



menzie's | corporate restructuring

Our ref: PJC/BOW/CQP/RWG/REM/THL003/196645

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TO ALL KNOWN CREDITORS

For enquires:

e-mail:
travelscope@menzies.co.uk

Telephone:
020 7487 7240

8 February 2008

Dear Sirs

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

I refer to my letter dated 24 December 2008 advising of my appointment as Joint Administrator of the Companies on 21 December 2007, together with my partners Andrew Gordon Stoneman and Philip Francis Duffy.

The purpose of an Administration is to achieve the following hierarchical objectives:

- a) rescuing the company as a going concern, or
- b) achieving a better result for the company's creditors as a whole than would be likely if the company were wound up (without first being in Administration), or
- c) realising property in order to make a distribution to one or more secured or preferential creditors.

In accordance with Paragraph 51 of Schedule B1 of the Insolvency Act 1986, creditors' meetings have been convened at the New Connaught Rooms, Great Queen Street, London, WC2B 5DA on 27 February 2008 at 10.30am.

The purpose of these meetings is to consider the Joint Administrators' proposals and if thought appropriate to establish committees of creditors.

Please find attached my proposals and report to creditors. A proof of debt is enclosed in the appendix of the report, which should be sent to Menzie's Corporate Restructuring.

Cont/...

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.

A list of partners of Menzie's Corporate Restructuring is available at all offices

Manchester | Blackwater Valley | Heathrow | Kingston upon Thames
Leatherhead | Solent | Walton-on-Thames | Woking

All the insolvency practitioners act without personal liability and unless otherwise stated are authorised by the Insolvency Practitioners Association.



- 2 -

Yours faithfully
For and on behalf of
Travelscope Holidays Limited



Paul Clark
Joint Administrator

Enc.

The Insolvency Act 1986

Statement of administrator's proposals 2.17B

Name of Company Travelscope Holidays Limited	Company number 02545702
In the High Court of Justice, Chancery Division, Companies Court (full name of court)	Court case number 9644 of 2007

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

We Paul John Clark, Andrew Gordon Stoneman and Philip Francis Duffy
 Menzies Corporate Restructuring
 43-45 Portman Square
 London
 W1H 6LY


* Delete as appropriate

attach a copy of our proposals in respect of the administration of the above company.

A copy of these proposals was sent to all known creditors on

(b) Insert date

8 February 2008

Signed 
 Joint Administrator

Dated 8/2/08

Contact Details:

You do not have to give any contact information in the box opposite but if you do, it will help Companies House to contact you if there is a query on the form. The contact information that you give will be visible to searches of the public record

Menzies Corporate Restructuring
 43-45 Portman Square
 London
 W1H 6LY

Tel: 020 7487 7240

When you have completed and signed this form please send it to the Registrar of Companies at:

Companies House, Crown Way, Cardiff CF14 3UZ

DX 33050 Cardiff

[Empty box for contact details]

The Insolvency Act 1986

Statement of administrator's proposals

2.17B

Name of Company Travelscope Air Holidays Limited	Company number 03209870
In the High Court of Justice, Chancery Division, Companies Court (full name of court)	Court case number 9659 of 2007

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

We Paul John Clark, Andrew Gordon Stoneman and Philip Francis Duffy
Menzies Corporate Restructuring
43-45 Portman Square
London
W1H 6LY

* Delete as appropriate

attach a copy of our proposals in respect of the administration of the above company.

A copy of these proposals was sent to all known creditors on

(b) Insert date

8 February 2008

Signed 
Joint Administrator

Dated 8/2/08

Contact Details:

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DX 33050 Cardiff

The Insolvency Act 1986

Statement of administrator's proposals**2.17B**

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)	Court case number 9645 of 2007

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

We Paul John Clark, Andrew Gordon Stoneman and Philip Francis Duffy
Menzies Corporate Restructuring
43-45 Portman Square
London
W1H 6LY

* Delete as appropriate

attach a copy of our proposals in respect of the administration of the above company

A copy of these proposals was sent to all known creditors on

(b) Insert date

8 February 2008

Signed 
Joint Administrator

Dated

8/2/08

Contact Details:

