

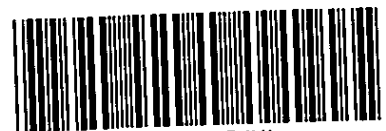
**Interactive Hotel Services Limited**

**Directors' report and consolidated financial statements**

**Year ended 31 March 2009**

**Registered number 4033274**

THURSDAY



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**Interactive Hotel Services Limited**  
**Year ended 31 March 2009**

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## **Interactive Hotel Services Limited**

**Year ended 31 March 2009**

### **Directors' report**

The directors present their annual report and the audited financial statements of Interactive Hotel Services Limited ("the company") and its subsidiaries ("the group") for the year ended 31 March 2009.

#### **Principal activity**

The principal activity of the group is the supply of equipment and software enabling the provision of in-room technology based services to hotels and similar services to other markets across Europe. The systems deployed provide functionality in the areas of guest entertainment, hotel information, and communications.

#### **Business review**

The trading results for the year and the group's financial position at the end of the year are shown in the attached financial statements.

#### *Financial overview*

The group's trading operations are co-ordinated through a network of overseas subsidiaries and branches. The group's reporting currency is Sterling, however overseas revenues are predominantly denominated in Euros. Overseas revenue principally denominated in Euros accounts for 79% (2008: 76%) of revenue.

The group's financial performance has been analysed as follows:

#### *Operating loss*

The group made an operating loss of £2.5m (2008: £2.2m) and a loss for the year before taxation of £3.5m (2008: £25.5m). Before exceptional restructuring costs the operating loss was £0.8m (2008: £0.6m). The loss before tax fell from £25.5m to £3.5m reflecting the benefits of the financial restructuring that took place in 2008 and foreign exchange gains in the period.

#### *Cash flow*

Cash flow generated from the group's operating activities amounted to £29.5m (2008: £22.2m) an increase of 33% compared to the 30% improvement seen in the prior year and reflects improved working capital management as well as the impact of returns being generated from the group's investment in the rental asset base.

Investment in capital expenditure in the period was £22.2m (2008: £33.4m). The fall in capital expenditure reflects the impact of the current economic environment on customers whose appetite for investment in new systems reduced during 2008. This is expected to continue during 2009.

The group generated cash of £3.5m after financing costs in the year to 31 March 2009, compared to a cash outflow in 2008 of £0.4m. This movement is primarily driven by the reduced level of capital expenditure.

#### *Turnover*

During the year the group had turnover of £90.8m (2008: £89.1m) an increase of £1.7m (1.9%) on the previous year. The overall increase in turnover is due to exchange rate movements of £12.3m and an increase in rental revenues from our growing Genesis rental base. This was offset by a reduction in the revenue earned from guests staying in the hotel rooms our systems operate in and from the sale of televisions to our customers.

#### *Gross profit*

The gross profit of the group increased by £0.7m (2.5%) from £28.1m to £28.8m in the year ended 31 March 2009. The gross margin has increased from 31.5% to 31.7% due to an increase of the mix of higher margin rental revenue.

#### *Net operating expenses*

Net operating expenses (excluding exceptional restructuring costs) increased by £1m (3.5%) from £28.6m to £29.6m in the year ended 31 March 2009. This increase is attributable to exchange movements of £4.1m partially offset by the impact of the restructuring programme initiated in the second half of 2008. Further cost reduction are expected to arise in 2009 as the group announced a further restructuring in June 2009.

#### *Strategy*

The strategy adopted by the group during the year has been to continue to develop its software and integration systems in order to increase the number of hotel rooms in which these systems are installed.

## Interactive Hotel Services Limited

Year ended 31 March 2009

### Directors' report (continued)

#### Business review (continued)

##### Key performance indicators

The group companies' key performance indicators are Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) and the number of hotel rooms in which the company's systems are installed.

EBITDA for the year before exceptional restructuring costs increased by £5m from £21m to £26m. Of the increase £3m was driven by exchange rate movements and £2m by the growth in the underlying EBITDA of the business. The reconciliation of the operating loss to EBITDA is shown below.

|  | 2009<br>£'000  | 2008<br>£'000  |
|--|----------------|----------------|
| <b>Operating loss</b>                                | <b>(2,492)</b> | <b>(2,162)</b> |
| <i>Cost of sales adjustments:</i>                    |                |                |
| Depreciation of tangible fixed assets                | 23,922         | 19,247         |
| Amortisation of intangible fixed assets              | 1,577          | 1,422          |
| <i>Net operating expenses adjustment</i>             |                |                |
| Depreciation of tangible fixed assets                | 1,336          | 867            |
| <b>EBITDA</b>  | <b>24,343</b>  | <b>19,374</b>  |
| Exceptional restructuring costs                      | 1,694          | 1,587          |
| <b>EBITDA before exceptional restructuring costs</b> | <b>26,037</b>  | <b>20,961</b>  |

The number of hotels in which the group's Genesis systems are installed grew by 17% in the period.

