 2000 all at a price of 93p. The Group has made arrangements to pay a cash bonus to employees equivalent to the exercise value of bonus options under the Restricted Share Plan at the date of exercise.


DIRECTOR'S REPORT
for the year ended 31 October 1997

The interests of L S Moir are disclosed in the accounts of First Choice Holidays PLC

DIRECTORS' INSURANCE

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

By order of the Board.

A handwritten signature in black ink, appearing to be 'R J G Starling', written in a cursive style.

R J G Starling
Secretary

AUDITOR'S REPORT
for the year ended 31 October 1997

We have audited the financial statements on pages 5 to 12.

Respective responsibilities of Directors and Auditors

As described on page 1, the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
LONDON

27th November 1998

BALANCE SHEET

for the year ended 31 October 1997

	Note	Continuing Operations 1997 £	Continuing Operations 1996 £
Turnover	2	5,880,400	6,037,771
Operating expenses (net)	3	(5,874,086)	(6,031,287)
Waiver of debt by fellow subsidiary		5,200,000	-
Operating Profit	4	5,206,314	6,484
Profit on Sale of Business	5	9,415	
Profit on ordinary activities before tax		5,215,729	6,484
Tax on profit on ordinary activities	6	(175,934)	(769,066)
Profit / (Loss) on ordinary activities after tax		5,039,795	(762,582)
Dividends	7	-	(1,324,000)
Profit /(Loss) retained for the year	13	5,039,795	(2,086,582)

The Company has no other recognised gains or losses for the year.

A note on historical cost profits and losses has not been included as part of these financial statements as there is no difference between the results as disclosed in the profit and loss account and the results on an unmodified historical cost basis.

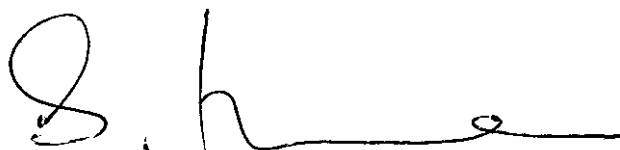
BALANCE SHEET
for the year ended 31 October 1997

	Note	1997 £	1996 £
FIXED ASSETS			
Tangible Assets	8	9,167,003	9,796,072
CURRENT ASSETS			
Debtors	9	331,000	227,872
CREDITORS: amounts falling due within one year	10	(9,410,796)	(15,013,092)
Net Current Liabilities		(9,079,796)	(14,785,220)
Provisions	11	(36,560)	-
Net Assets / (Liabilities)		50,647	(4,989,148)
CAPITAL AND RESERVES			
Share Capital	12	100	100
Profit and loss account	13	50,547	(4,989,248)
Equity Shareholders' funds		50,647	(4,989,148)

EQUITY SHAREHOLDERS' FUNDS

The movement in Equity Shareholders' funds during the year is represented by the retained profit for the year.

The financial statements on pages 5 to 12 were approved by the Board on 26th November 1998 and signed on their behalf by:



D. Howell
Director

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 October 1997

1. ACCOUNTING POLICIES

Accounting Convention

The financial statements are prepared under the historical cost convention, in accordance with applicable accounting standards consistently applied and on a going concern basis as the Company has been assured of the continuing support of the ultimate parent company.

Turnover

Turnover represents amounts receivable for services provided to other group companies net of VAT.

Operating Leases

Rentals payable and receivable under operating leases are charged or credited to the profit and loss account on a straight line basis over the period of the lease.

Deferred taxation

Deferred taxation is provided using the liability method on all material timing differences to the extent that the liability is expected to crystallise in the foreseeable future.

Depreciation

Depreciation is provided on all tangible fixed assets, other than land, on a straight line (SL) or reducing balance (RB) basis at rates calculated to write off the cost or valuation, less estimated residual value, of each asset over its expected useful life.

The rates and methods used are as follows:-

Leasehold properties	Period of lease
Motor vehicles	(RB) 25%
Office equipment	(RB) 25%
Computer equipment	Fully depreciated over three years

Cash flow statement

The company is exempt under Financial Reporting Standard No. 1 from the requirement to prepare a cash flow statement as it is a wholly-owned subsidiary company of another UK company.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 October 1997

1. ACCOUNTING POLICIES (continued)

Foreign currency translation

Assets and liabilities in foreign currencies are translated into Sterling at the rates of exchange ruling at the balance sheet date, except to the extent that foreign currency denominated liabilities are covered by forward exchange contracts. The benefit of foreign exchange contracts purchased to cover future seasons' requirements is accounted for in the season to which such contracts relate. Profits and losses arising on trading and translation are dealt with through the profit and loss account.

2. TURNOVER

The turnover and pre-tax profit are attributable to management services provided to other group companies which are provided in the United Kingdom and arise from continuing operations.

