First Choice Holiday Hypermarkets Limited
(Formerly Holiday Hypermarkets (1998) Limited)

Directors' report and financial statements

Registered number 3647615

31 October 2003

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Contents

Directors' report

The Directors present their report and financial statements for the year ended 31 October 2003.

Principal activity

The principal activity of the Company is that of retail travel agents operating in the United Kingdom.

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 £204,000*(2002: loss £3,981,000)*.

Proposed dividend

The Directors do not recommend the payment of a dividend *(2002: £Nil)*.

Directors and their interests

The Directors at the date of this report are:

D Wheatley (appointed 11 November 2003)
J Wimbleton

Other directors who served in the year were as follows:

A D Martin (resigned 11 March 2004)
H D Thomas (resigned 11 November 2003)

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

As at 31 October 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 Oct 2003	31 Oct 2002	Granted	Exercised
H D Thomas	**36,643**	32,780	-	(6,440)
J Wimbleton	**35,002**	34,811	-	(57,858)

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

Directors' report *(continued)*

Employee policy

High levels of employee involvement, performance and protection are fundamental to our progress as a company. To this end we focus on high impact initiatives.

Equal opportunities

We strive to ensure equality of treatment in recruitment, employment, training and career development for all our current or potential employees. This commitment is underpinned by robust internal and external selection and training processes which are designed to identify and develop talent which reflects the needs of our businesses, customers and the diverse cultures within which we operate. Working arrangements, which support these objectives, include flexible working/job shares, work/life balance policies and apprenticeship programmes.

Career opportunities

As a business with seasonal employment needs, we have a range of activities which are designed to retain talent and which have been developed through industry experience and training investment. Internal placement and training support enables our best front-line staff to have the opportunity to move between retail, overseas representation and airline cabin crew in line with seasonal demands. Additionally, systematic organisation and management reviews are regularly conducted across the Group enabling us to identify changing organisational needs and resultant career opportunities.

Communication and participation

The involvement of all employees in the affairs of the Company continues to be encouraged by a combination of formal and informal programmes.

Regular 'Work in Partnership' meetings take place led by senior management throughout the businesses in addition to meetings with recognised trade unions in certain parts of the Group. This year, the UK staff attitude survey has been made available on the Group's intranet to provide even higher levels of response. The results continue to give us essential information to adapt and change our policies and practices.

Reward strategy is increasingly focused on areas of variable pay in order to both drive performance and also to directly reward individual contribution. This is an area where we intend to increase our efforts as we develop the ability to measure the input and results of individuals and teams. This year the introduction of an all-employee Share Incentive Plan in the UK was well subscribed and, accordingly, a growing proportion of our workforce are acquiring an interest in the shares of the ultimate parent company, First Choice Holidays PLC.

Training and development

Over the past year our front-line teams training investment has grown and been expanded to reach all material customer interface points in terms of both service and sales. All of this staff training is in-sourced using our own intimate knowledge of the business. Our management development work combines diagnostics with individual development plans supported by both Group and bespoke training. The development team also supports managers in areas such as objective setting and performance management. These activities contribute directly to a workforce which is differentiated from our competitors by its level of skill, performance, potential and motivation.

Directors' report *(continued)*

Policy and practice on 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.

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. At the year end, the number of creditor days outstanding was 32 *(2002: 18)*.

Auditors

The Company has elected to dispense with the holding of Annual General Meetings, the laying of accounts before 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 2004

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;
- 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 Holiday Hypermarkets Limited

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

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 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 2003 and of its loss 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

20 April 2004

Profit and loss account

for the year ended 31 October 2003

	Note	2003 £000	2002 £000
Turnover		**43,313**	33,366
Net operating costs	3	**(41,909)**	(36,670)
Operating profit/(loss)		**1,404**	(3,304)
Other interest receivable and similar income	7	**82**	203
Interest payable and similar charges	8	**(8)**	(17)
Loss on disposal of fixed assets		**(454)**	-
Profit/(loss) on ordinary activities before taxation	2	**1,024**	(3,118)
Tax on profit/(loss) on ordinary activities	9	**(1,228)**	(863)
Retained loss for the financial year	17	**(204)**	(3,981)

All results arose from continuing activities.

There were no recognised gains or losses for either year other than those included in the profit and loss account.

The notes on pages 9 to 18 form part of these financial statements.

Balance sheet
at 31 October 2003

	Note	2003 £000	2002 £000
Fixed assets			
Intangible assets	10	31,495	33,594
Tangible assets	11	23,581	25,821
		55,076	59,415
Current assets			
Debtors	12	50,921	62,715
Cash at bank and in hand		6,024	8,946
		56,945	71,661
Creditors: amounts falling due within one year	13	(45,782)	(64,877)
Net current assets		11,163	6,784
Total assets less current liabilities		66,239	66,199
Creditors: amounts falling due after one year	14	(25,819)	(25,819)
Provisions for liabilities and charges	15	(782)	(538)
Net assets		39,638	39,842
Capital and reserves			
Share capital	16	16,080	16,080
Share premium	17	41,943	41,943
Profit and loss account	17	(18,385)	(18,181)
Shareholders' funds		39,638	39,842
Equity		39,138	39,342
Non-equity	17	500	500
		39,638	39,842

The notes on pages 9 to 18 form part of these financial statements.