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Companies House, Crown Way, Cardiff CF14 3UZ**DX 33050 Cardiff**

The Insolvency Act 1986

Statement of administrator's proposals

2.17B

Name of Company
Travelscope (Stonehouse) Limited

Company number
03138213

In the High Court of Justice, Chancery Division, Companies Court (full name of court)

Court case number
9642 of 2007

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

We Paul John Clark, Andrew Gordon Stoneman and Philip Francis Duffy
Menzies Corporate Restructuring
43-45 Portman Square
London
W1H 6LY

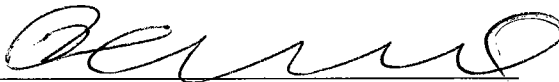
* Delete as appropriate

attach a copy of our proposals in respect of the administration of the above company.

A copy of these proposals was sent to all known creditors on

(b) Insert date

8 February 2008

Signed 
Joint Administrator

Dated 8/2/08

Contact Details:

You do not have to give any contact information in the box opposite but if you do, it will help Companies House to contact you if there is a query on the form. The contact information that you give will be visible to searches of the public record

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DX 33050 Cardiff

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

**Joint Administrators' Report and Proposals to Creditors
pursuant to Paragraph 49 of Schedule B1
to the Insolvency Act 1986**

8 February 2008

Names of Joint Administrators: Paul John Clark
Andrew Gordon Stoneman
Philip Francis Duffy

Date of appointment: 21 December 2007

Date of report: 8 February 2008

Appointed by Director - John Richard Ford

Company	Royal Courts of Justice Court 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

Menzies Corporate Restructuring
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1. INTRODUCTION

- 1.1 Paul John Clark, Andrew Gordon Stoneman and Philip Francis Duffy of Menzies Corporate Restructuring ("MCR") were appointed Joint Administrators of Travelscope Holidays Limited ("THL"), Travelscope (Stonehouse) Limited, ("TSL"), Travelscope Air Holidays Limited ("TAH") and Travelscope Air Holidays (Stonehouse) Limited ("TAHS") (collectively "the Companies") on 21 December 2007.
- 1.2 Each of the above appointments was 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 In accordance with Paragraph 100(2) of Schedule B1 of the Insolvency Act 1986 the functions of the Administrators are being exercised jointly.
- 1.4 This report is intended to cover each of the above four named companies. The Joint Administrators believe that this is appropriate as the Companies' senior management and accounting functions were centralised and the Companies share some common creditors.
- 1.5 This report sets out the circumstances leading up to the appointment of the Joint Administrators and the steps taken by them to date.
- 1.6 You should complete the appropriate proxy and proof of debt forms at Appendix 7 and return them to the Joint Administrators' office prior to the creditors' meeting to be held on 27 February 2008.

2. BACKGROUND

Travelscope Businesses Operations

- 2.1 Statutory information on each of the Companies and summaries of their financial positions are set out at Appendix 1.
- 2.2 The main trading company was THL which was incorporated on 3 October 1990 and commenced trading in 1992 as a European coach tour operator, advertising in local, regional and national newspapers and magazines.
- 2.3 In 1996 the Business expanded into offering air based holidays and tours. More recently, THL expanded into niche markets by providing holidays and trips for schools, organised groups and the singles market.
- 2.4 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.

Travelscope Holidays Limited

- 2.5 THL was incorporated on 3 October 1990. THL commenced business in 1992 from freehold premises located in Stonehouse, Gloucestershire offering only surface based holidays and tours.
- 2.6 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 were based.



- 2.7 THL was previously named Travelscope Promotions Limited until a name change on 23 September 2004 to its current style.
- 2.8 Following an internal reorganisation (see further details below at 2.18), and in addition to offering surface based holidays and tours, THL also commenced offering air based holidays for customers from 1996.
- 2.9 During February 2006, THL and the associated Travelscope companies, relocated business operations from the premises based in Stonehouse to newly developed freehold property at Pioneer Avenue, Gloucester Business Park, Gloucester, GL3 4AW ("the Property").
- 2.10 By this time, THL had become a renowned tour operator and was appointed as one of the Official UK Tour Operators of the 2007 Rugby World Cup and was recognised as being a key working partner and a key ambassador of the resort by Disneyland Resort Paris.
- 2.11 THL was a member of the Coach Tourism Council and Passenger Shipping Association. It was also a member of ABTA and held an International Air Transport Association ("IATA") licence and Air Travel Organisers' Licence ("ATOL").
- 2.12 THL and therefore total 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