##### Going concern

During the year the group refinanced its debt by issuing Notes on the CISX (Guernsey Stock Exchange). The value of these Notes amount to £71,506,612 and the Notes bear interest at 10% and are not subject to any performance covenants. The initial repayment date of the Notes is 21 August 2011, however, an option exists (which is exercisable by IHSH) to extend to 21 August 2012. This refinancing together with strong operational cash flow, and a new working capital facility of £8.0m, from our ultimate parent company, agreed in June 2009 provides the group with a firm financial foundation. The strong underlying cash flows allowed the group to redeem £6.7m of the Notes issued in March and to pay £1.8m of accrued interest on the Notes in June 2009.

##### Future developments for the group

The group continues to pursue new hotel system installations and new platform development in order to increase the profitability and future cash flows of the group.

The significant recent investment in the rental asset base means that the group has a 5 to 7 year contracted revenue stream which generates operating cash inflows sufficient, and for the foreseeable future exceeding, its capital expenditure requirements.

##### Principal risks and uncertainties

The management of the businesses of the group and the nature of its strategy are subject to a number of risks. The directors have set out below the principal risks facing the group. The directors are of the opinion that the group has adopted a risk management process that involves the formal review of all the risks identified below. Where possible, processes are in place to monitor and mitigate such risks.

##### Competitor Action and Technological Obsolescence

The group seeks to compete effectively and maintain market share by continuously developing and updating its product portfolio and its relationships with key customers along with a regular review of actions from its competitors, revenues generated and developments in technology and the marketplace.

##### Loss of Key Personnel

The group employed an average of 301 full time employees during the year ended 31 March 2009 (2008: 331). Regular operational reviews ensure that knowledge and key customer and supplier relationships are retained by the directors and officers of the company so that the impact of the loss of any employee or agent would be reduced.

## **Interactive Hotel Services Limited**

**Year ended 31 March 2009**

### **Directors' report (continued)**

#### **Financial risk management objectives and policies**

The main risks arising from the financial instruments of the group are credit risk, liquidity risk, interest rate and foreign exchange risk. The directors review and agree policies for managing each of these risks and they are summarised below.

##### *Economic environment uncertainty*

The directors aim to mitigate the effects of uncertainty in the economic environment in its subsidiaries by seeking to:

- regularly review the groups' exposure to customer and supplier payment default risk;
- amend the group's credit assessment policies;
- minimise the group's exposure to fluctuations in hotel occupancy by engaging in fixed fee contracts where appropriate.

##### *Liquidity risk*

Liquidity risk is monitored on an ongoing basis by undertaking cash flow forecasting procedures. In order to ensure continuity of funding, the group seeks to arrange and maintain sufficient cash reserves and un-drawn committed borrowing facilities. As noted in the going concern section above, a subsidiary company issued Notes in the year and the group arranged increased working capital facilities.

##### *Interest rate risk*

The exposure of the group to interest rate fluctuations is managed by maintaining funding flexibility through a combination of cash pooling, shareholder funding and borrowings while obtaining a large degree of certainty in its commitments by borrowing extensively under fixed rates.

##### *Credit risk*

The group actively mitigates the risk of payment default by seeking favourable payment methods and credit arrangements with its customers and by reviewing outstanding payments and provisions for payment default regularly.

##### *Foreign exchange risk*

The majority of the group's transactions originate in Sterling and Euros with a minimal exposure to foreign exchange fluctuations. The group seeks to further reduce this risk by, where possible, matching foreign currency receipts with payments and, for certain countries, to negotiate payments from customers and to suppliers in more stable currencies such as Sterling and Euros. Further details regarding exposure to foreign exchange risk are set out in note 15.

#### **Financial instruments**

On 5 March 2009, a subsidiary company, Interactive Hotel Services Holdings plc ("IHSH") issued Notes, which are listed on the CISX (Guernsey Stock Exchange). The value of the Notes issued amounted to £71,506,612 and the Notes bear interest at 10% per annum. Full details are disclosed in note 15 to the financial statements.

It is, and has been throughout the year under review, the group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the group's financial instruments are interest rate risk, foreign currency risk and liquidity risk. Senior management review and agree policies for managing each of the principal risks. These are detailed above when discussing the group's financial risk policies and objectives.

#### **Post balance sheet events**

Since the year end the group has repaid some of the Notes and arranged a new working capital facility as described in the going concern section above.

