

FIRST CHOICE TOUR OPERATIONS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

**For the year ended
31 October 2005**



Company Number 1961830

FIRST CHOICE TOUR OPERATIONS LIMITED

DIRECTORS' REPORT for the year ended 31 October 2005

FINANCIAL STATEMENTS

The Directors present their report and financial statements of First Choice Tour Operations Limited for the year ended 31 October 2005.

PRINCIPAL ACTIVITY

The principal activity of the Company is to act as an intermediate holding company.

RESULTS AND DIVIDENDS

During the year the Company received no dividend income. The loss after taxation for the year was £nil (2004: £1,899,977 loss). The Company did not conduct any business activity in the year. The Directors do not propose a dividend for the year ended 31 October 2005 (2004: £nil).

DIRECTORS AND THEIR INTERESTS

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

First Choice Holidays & Flights Limited
A D Smith

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

As at 31 October 2005, the interests of the Directors in the share capital of First Choice Holidays PLC, the ultimate parent Company, were as follows:

| | -----Shares----- | | -----Options----- | |
|-----------------|--------------------|--------------------|-------------------|-----------|
| | 31 October 2005 | 31 October 2004 | Granted | Exercised |
| Ordinary Shares | | | | |
| A D Smith | *2,626 | *1,712 | 50,328 | - |

*Held under the Share Incentive Plan

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 auditor.

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.

POLICY AND PRACTICE ON PAYMENT OF CREDITORS

It is the Company policy that payments to suppliers, whether in advance or after the provision of the 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. The Company has not calculated the creditor days as there are no trade creditors at the year end.

By Order of the Board

A handwritten signature in black ink, appearing to read 'A D Smith', written over the printed name and date.

A D Smith
Director
12 May 2006

FIRST CHOICE TOUR OPERATIONS LIMITED

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.

REPORT OF THE INDEPENDENT AUDITOR
to the members of FIRST CHOICE TOUR OPERATIONS LIMITED

We have audited the financial statements on pages 5 to 11.

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 auditor

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you, if in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

Basis of 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 2005 and of its result 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

Date: 12 May 2006

FIRST CHOICE TOUR OPERATIONS LIMITED

PROFIT AND LOSS ACCOUNT
for the year ended 31 October 2005

| | Note | 2005 £'000 | 2004 £'000 |
|---|------|---------------|---------------|
| Loss on ordinary activities before taxation | | - | - |
| Loss on investment write offs | 5 | - | (1,900) |
| Taxation | 6 | - | - |
| Loss for the financial year | 8 | - | (1,900) |

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

The notes on pages 7-11 form part of these financial statements.

All results arose from continuing operations.

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 accounts and the results on an unmodified historical cost basis.

FIRST CHOICE TOUR OPERATIONS LIMITED

BALANCE SHEET as at 31 October 2005

| | Notes | 2005 £'000 | 2004 £'000 |
|---|-------|---------------|---------------|
| FIXED ASSETS | | | |
| Investments | 5 | 227,703 | 227,703 |
| CURRENT ASSETS | | | |
| Debtors | 3 | 7,217 | 7,217 |
| CREDITORS: amounts falling due within one year | 4 | (246,592) | (246,592) |
| Net Current Liabilities | | (239,375) | (239,375) |
| Net liabilities | | (11,672) | (11,672) |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 7 | 250 | 250 |
| Profit and loss account | 8 | (11,922) | (11,922) |
| Deficit on equity shareholders' funds | | (11,672) | (11,672) |

The notes on pages 7-11 form part of these financial statements.

These financial statements were approved by the Board on 12 May 2006 and signed by:



**A D Smith
Director**

FIRST CHOICE TOUR OPERATIONS LIMITED

Reconciliation of movements in shareholders' funds
for the year ended 31 October 2005

| | 2005 | 2004 |
|-------------------------------------|-----------------|-----------------|
| | £000 | £000 |
| Loss for the financial year | <u>-</u> | <u>(1,900)</u> |
| Net reduction to shareholders funds | - | (1,900) |
| Opening shareholders' funds | <u>(11,922)</u> | <u>(10,022)</u> |
| Closing shareholders' funds | <u>(11,922)</u> | <u>(11,922)</u> |

FIRST CHOICE TOUR OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 October 2005

1. ACCOUNTING POLICIES

Basis of preparation

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

The accounts have been prepared on a going concern basis which the Directors believe is appropriate, as the ultimate holding company, First Choice Holidays PLC, has indicated its willingness to ensure the obligations and liabilities of the Company are met as they fall due.

Group financial statements

The Company is exempt by virtue of s228 of the Companies act 1985 from the requirement to prepare group financial statements because it is a wholly owned subsidiary of a UK company. These financial statements present information about the company as an individual undertaking and not about its group.

Cash Flow

The Company is exempt under Financial Reporting Standard No.1 (Revised) from the requirement to prepare a cash flow statement as it is a wholly owned subsidiary of First Choice Holidays PLC. First Choice Holidays PLC includes the Company's cash flow in its own published consolidated financial statements.