- 2.13 TSL was incorporated on 15 December 1995.
- 2.14 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.
- 2.15 Following the reorganisation which took place during 2004, TSL also acted as the contracting entity dealing with all air related suppliers and liabilities.
- 2.16 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.
- 2.17 The audited financial accounts show that TSL's revenue for the year ended 31 December 2006 was approximately £48.9m.

Travelscope Air Holidays Limited

- 2.18 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").
- 2.19 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.
- 2.20 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.

- 2.21 Consequently, TAH ceased trading with effect from 31 December 2004.
- 2.22 As discussed later in this report there are a series of bank accounts held in the name of TAH with a combined balance of circa £1.2m. The Joint Administrators have been advised by the Companies' auditors, and directors that the accounts remained in the name of TAH due to the difficulties that surrounded changing the name on the accounts. Accordingly, it is the position of all the aforementioned parties that the funds held in the accounts named TAH in fact belong to THL and have been provided with mandates which support this claim. This position has yet to be verified conclusively by the Joint Administrators.

Travelscope Air Holidays (Stonehouse) Limited

- 2.23 TAHS was incorporated on 7 June 1996.
- 2.24 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.
- 2.25 Prior to 31 December 2004, TAHS' expenditure was funded by way of income received via a recharge from TAH.
- 2.26 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. EVENTS LEADING UP TO THE ADMINISTRATION

- 3.1 Historically, the Companies have enjoyed good growth and reported profits with the exception of losses sustained in the years ended 31 December 2001, 2006 and 2007.
- 3.2 There were a number of occurrences between 2005 and 2007 which resulted in the above losses and had a substantial cash impact on the Companies. These can be summarised as follows:
- Buy back of THL's shares for £2.55m
 - Purchase and construction of the new business Property at Gloucester Business Park ("the Property") for £6.2m
 - Decline in sales encountered by the Business as a consequence of delays and disruptions resulting from the business Property relocation
 - Increased fuel prices and agents' commissions
 - Increased market competition
 - Reduction in bookings following ocean cruise passenger health incidents
 - Incentives paid to passengers to transfer their bookings between cruise vessels
 - Failure of foreign river cruise operator

Buy Back of THL shares

- 3.3 During 2004, THL bought back the shares held by Joanna Taylor (nee Fisher) and Paul Robert Taylor, being two of the three founding shareholders at the time. The shares were purchased by THL for £2.55m by way of a share repurchase authorised by THL's Board of Directors on 14 May 2004. The final payments to the exiting shareholders were made by THL in January 2006.

Purchase of new business Property

- 3.4 As mentioned above, the Companies relocated from their existing business premises in Stonehouse to the Property at Gloucester Business Park in February 2006.
- 3.5 The Property were built and designed specifically for the Business. It was expected that these would be ready to move into during November 2005 however various build delays resulted in this being delayed until February 2006.
- 3.6 The estimated costs involved in the purchase of the Property including the land, design and build, the fit out and the relocation costs are circa £6.2m which were paid from THL's cash reserves.
- 3.7 The delays in properly installing and transferring the telecommunication facilities to the Property resulted in a noticeable decline in sales.

Ocean cruise department performance and restructure

- 3.8 THL formerly operated two ocean going charter cruise ships. These ships were the Athena owned by Classic International Cruises ("CIC") and the Van Gogh owned by Club Cruise.
- 3.9 The ocean cruise division's performance noticeable decline in years 2005 and 2006 was due to the following factors:
- Increased competition
 - Fuel price increases
 - A decrease in business following a bout of norovirus and a passenger fatality during a cruise in 2006
- 3.10 As a result of this, the directors decided to consolidate to one cruise ship, being the Van Gogh. This itself brought about further costs as THL was required to pay incentives to customers to transfer their bookings from the Athena to the Van Gogh.
- 3.11 A legal battle ensued with CIC as a result of terminating arrangements with respect to the Athena, with CIC pursuing THL for loss of profits which culminated in an arbitration hearing in October 2007.
- 3.12 This arbitration resulted in Classic International Cruises ("CIC") being a charging order for £1.5m over THL's principal asset being the freehold trading Property in Gloucester. The legal battle with CIC and the resulting charging order is discussed further below.