3. OPERATING EXPENSES	1997	1996
	£	£
Depreciation	3,387,712	2,900,474
Loss on disposal of fixed assets	4,605	-
Other operating charges	2,481,769	3,130,813
	<u>5,874,086</u>	<u>6,031,287</u>

4. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	1997	1996
is stated after charging:	£	£
Auditors' remuneration	-	5,000
Depreciation: owned fixed assets	3,387,712	2,900,474
Loss on disposal of fixed assets	4,605	-
Operating lease rentals		
- Land and buildings	1,295,289	2,155,681
- Motor Vehicles	635,590	414,403

The directors did not receive any remuneration for their services during the year (1996: £NIL)

The company did not employ any staff during the year and hence there were no staff costs (1996: £NIL).

The audit fee was borne by another group company.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 October 1997

5. PROFIT ON SALE OF BUSINESS

The profit on sale of business relates to the sale of a portion of a non-core business operated in Portugal.

6. TAXATION

	1997 £	1996 £
Corporation tax at 31.83% (1996: 33%) based on the Profit for the year	88,498	(265,047)
Over/(under) provision in previous year	-	840,872
Deferred tax (Note 11)	(264,432)	(1,344,891)
	<u>(175,934)</u>	<u>(769,066)</u>

7. DIVIDENDS

	1997 £	1996 £
Final Dividends - £ 13,240 per share (1996: £13,240)	1,324,000	1,324,000
Repayment of 1996 dividends	(1,324,000)	-
	<u>-</u>	<u>1,324,000</u>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 October 1997

8.	TANGIBLE FIXED ASSETS	Short Leasehold Property £	Motor Vehicles £	Office & Computer Equipment £	Total £
	Cost				
	Brought forward	5,449,488	304,749	18,605,343	24,359,580
	Additions	17,822	45,000	2,780,323	2,843,145
	Reclassification	60,000	-	(60,000)	-
	Disposals	-	(187,099)	-	(187,099)
	At 31 October 1997	5,527,310	162,650	21,325,666	27,015,626
	Depreciation				
	Brought forward	2,530,094	112,883	11,920,531	14,563,508
	Provided for the year	229,397	47,643	3,110,672	3,387,712
	Disposals	-	(102,597)	-	(102,597)
	At 31 October 1997	2,759,491	57,929	15,031,203	17,848,623
	Net Book Value				
	At 31 October 1997	2,767,819	104,721	6,294,463	9,167,003
	At 31 October 1996	2,919,394	191,866	6,684,812	9,796,072
9.	DEBTORS:			1997 £	1996 £
	Deferred tax (see note 11)			-	227,872
	ACT Recoverable			331,000	-
				331,000	227,872

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 October 1997

10. CREDITORS: Amounts falling due within one year	1997	1996
	£	£
Amounts owed to fellow subsidiary undertakings	9,410,796	15,013,092

11. DEFERRED TAX

Deferred tax provided in the accounts and the total potential assets / (provision) are as follows:-

	Provision Recognised 1997 £	Assets Recognised 1996 £	Potential 1997 £	Potential 1996 £
Accelerated capital allowances	(36,560)	227,872	(36,560)	227,872
Short-term timing difference	-	-	-	-
	<u>(36,560)</u>	<u>227,872</u>	<u>(36,560)</u>	<u>227,872</u>

Deferred tax asset / (provision)

At 1 November 1996	227,872
Charged to Profit and Loss Account (Note 5)	(264,432)
At 31 October 1997	<u>(36,560)</u>

12. CALLED UP SHARE CAPITAL	1997	1996
	£	£
Authorised		
1,000 ordinary shares of £1 each	1,000	1,000
Issued and fully paid		
100 ordinary shares of £1 each	100	100

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 October 1997

13. PROFIT AND LOSS ACCOUNT

	£
At 1 November 1996	(4,989,248)
Retained profit for the year	5,039,795
At 31 October 1997	<u>50,547</u>

14. OPERATING LEASES

At 31 October 1997 the Company has annual commitments under non-cancellable operating leases as follows:-

	1997 Equipment £	1997 Land and Buildings £	1996 Equipment £	1996 Land and Buildings £
Expiry date:				
Within one year	-	25,000	128,010	-
Between two & five years	-	-	147,432	1,428,516
In over five years	-	2,103,328	-	685,008
	<u>-</u>	<u>2,128,328</u>	<u>275,442</u>	<u>2,113,524</u>

The above are the contracted obligations of the Company which are recharged as appropriate to those fellow subsidiaries that make use of the facilities.

15. ULTIMATE PARENT COMPANY

The directors regard First Choice Holidays PLC, a company registered in England and Wales as the ultimate parent company. First Choice Holidays PLC is the parent undertaking of the largest and smallest group of which First Choice Office Services Limited is a member and for which group accounts are drawn up. As the company is a wholly owned subsidiary of First Choice Holidays PLC, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group headed by First Choice Holidays PLC. Copies of those group accounts are available from, The Company Secretary, First Choice Holidays PLC, First Choice House, London Road, Crawley, West Sussex, RH10 2GX.