These financial statements were approved by the board of directors on 26 April 2004 and were signed on its behalf by:

D Wheatley
Director

D Wheatley

Reconciliation of movements in shareholders' funds
for the year ended 31 October 2003

	2003 £000	2002 £000
Loss for the financial year	**(204)**	(3,981)
Net reduction in shareholders' funds	**(204)**	(3,981)
Opening shareholders' funds	**39,842**	43,823
Closing shareholders' funds	**39,638**	39,842

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 convention.

Turnover

Turnover is the total amount receivable by the Company for commissions earned and services provided, excluding VAT and trade discounts. Commission earned in respect of in house product is recognised on the date of departure and the related costs charged to the profit and loss account on the same basis. Commission earned from the sale of third party product, together with related costs, are recognised on receipt of final payment.

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.

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:

Leasehold building	Over the life of the lease
Office equipment	3 to 8 years straight line

Leased assets

Operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the period of the lease.

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 amounts charged against profits represents the contributions payable to the scheme in respect of the accounting period.

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.

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 21).

2 Profit/(loss) on ordinary activities before taxation

	2003	2002
	£000	£000
Profit/(loss) on ordinary activities before taxation is stated after charging:		
Auditors' remuneration:		
Other services – fees paid to the auditor and its associates	**-**	(3)
Depreciation and other amounts written off tangible fixed assets:		
Owned	**2,338**	2,185
Goodwill amortisation	**2,099**	2,100
Hire of plant and machinery – rentals payable under operating leases	**927**	952
Hire of other assets – operating leases	**5,890**	6,211

All audit fees are borne by other group companies.

The whole of the turnover and profit before taxation derives from the Company's principal activity within the United Kingdom.

3 Net operating costs

	2003	2002
	£000	£000
Staff costs (see note 4)	**13,376**	14,435
Depreciation	**2,338**	2,185
Other operating charges	**26,195**	20,050
	41,909	36,670

Notes *(continued)*

4 Staff numbers and costs

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

	Number of employees	
	2003	2002
Management and administration	-	175
Sales	**876**	880
	876	1,055

The aggregate payroll costs of these persons were as follows:

	2003	2002
	£000	£000
Wages and salaries	**12,343**	13,227
Social security costs	**953**	1,018
Other pension costs (note 6)	**80**	190
	13,376	14,435

5 Remuneration of directors

	2003	2002
	£000	£000
Directors' emoluments	-	425
Company contributions to money purchase pension scheme	-	23
	-	448

During the year no directors *(2002: 1 director)* participated in money purchase pension schemes.

Remuneration in respect of directors was paid through another group company for the current year.

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

	2003	2002
	£000	£000
Directors' emoluments	-	181
Compensation for loss of office	-	244
Company contributions to money purchase pension scheme	-	23
	-	448

Notes *(continued)*

6 Pension scheme

The Company participates in a Group operated defined contribution pension scheme. The pensions costs charged for the period represented contributions payable by the Company to the fund and amounted to £80,000 *(2002: £190,000)*. The assets of the scheme represented are administered by trustees in a fund independent from those of the Company. There were no outstanding or prepaid contributions at either the beginning or the end of the financial year.

7 Other interest receivable and similar income

	2003	2002
	£000	£000
On all other loans	**82**	203
	82	203

Of the above amount £81,138 *(2002: £202,595)* was receivable from group undertakings.

8 Interest payable and similar charges

	2003	2002
	£000	£000
Other interest charges	**8**	17
	8	17

Notes *(continued)*

9 Taxation

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

	2003 **£000**	2002 £000
Tax on loss on ordinary activities:		
(i) Analysis of credit in the year		
Current tax:		
UK corporation tax on losses for the year	**25**	(935)
Adjustment in respect of previous periods:		
permanent	**168**	643
origination of timing differences	**(434)**	(725)
Total current tax	**(241)**	(1,017)
Deferred tax:		
Origination and reversal of timing differences:		
current year UK	**1,035**	1,155
adjustment in respect of previous periods	**434**	725
Total deferred tax (see note 15)	**1,469**	1,880
Tax on loss on ordinary activities	**1,228**	863

(ii) Factors affecting tax credit for the year

The tax charge for the year is lower *(2002: higher)* than the standard rate of UK corporation tax of 30% *(2002: 30%)*. The differences are explained below:

