



**CORPORATE
RESTRUCTURING**

Our ref: PJC/BOW/CQP/ATB/THL001/272306

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TO ALL KNOWN CREDITORS AND MEMBERS

For enquiries

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Telephone:
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16 July 2008

Dear Sirs

**Travelscope Holidays Limited, Travelscope (Stonehouse) Limited, Travelscope Air
Holidays Limited, Travelscope Air Holidays (Stonehouse) Limited (All in Administration)
(together "the Companies")**

Please find enclosed Form 2.24B attached to which is my six month report on the conduct of the
administration of the above Companies.

Should you have any queries, please do not hesitate to contact Chris Pearce of this office.

Yours faithfully
For and on behalf of
The Companies

Paul Clark
Joint Administrator

Enc.

The affairs, business and property of the company are being managed by the Joint Administrators who act as agents for the company and
without personal liability.

The Insolvency Act 1986

Administrator's progress report

2.24B

Name of Company Travelscope Holidays Limited	Company number 02545702
In the High Court of Justice Chancery Division Companies Court (Full name of court)	For court use only 9644 of 2007


(a) Insert full name(s) and address(es) of administrators

We (a) Paul John Clark, Andrew Gordon Stoneman and Phillip Francis Duffy
MCR
43-45 Portman Square
London
W11 6LY

Administrator(s) of the above company attach a progress report for the period

(b) Insert date

From	To
(b) 21 December 2007	(b) 20 June 2008

Signed 
Joint Administrator(s)

Dated 16 July 2008

The Insolvency Act 1986

Administrator's progress report

2.24B

Name of Company Travelscope (Stonehouse) Limited	Company number 03138213
In the High Court of Justice Chancery Division Companies Court (full name of court)	For court use only 9642 of 2007

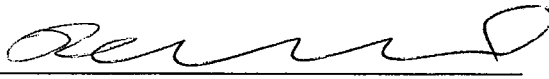
(a) Insert full name(s) and address(es) of administrators

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 MCR
 43-45 Portman Square
 London
 W1H 6LY

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(b) Insert date

From	To
(b) 21 December 2007	(b) 20 June 2008

Signed 
 Joint Administrator(s)

Dated 16 July 2008

The Insolvency Act 1986

Administrator's progress report**2.24B**

Name of Company Travelscope Air Holidays Limited	Company number 03209870
In the High Court of Justice Chancery Division Companies Court (full name of court)	<i>For court use only</i> 9659 of 2007

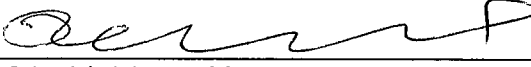
(a) Insert full name(s) and address(es) of administrators

We (a) Paul John Clark, Andrew Gordon Stoneman and Phillip Francis Duffy
MCR
43-45 Portman Square
London
W1H 6LY

Administrator(s) of the above company attach a progress report for the period

(b) Insert date

From	To
(b) 21 December 2007	(b) 20 June 2008

Signed 
Joint Administrator(s)

Dated 16 July 2008

The Insolvency Act 1986

Administrator's progress report

2.24B

Name of Company Travelscope Air Holidays (Stonehouse) Limited	Company number 03209009
In the High Court of Justice Chancery Division Companies Court (full name of court)	For court use only 9645 of 2007

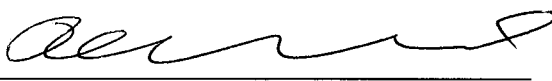
(a) Insert full name(s) and address(es) of administrators

We (a) Paul John Clark, Andrew Gordon Stoneman and Phillip Francis Duffy
 MCR
 43-45 Portman Square
 London
 W1H 6LY

Administrator(s) of the above company attach a progress report for the period

(b) Insert date

From	To
(b) 21 DECEMBER 2007	(b) 20 JUNE 2008

Signed 
 Joint Administrator(s)

Dated 16 July 2008

**Travelscope Holidays Limited
Travelscope Stonehouse Limited
Travelscope Air Holidays Limited
Travelscope Air Holidays Stonehouse Limited
(All in Administration)
(together "the Companies")**

**Joint Administrators' Progress Report to Creditors
for the period from 21 December 2007 to 20 June 2008
pursuant to Rule 2.47(1) of the
Insolvency Rules 1986 as amended**

