

FIRST CHOICE TOUR OPERATIONS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

**For the year ended
31 October 2004**

Company Number 1961830



FIRST CHOICE TOUR OPERATIONS LIMITED

DIRECTORS' REPORT

for the year ended 31 October 2004

FINANCIAL STATEMENTS

The Directors present their report and financial statements of First Choice Tour Operations Limited for the year ended 31 October 2004.

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 £1,899,977 (2003: £nil). The Company did not conduct any business activity in the year. The Directors do not propose a dividend for the year ended 31 October 2004 (2003: £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 (appointed 12 May 2004)

Other directors who served in the year were:

H D Thomas (resigned 12 May 2004)
A D Martin (resigned 11 March 2004)

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

As at 31 October 2004, 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 2004	At appointment	Granted	Exercised
Ordinary Shares				
A D Smith	*1,712	*1,102	50,328	-

*Held under the Share Incentive Plan

AUDITOR

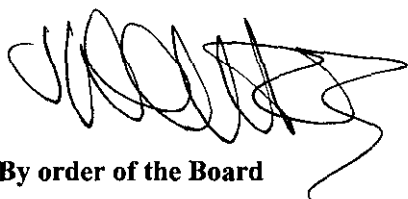
The Company has elected to dispense with the holding of Annual General Meetings, the laying of accounts before the members in general meeting and the appointment of auditors annually. Accordingly, KPMG Audit Plc will continue in office as auditor.

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.

A handwritten signature in black ink, appearing to be 'J Walter', written over the text 'By order of the Board'.

By order of the Board

J Walter

For and on behalf of First Choice Holidays & Flights Limited

24 August 2005

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.

FIRST CHOICE TOUR OPERATIONS LIMITED

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

We have audited the financial statements on pages 5 to 10.

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 2004 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
London**

25 August 2005

FIRST CHOICE TOUR OPERATIONS LIMITED

PROFIT AND LOSS ACCOUNT
for the year ended 31 October 2004

	Note	2004 £'000	2003 £'000
Loss on ordinary activities before taxation		-	-
Loss on investment write offs	5	(1,900)	-
Taxation	6	-	-
Loss for the financial year	8	<u>(1,900)</u>	<u>-</u>

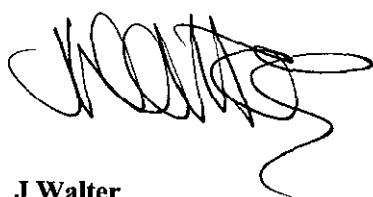
The Company has no other recognised gains or losses for this or the previous year.

The notes on pages 7-10 form part of these financial statements.

FIRST CHOICE TOUR OPERATIONS LIMITED**BALANCE SHEET
as at 31 October 2004**

	Notes	2004 £'000	2003 £'000
FIXED ASSETS			
Investments	5	227,703	230,731
CURRENT ASSETS			
Debtors	3	7,217	8,846
CREDITORS: amounts falling due within one year	4	(246,592)	(249,349)
Net Current Liabilities		(239,375)	(240,503)
Net liabilities		(11,672)	(9,772)
CAPITAL AND RESERVES			
Called up share capital	7	250	250
Profit and loss account	8	(11,922)	(10,022)
Deficit on equity shareholders' funds		(11,672)	(9,772)

These financial statements were approved by the Board on 24 August 2005 and signed by:



J Walter
For and on behalf of First Choice Holidays & Flights Limited

FIRST CHOICE TOUR OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 October 2004

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.

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 (2003: £nil). There were no employees in both years.

3. DEBTORS

	2004 £'000	2003 £'000
Amounts owed by Parent and fellow subsidiary undertakings	7,217	6,422
Amounts owed by subsidiary undertakings	-	2,424
	<u>7,217</u>	<u>8,846</u>

4. CREDITORS: amounts falling due within one year

	2004 £'000	2003 £'000
Amounts owed to parent and fellow subsidiary undertakings	4,612	79,376
Amounts owed to subsidiary companies	<u>241,980</u>	<u>169,973</u>
	<u>246,592</u>	<u>249,349</u>

FIRST CHOICE TOUR OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 October 2004

5. INVESTMENTS

	Ordinary shares in subsidiary undertakings £'000
Cost	
As at 1 November 2003	240,251
Disposals	(5,510)
As at 31 October 2004	<u>234,741</u>
Provision	
At 1 November 2003	(9,520)
Disposals	2,482
As at 31 October 2004	<u>(7,038)</u>
Net book value	
At 31 October 2004	<u>227,703</u>
At 1 November 2003	<u>230,731</u>

During the year the investments in Redwood Travel Limited, First choice Eclipse limited and Temesial Travel Limited were written off. This resulted in a loss of £1.9m.

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 2004, First Choice Holidays & Flights Limited made a net loss of £23.2 million (2003: net loss of £30.4 million) and had net liabilities of £68.9 million (2003: net assets of £45.7 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 2004**6. TAXATION**

The tax charge in the 31 October 2004 accounts can be summarised as follows:

Tax on profit on ordinary activities**i) Analysis of charge/(credit) in the year**

	2004	2003
	£,000	£,000
Current tax:		
UK corporation tax on profit/(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 credit for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2004	2003
	£,000	£,000
(Loss)/profit on ordinary activities before tax	<u>(1,900)</u>	<u>-</u>
(Loss)/profit ordinary activities at the standard rate of UK corporation tax of 30% (2003: 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

	2004	2003
	£'000	£'000
Authorised, allotted and fully paid 250,000 ordinary shares of £1 each	<u>250</u>	<u>250</u>

8. RESERVES

	2004	2003
	£'000	£'000
Profit and loss account		
At the beginning of the year	(10,022)	(10,022)
Loss during the year	(1,900)	-
At the end of the year	<u>(11,922)</u>	<u>(10,022)</u>

FIRST CHOICE TOUR OPERATIONS LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued) for the year ended 31 October 2004

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 £62.5m; and a syndicated bank facility of £310m. 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.