	2003 **£000**	2002 £000
Profit/(loss) on ordinary activities before tax	**1,025**	(3,118)
Profit/(loss) on ordinary activities at the standard rate of UK corporation tax of 30% *(2002: 30%)*	**308**	(935)
Effects of:		
expenses not deductible for tax purposes	**768**	1,155
depreciation in excess of capital allowances for the year	**134**	(1,155)
adjustment to tax in respect of previous periods	**(266)**	(82)
utilisation of tax losses brought forward	**(1,185)**	-
Current tax credit for the year	**(241)**	(1,017)

Notes *(continued)*

10 Intangible fixed assets

	Goodwill £000
Cost	
As at 1 November 2002	41,993
At 31 October 2003	41,993
Amortisation	
As at 1 November 2002	8,399
Provided in year	2,099
At 31 October 2003	10,498
Net book value	
As at 31 October 2003	**31,495**
As at 31 October 2002	33,594

11 Tangible fixed assets

	Short leasehold properties £000	Office equipment £000	Total £000
Cost			
As at 1 November 2002	23,398	11,095	34,493
Additions in year	1,025	269	1,294
Disposals	(1,012)	(997)	(2,009)
As at 31 October 2003	23,411	10,367	33,778
Depreciation			
As at 1 November 2002	2,540	6,132	8,672
Charge for the year	927	1,411	2,338
Disposals	(151)	(662)	(813)
As at 31 October 2003	3,316	6,881	10,197
Net book value			
As at 31 October 2003	**20,095**	**3,486**	**23,581**
As at 31 October 2002	20,858	4,963	25,821

Notes *(continued)*

12 Debtors

	2003 £000	2002 £000
Trade debtors	**830**	11,996
Amounts owed by group undertakings	**35,710**	43,970
Group Relief	**241**	2,561
Other debtors	**9,939**	2,963
Prepayments and accrued income	**4,201**	-
Deferred tax asset (see note 15)	**-**	1,225
	50,921	62,715

All debtors fall due within one year

13 Creditors: amounts falling due within one year

	2003 £000	2003 £000
Trade creditors	**21,689**	23,587
Amounts owed to group undertakings	**21,682**	41,272
Other taxes and social security	**782**	18
Other creditors	**619**	-
Accruals and deferred income	**1,010**	-
	45,782	64,877

14 *Creditors: amounts falling due after more than one year*

	2003 £000	2002 £000
Amounts owed to group undertakings	**25,819**	25,819

Notes *(continued)*

15 Provisions for liabilities and charges

	Deferred taxation £000
As at 1 November 2002	538
Provided in the year	1,469
Transferred from debtors	(1,225)
As at 31 October 2003	**782**

	Amounts provided 2003 £000	2002 £000
Accelerated capital allowances	**784**	540
Other timing differences	**(2)**	(2)
	782	538

The unrecognised deferred tax asset in respect of tax losses carried forward at 31 October 2003 is £Nil *(2002: £1,185,000).*

16 Share capital

	2003 £000	2002 £000
Authorised		
500,000 deferred ordinary shares of £1 each	**500**	500
19,500,000 ordinary shares of £1 each	**19,500**	19,500
	20,000	20,000
Allotted, called up and fully paid		
500,000 deferred ordinary shares of £1 each	**500**	500
15,580,000 ordinary shares of £1 each	**15,580**	15,580
	16,080	16,080

Notes *(continued)*

17 Share premium and reserves accounts

	Share premium account £000	Profit and loss account £000
At beginning of year	41,943	(18,181)
Retained loss for the year	-	(204)
At end of year	**41,943**	**(18,385)**

Non-equity interests in shareholders' funds are analysed by class of share as follows:

	2003 £000	2002 £000
Deferred ordinary shares of £1 each	**500**	500

18 Commitments

(a) Capital commitments at the end of the financial year for which no provision has been made are as follows:

	2003 £000	2002 £000
Contracted	**280**	-
Not contracted	-	500

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

	2003 Leasehold Buildings £000	***Others* £000**	2002 Leasehold Buildings £000	Others £000
Operating leases which expire:				
Within one year	**15**	**1**	15	35
In the second to fifth years inclusive	**9**	**943**	9	981
Over five years	**6,696**	-	6,922	3
	6,720	**944**	6,946	1,019

Notes *(continued)*

19 Contingent liabilities

The Company is one of several guarantors to the following First Choice Holidays PLC facility agreements; a syndicated surety bonding facility of £122.5m; a bilateral surety bonding facility of £10.0m; a syndicated bank credit facility of £210.0m and a series of bank bilateral bonding facilities totalling £58.0m.

20 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 FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group.

21 Ultimate parent company

First Choice Holidays PLC, a company registered in England and Wales, is the ultimate parent company. The immediate holding company is Holiday Hypermarkets (2000) Limited. First Choice Holidays PLC is the parent undertaking of the largest and smallest group of which First Choice Holiday Hypermarkets 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.