16 July 2008

Names of Joint Administrators:

Paul John Clark

Andrew Gordon Stoneman

Phillip Francis Duffy

Date of appointment:

21 December 2007

Date of report:

16 July 2008

Appointed by:

Director - John Richard Ford

Company:

Royal Courts of Justice Reference:

Travelscope Holidays Limited	9644 of 2007
Travelscope (Stonehouse) Limited	9642 of 2007
Travelscope Air Holidays Limited	9659 of 2007
Travelscope Air Holidays (Stonehouse) Limited	9645 of 2007

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1. INTRODUCTION

- 1.1 Paul John Clark, Andrew Gordon Stoneman and Phillip Francis Duffy of MCR were appointed Joint Administrators of Travelscope Holidays Limited ("THL"), Travelscope (Stonehouse) Limited, ("TSL"), Travelscope Air Holidays ("TAH") and Travelscope Air Holidays (Stonehouse) Limited ("TAHS") (together "the Companies") on 21 December 2007.
- 1.2 Each of the above appointments were made by the director of the Companies, being John Richard Ford, pursuant to Paragraph 22 of Schedule B1 to the Insolvency Act 1986.
- 1.3 The purpose of this report is to detail the Joint Administrators' acts and dealings together with the conduct of the administration since the creditors' meeting held on 27 February 2008.

2. BACKGROUND

- 2.1 Statutory information on each of the Companies and summaries of their financial positions are set out at Appendix 1.

Travelscope Holidays Limited

- 2.2 THL, being the main trading company, was incorporated on 3 October 1990 and commenced trading in 1992 from freehold premises located in Stonehouse, Gloucestershire offering surface based holidays and tours, advertising in local, regional and national newspapers and magazines. In 1996, THL also commenced offering air based holidays for customers.
- 2.3 At the time of the Joint Administrators' appointment, THL was a well established tour operator offering air, river cruise, ocean cruise and coach tours (together "the Business"). All passenger bookings were dealt with through THL and consequently all passenger revenues from the business were recognised in THL.
- 2.4 In November 2000, THL set up a second office, located at Suite 1, Davis House, Lodge Causeway Trading Estate, Fishponds, Bristol BS16 3JP from which a group holidays division of approximately 15 staff was based.
- 2.5 During February 2006, THL and the associated Travelscope companies, relocated business operations from the premises based in Stonehouse to a newly developed freehold property at Pioneer Avenue, Gloucester Business Park, Gloucester, GL3 4AW ("the Property").
- 2.6 Group turnover was approximately £75.6m for the year ended 31 December 2006 and circa £67m for the period ended 21 December 2007.

Travelscope (Stonehouse) Limited

- 2.7 TSL was incorporated on 15 December 1995.
- 2.8 TSL was established for the purpose of being the entity through which the Business incurred liabilities and made payments to all surface transport suppliers, such as coach operators. The Companies' advisors and employees have advised that this structure was adopted in order to be tax efficient, and to maximise the Companies' Tour Operators Margin Scheme ("TOMS") return.
- 2.9 Following the reorganisation which took place during 2004, TSL also acted as the contracting entity dealing with all air related suppliers and liabilities.

- 2.10 TSL's expenditure was funded by way of income received via a recharge from THL. The recharge was equal to the expenditures paid by TSL, in operation the recharge was paid by way of payments made by TSL from a THL bank account.

Travelscope Air Holidays Limited

- 2.11 In 1996 directors of THL decided to commence offering air tours and air holidays to customers. In order to do so, it was necessary to apply for an Air Travel Organisers' Licence ("ATOL").
- 2.12 The ATOL bonding system required the Companies to take out bonding facilities with insurers (Obligors) to cover ATOL's liability to the licence holder's customers should the licence holder fail and be unable to deliver the purchased holidays. Accordingly, the bond requirements are partly based on turnover assessments, which in this case would have been excessive if based on THL's turnover at the time of the application in 1996 due to the other surface related tour income.
- 2.13 In light of the above, TAH was established in 1996 as the operating entity for all air tours conducted by the Business. This continued up until 31 December 2004, at which time the Business operations of the Companies were restructured, and all air tour operations were transferred to THL.
- 2.14 Consequently, TAH ceased trading with effect from 31 December 2004.