Investments

Investments are stated at cost, less provisions for permanent diminution in value.

Related Party Transactions

The Company has taken advantage of the exemption contained in Financial Reporting Standard No.8 "Related Party Disclosures" as it is a wholly owned subsidiary of First Choice Holidays PLC. Therefore, the Company has not disclosed transactions or balances with entities, which form part of the group headed by First Choice Holidays PLC.

2. AUDITOR'S AND DIRECTORS' REMUNERATION

The auditor's remuneration in both years was borne by a fellow subsidiary undertaking. The Directors received no remuneration during the year (2004: £nil). There were no employees in both years.

3. DEBTORS

| | 2005 £'000 | 2004 £'000 |
|---|---------------|---------------|
| Amounts owed by Parent and fellow subsidiary undertakings | <u>7,217</u> | <u>7,217</u> |

FIRST CHOICE TOUR OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) **for the year ended 31 October 2005**

4. CREDITORS: amounts falling due within one year

| | 2005 £'000 | 2004 £'000 |
|---|----------------|----------------|
| Amounts owed to parent and fellow subsidiary undertakings | 4,612 | 4,612 |
| Amounts owed to subsidiary companies | 241,980 | 241,980 |
| | <u>246,592</u> | <u>246,592</u> |

5. INVESTMENTS

| | Ordinary shares in subsidiary undertakings £'000 |
|-----------------------|--|
| Cost | |
| As at 1 November 2004 | 234,741 |
| Disposals | (1,046) |
| As at 31 October 2005 | <u>233,695</u> |
| Provision | |
| At 1 November 2004 | (7,038) |
| Disposals | 1,046 |
| As at 31 October 2005 | <u>(5,992)</u> |
| Net book value | |
| At 31 October 2005 | <u>227,703</u> |
| At 1 November 2004 | <u>227,703</u> |

Principal subsidiary undertakings

| Principal operating subsidiaries | % held | Nature of Business | Country of Registration |
|---|--------|---------------------------|----------------------------|
| First Choice Holidays & Flights Limited | 100 | Tour Operator | England & Wales |
| First Choice Aviation Limited | 100* | Flight Seat Wholesaler | England & Wales |

*owned by First Choice Holidays & Flights Limited

The Company's investment in First Choice Holidays & Flights Limited is carried at a net book value of £227 million. For the year ended 31 October 2005, First Choice Holidays & Flights Limited made a net loss of £13.7 million (2004: net loss of £23.2 million) and had net liabilities of £82.6 million (2004: net assets of £68.9 million). However, First Choice Holidays & Flights Limited is an integral part of the wider First Choice Group's UK business and the Directors of the Company have considered the value of their investment in this context. Accordingly, no provision for a permanent diminution in value is considered necessary.

FIRST CHOICE TOUR OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) **for the year ended 31 October 2005**

6. TAXATION

The tax charge in the 31 October 2005 accounts can be summarised as follows:

Tax on loss on ordinary activities

i) Analysis of charge/(credit) in the year

| | 2005 | 2004 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Current tax: | | |
| UK corporation tax on loss for the year | - | - |
| Adjustments in respect of prior periods | - | - |
| Total current tax | <u>-</u> | <u>-</u> |

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

The current tax charge (2004: credit) for the year is equal (2004: lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below:

| | 2005 | 2004 |
|--|--------------|----------------|
| | £'000 | £'000 |
| Loss on ordinary activities before tax | <u>-</u> | <u>(1,900)</u> |
| Loss ordinary activities at the standard rate of UK corporation tax of 30% (2004: 30%) | - | (570) |
| Effects of: | | |
| -Amounts not deductible for tax purposes | - | 570 |
| Current tax charge/(credit) for year | <u>-</u> | <u>-</u> |

7. CALLED UP SHARE CAPITAL

| | 2005 | 2004 |
|--|--------------|--------------|
| | £'000 | £'000 |
| Authorised, allotted and fully paid | | |
| 250,000 ordinary shares of £1 each | <u>250</u> | <u>250</u> |

8. RESERVES

| | 2005 | 2004 |
|--------------------------------|-----------------|-----------------|
| | £'000 | £'000 |
| Profit and loss account | | |
| At the beginning of the year | (11,922) | (10,022) |
| Loss during the year | - | (1,900) |
| At the end of the year | <u>(11,922)</u> | <u>(11,922)</u> |

FIRST CHOICE TOUR OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 October 2005

9. CONTINGENT LIABILITIES

The Company is one of several guarantors to the following First Choice Holidays PLC facility agreements: a syndicated surety bonding facility of £75m; and syndicated bank facilities of £310m and £240m. All agreements are in the name of First Choice Holidays PLC.

10. ULTIMATE PARENT COMPANY

First Choice Holidays PLC, a company registered in England and Wales, is the ultimate parent company. First Choice Holidays PLC is the parent undertaking of the largest and smallest group of which First Choice Tour Operations 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.