Foreign river cruise operator's insolvency

- 3.13 On 24 August 2007, one of the Companies' main river cruise operators, Rederij Boonstra B.V. and its associated entities ("Boonstra"), was declared insolvent and a liquidator was appointed to deal with Boonstra's affairs.
- 3.14 Boonstra had been experiencing financial difficulties for a number of years and in November 2006, THL granted a loan in the amount of €750,000 to Boonstra to assist it with its ongoing working capital funding requirements. This loan was secured by a mortgage over five Boonstra vessels.
- 3.15 At the date of the Joint Administrators' appointment the balance of €750,000 was still showing in THL accounts as outstanding to THL, against which £400,000 had been provided for as a doubtful debt in October 2007. In addition to the financial loss resulting from the bad debt, this also created significant operational issues resulting in the need to source an alternative cruise operator at a higher cost. The liquidation and monies owed by Boonstra is discussed further below.

Cashflow position

- 3.16 In the second half of 2007, the directors of THL were seeking to refinance the Business' operations in preparation for the seasonal peak cash requirement at the end of the calendar year.
- 3.17 As part of this process in November 2007, THL's existing funders, The Royal Bank of Scotland Plc ("RBS") introduced a firm of investigating accountants to the directors to review the Companies' short term cashflows with a view to evaluating refinancing options, on behalf of the Companies, in order to see the Businesses through the short term cash shortfall expected at the end of December 2007 and into January 2008.
- 3.18 A review of the Companies' cashflows showed a cash requirement of circa £2.6m in December 2007 against an agreed facility of £1.5m from RBS. Further cash requirements, including the agreed RBS facility, according to the projected cashflows peaked in January 2008 at circa £3.6m. This was after a forecast corporation tax refund of £828,000 and a cash injection from John Richard Ford of £2.6m which in part represented repayment of an outstanding director's loan account as well as a further injection as required by the Civil Aviation Authority ("CAA").
- 3.19 In addition to the RBS refinancing opportunity, and as discussed above, Richard Ford attempted during late November and December 2007, to obtain bridging finance for both the Companies and/or himself to provide the required funds necessary to overcome the forecast working capital shortfall.
- 3.20 Pursuant to the charging order obtained by CIC and a consent order dated 13 December 2007, THL was required to pay £500,000 to CIC in January 2008. This created a further £500,000 negative impact on the cash requirements in January 2008.
- 3.21 On or around 13 December 2007 the directors were notified that the requested refinancing by RBS would not proceed.
- 3.22 Attempts to seek refinancing elsewhere failed due mainly to a lack of an up to date valuation of the Property and concerns of potential lenders in relation to the CIC position.
- 3.23 The IATA BSP payment for November 2007 air passengers bookings of circa £1.7m was returned unpaid on 17 December 2007 and accordingly THL was in breach of its agreement with IATA.

Appointment of Joint Administrators

- 3.24 It was on 17 December 2007 that the directors first approached Menzies Corporate Restructuring ("MCR") for professional advice. It was immediately apparent that the Companies were delicately balanced and the cashflow position was acute. Furthermore, Mr Mark Horwood, THL's finance director also tendered his resignation from each of the Companies on the evening of 17 December 2007.
- 3.25 Based upon MCR's immediate but limited review of the Companies' financial position, it was MCR's view that it was unlikely that the business would have returned to profitability in 2008. Accordingly additional funding investment would have been required during 2008 in addition to the short term working capital funding being sought at the end of 2007. No profit and loss forecasts for 2008 were available and so this initial work was based mainly on a review of projected cashflows and historical performance.
- 3.26 The 2007 profit and loss results would also have been adversely effected if the remainder of the Boonstra receivable of circa £100,000 had to be written off as a bad debt, and the counterclaim asset against CIC recorded in the balance sheet as an asset had to be written off as unrecoverable. The recovery prospects of both these items remain uncertain.