Travelscope Air Holidays (Stonehouse) Limited

- 2.15 TAHS was incorporated on 7 June 1996.
- 2.16 During the period between 1996 to the end of 2004 in which TAH was the operating entity for all air tours, TAHS was the entity through which payments were made to air orientated transport suppliers, such as the airlines. The Companies' advisors and employees have again advised that this structure was adopted in order to be tax efficient, and to maximise the Companies' Tour Operators Margin Scheme ("TOMS") return.
- 2.17 Prior to 31 December 2004, TAHS' expenditure was funded by way of income received via a recharge from TAH.
- 2.18 Since the above mentioned restructure in 2004 and the cessation of TAH's business, TAHS has effectively remained dormant. The audited financial accounts show that TAHS' revenue for the year ended 31 December 2006 was nil.

3. COMMITTEE OF CREDITORS

- 3.1 A Committee of Creditors was formed at the creditors' meeting held on 27 February 2008 with the following members:
1. Stephen Manwaring representing Ace European Group Limited
 2. Julian How representing Classic International Cruises SA
 3. Doug Scribbens representing Coface UK
 4. Trevor Sears representing IATA
 5. Michael Wykes representing Newsquest Media Group Limited
- 3.2 On 13 March 2008 and 17 April 2008, the Joint Administrators sent detailed reports to the Committee of Creditors regarding the progress of the administration and a committee meeting was held on 18 April 2008. Further communications including conference calls have taken place.

- 3.3 All members of the Committee of Creditors have signed confidentiality agreements and accordingly have received more detailed information regarding a number of the issues discussed in this report. Unfortunately due to the sensitive and confidential nature of this information the Joint Administrators are unable to provide the remaining creditors with copies of the reports to the Committee.

4. ASSET REALISATIONS

- 4.1 Following the appointment of Joint Administrators the premises were attended to take charge of and secure the assets of the Companies and to undertake an immediate financial review of the Companies' financial and operational position.
- 4.2 In the lead up to the appointment of Administrators discussions were held between the directors, Richard Ford and Mark Horwood, and the proposed Administrators with regard to the administration strategy to be pursued.
- 4.3 It was agreed that the best way in which to maximise realisations would be to seek to sell the business and assets of the Companies as a going concern. In order to achieve this, it was necessary to maintain the business structure and some personnel.

Sale of Business Assets (THL)

- 4.4 The sale of certain business assets to Phoenix Holidays Limited ("PHL") was completed on 17 January 2008 for consideration of no less than £110,000 plus VAT. The consideration paid on completion was £60,000 plus VAT, with a further payment for the minimum additional consideration of £50,000 plus VAT due on 17 July 2008.
- 4.5 The additional consideration is calculated as 2.5% of the purchaser's revenue for the first 12 months to 17 January 2009, which is attributable to the data transferred under the sale; together with further additional consideration equivalent to 5% of the basic holiday costs of any passenger claims assigned to the purchaser. The additional consideration is due to be paid on a quarterly basis.
- 4.6 The first instalment of the additional consideration was received on 18 June 2008 being £14,418 plus VAT.
- 4.7 PHL endeavoured to rescue as many of the forward holiday bookings as possible. It is to be expected that a large percentage of the passengers would have either rebooked with another tour operator or may not want to rebook with the purchaser. Whilst a large number of customers rebooked their holidays with PHL it remains difficult to estimate the total value that may be realised from the additional consideration.

Cash at Bank and Investments – HSBC (THL/TAH)

Managed Investment Portfolio – Absolute Account

- 4.8 The Joint Administrators have been in regular dialogue with HSBC concerning the investment portfolio. On 22 April 2008, the Joint Administrators instructed HSBC to commence the realisation of the investment portfolio. HSBC have confirmed that the valuation of the portfolio as at 31 March 2008 was £2.694m. Due to the nature of some of the investments within the portfolio, the final process may take 6 to 9 months in total.

- 4.9 It should be noted that the investment assets have been pledged in favour of HSBC in consideration for potential chargebacks that may be made against HSBC as the merchant acquirer of the Companies.

Fixed Term Investment Accounts

- 4.10 THL holds two fixed term investment accounts with HSBC. These accounts were opened in April 2003 and April 2004 with initial deposits of £300,000.
- 4.11 The first investment account matured on 23 April 2008 with a value of £375,427 while the second is due to mature on 7 April 2009 with an indicative return as at 1 October 2007 of £423,408.51.
- 4.12 On 26 June 2008, HSBC released £350,000 of the first investment account to the Joint Administrators in order to fund the day to day running of the administration.

Bank Accounts

- 4.13 THL and TAHL operated various bank accounts with HSBC set up in sterling and foreign currency denominations.
- 4.14 Based upon exchange rates as at 21 December 2007 the consolidated balance of all bank accounts held with HSBC at the time of the appointment of Joint Administrators was circa £1.203m as follows:

Company	Balance (£)
Travelscope Holidays Limited ("THL")	175,313.54
Travelscope Air Holidays Limited ("TAH")	<u>1,027,580.74</u>
TOTAL	<u>1,202,894.28</u>

- 4.15 Legal advisers have reviewed the available banking documentation and mandates to advise on the ownership of funds held in the THL and TAH bank accounts as at the date of the administration. The legal view is that all funds held by HSBC are for the benefit of THL, regardless of the designation of the bank account. Therefore any monies held in the bank accounts of TAH are held in trust for THL.
- 4.16 Further to the above, I have also instructed legal advisers to consider the standing and likely magnitude of any claim by IATA under its trust arrangements. The legal view is that the IATA trust arrangements are valid. It is now necessary for the Joint Administrator's to adjudicate upon the extent of funds that are impressed by the IATA trust. This complex tracing process has now commenced.

Corporation Tax Refunds (THL)

- 4.17 On 21 December 2007, THL received into its bank account a Corporation Tax refund ("the Refund") of £882,092.10 from HM Revenue & Customs.
- 4.18 It was the view of the Joint Administrators that the Refund was received post appointment and accordingly this realisation should form part of THL's administration estate and accordingly was not captured by HSBC's security.
- 4.19 HSBC have now transferred the Refund amount of £882,092.10 into THL's administration bank account.

Freehold Property (THL)

- 4.20 The freehold property at Pioneer Avenue, Gloucester Business Park, Gloucester, GL3 4AW ("the Property") is mortgaged in favour of The Royal Bank of Scotland plc ("RBS") and subject to a charging order in favour of Classic International Cruises ("CIC") which was granted on 13 December 2007.
- 4.21 The Joint Administrators have instructed, both Hammonds Solicitors and GVA Grimley ("Grimleys") valuation and selling agents, to act in respect of the Property matters including the marketing of the Property for sale.
- 4.22 Contractors have cleared the Property of all rubbish and obsolete Company records and the Property has been extensively cleaned. The office furniture and equipment remains on the Property and may be sold with the freehold.
- 4.23 The Property is currently being marketed for sale at £6,000,000. Various parties have viewed the Property although no offers have been received to date.
- 4.24 The Joint Administrator will continue to liaise with their professional advisors regarding the marketing strategy for the Property.

Office Furniture and equipment (THL)

- 4.25 Edwards Symmons conducted a valuation of the office furniture and equipment at the Property, the Bristol premises and some servers located at a storage facility in Kent.
- 4.26 The valuation provided in-situ and ex-situ values for the office furniture and equipment of £233,000 and £73,000 respectively. As previously reported, a quantity of office equipment and furniture was sold to Phoenix Holidays Limited. The remaining assets will be sold in due course either as part of the sale of the Property or by Edwards Symmons.

Motor Vehicle (THL)

- 4.27 Edward Symmons sold THL's motor vehicle, being a Jaguar, for £7,000. Edward Symmons are in the process of transferring the consideration to the administration bank account.

Director's Loan Account

- 4.28 As previously advised, THL's records indicate that £685,584 plus interest is owed to THL by John Richard Ford ("RF").
- 4.29 Ace European Group Limited instructed Solicitors to issue bankruptcy proceedings against RF. The petitioning creditors have advised that the Bankruptcy Petition against RF was adjourned at a hearing held on 27 March 2008 and again on 29 May 2008 on the basis that RF was maintaining an objection to the making of a Bankruptcy Order.
- 4.30 The bankruptcy hearing is listed to be heard on 14 July 2008. In this regard, the Joint Administrators have filed a Notice of Intention to Appear on the Bankruptcy Petition in support of the proceedings.

Other Debts (THL)

Pre-Paid Event Tickets

- 4.31 At the time of the Joint Administrators' appointment, THL had purchased £67,500 including VAT worth of event tickets including tickets to the Edinburgh Military Tattoo, Ascot Racecourse and various exhibition tickets.
- 4.32 All of the above tickets have now been sold for a value of £44,271 excluding VAT.

Excursion Income

- 4.33 As at the date of appointment, there was outstanding excursion income due to THL which had been collected by the tour managers from passengers but not yet remitted to THL. This was estimated to be circa £100,000.
- 4.34 At the time of writing this report, £70,667 has been recovered from this source.

Commissions

- 4.35 THL's accounts show outstanding balances of circa £527,000 owed by various business partners on account of commissions due.
- 4.36 The Joint Administrators have concluded their review of this asset and have realised £387,967 from this source and no further realisations are expected.

Travel Agent Debtors

- 4.37 The Joint Administrators wrote to a number of travel agents who acted on behalf of THL prior to the Company entering administration requesting trust monies collected on behalf of THL be forwarded to THL less commissions due. The Joint Administrators have realised £33,364.88 from this source to date.

Miscellaneous

- 4.38 The Joint Administrators have realised £46,009 from other debts including credit notes, other prepayment contracts and various refund claims. No further realisations are expected from these sources.
- 4.39 It should be noted that certain of these other debts referred to in the preceding paragraphs may form part of the assets claimed by IATA under its trust arrangements.

Investments (THL)

Sun Life International (IOM) Limited

- 4.40 In January 1999, THL invested £20,000 in ten £2,000 Managed Protector Portfolios with Sun Life International (IOM) Limited ("Sun Life").
- 4.41 The Joint Administrators have closed these portfolios and realised net proceeds of £28,498.06 from this source.

Scottish Mutual Investments Limited

- 4.42 In January 1999, THL invested £20,000 in a Universal Capital Account with Scottish Mutual Investments Limited ("Scottish Mutual").
- 4.43 The Joint Administrators have closed this account and realised net proceeds of £25,076.29 from this source.

VAT Refund (THL)

- 4.44 The Companies' records indicate that a VAT refund of circa £500,000 is due to THL.
- 4.45 The Joint Administrators instructed the Companies' auditors Elman Wall Chartered Accountants ("Elman Wall") to conduct a review of the financial accounts and lodge the Companies' outstanding returns with HM Revenue & Customs ("HMRC") and obtain a refund of the amount due. Elman Wall have estimated that the recoverable amount of the VAT refund is likely to be between £250,000 and £300,000. However as at the date of this report the VAT returns have not been assessed by the Crown and are subject to further review.
- 4.46 The Crown is likely to invoke its statutory right of set-off with respect to monies owed by the Company for PAYE and Class 1 Secondary National Insurance contributions.

Terminal Loss Relief (THL)

- 4.47 Given that the Company paid Corporation Tax during the three year period prior to entering Administration, a terminal loss relief claim has been submitted to HM Revenue & Customs by Elman Wall which shows a refund due of circa £606,000.
- 4.48 No monies have been received from these tax reclaims to date by the Joint Administrators given that the Crown is likely to invoke its statutory right of set off as discussed above. HMRC are reviewing the position.

Boonstra (THL)

- 4.49 THL's records show that a €750,000 debt is due from Rederij Boonstra B.V. ("Boonstra") and its associated entities. The Joint Administrators have been advised by the Dutch liquidator of Boonstra that there will be insufficient funds available to discharge the indebtedness due to the first chargeholder over Boonstra's assets, and therefore there will be no distribution available to THL. Accordingly, following a review of the position the Joint Administrators have released THL's third ranking mortgages over the assets of Boonstra which are in the process of being sold.

Other assets (THL)

- 4.50 Petty cash of £8,391.41 has been realised by the Joint Administrators.
- 4.51 A rates refund of £54,054.66 has been realised by the Joint Administrators.