In June 2009 the group responded to the impact that the current economic environment has had on customers which has a consequent effect on the group's anticipated growth rates. To address the issue a restructuring announcement was made applying to all our operating entities. The main impact of this announcement will be to significantly reduce our cost base by reducing the number of employees.

#### **Proposed dividend**

The directors do not recommend the payment of a dividend for either the current or previous year.

#### **Directors**

The directors of the company who held office during the year and subsequently were as follows:

I D Crabb

K Gozzett

D G E Naylor- Leyland

W H A Murphy IV

Certain companies within the group provided qualifying third party insurance indemnity provisions to certain directors during the financial year and at the date of this report.

**Interactive Hotel Services Limited**

**Year ended 31 March 2009**

**Directors' report (continued)**

**Employees**

The group recognises the value of a workforce drawn from varied backgrounds and requires management to exercise fairness and reasonableness in its human resources practices. The group is committed to operating non-discriminatory policies and practices in relation to recruitment, training, development, compensation, and promotion without regard to race, gender, religion, ethnic origin, marital status and non job-related disabilities of its employees. The group requires the highest standard of ethical, moral and legal behaviour at all times from its employees.

Where existing employees become disabled, it is the group's policy, wherever practical, to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever appropriate.

The group places great emphasis on effective employee communications and has established programs to facilitate this. Employee representatives are consulted on a wide variety of issues affecting their current and future interests.

**Disclosure of information to auditors**

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

**Political and charitable donations**

The group made charitable contributions amounting to £nil (2008: £1,000) and no political contributions were made during the year.

**Auditors**

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office.

**On behalf of the board**



**W H A Murphy**  
*Director*  
8 September 2009

**Forum 1**  
**Station Road**  
**Theale**  
**Berkshire, RG7 4RA**

**Interactive Hotel Services Limited**  
**Year ended 31 March 2009**

**Statement of Directors' responsibilities in respect of the Directors' report and the financial statements**

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its 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 Audit Plc

Arlington Business Park  
Theale  
Reading  
RG7 4SD  
United Kingdom

### **Independent auditors' report to the members of Interactive Hotel Services Limited**

We have audited the group and parent company financial statements (the "financial statements") of Interactive Hotel Services Limited for the year ended 31 March 2009 which comprise the Consolidated profit and loss account, the Statement of total recognised gains and losses, the Consolidated and Company balance sheets, the Consolidated cash flow statement, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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' responsibilities for preparing the Director's report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' responsibilities on page 5.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the Directors' report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' report and consider the implications for our report if we become aware of any apparent misstatements within it.

#### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and 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.



**Independent auditors' report to the members of Interactive Hotel Services Limited** *(continued)*

**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 March 2009 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' report is consistent with the financial statements.

KPMG Audit Plc

15 September 2009

**KPMG Audit Plc**  
*Chartered Accountants*  
*Registered Auditor*

**Interactive Hotel Services Limited**  
**Consolidated profit and loss account**  
*for the year ended 31 March 2009*

|   | <i>Note</i> | 2009<br>£000          | 2008<br>£000           |
|---|-------------|-----------------------|------------------------|
| Group turnover                              | 2           | 90,811                | 89,057                 |
| Cost of sales                               | 3           | <u>(61,997)</u>       | <u>(60,998)</u>        |
| Gross profit                                |             | 28,814                | 28,059                 |
| Net operating expenses                      | 3,4,5       | (29,612)              | (28,634)               |
| Exceptional restructuring costs             | 6           | (1,694)               | (1,587)                |
| Operating loss                              |             | <u>(2,492)</u>        | <u>(2,162)</u>         |
| Interest receivable and similar income      | 7           | 5,907                 | 329                    |
| Interest payable and similar charges        | 8           | (6,870)               | (23,677)               |
| Loss on ordinary activities before taxation |             | <u>(3,455)</u>        | <u>(25,510)</u>        |
| Tax on loss on ordinary activities          | 9           | (711)                 | (1,203)                |
| Loss on ordinary activities after taxation  |             | <u>(4,166)</u>        | <u>(26,713)</u>        |
| Minority interests                          | 26          | -                     | 1,829                  |
| Loss for the financial year                 | 18          | <u><u>(4,166)</u></u> | <u><u>(24,884)</u></u> |

All results relate to continuing activities.

There are no material differences between the results stated above and their historical cost equivalent.

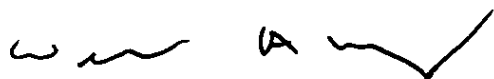
**Consolidated statement of total recognised gains and losses**

|   | 2009<br>£000        | 2008<br>£000           |
|---|---------------------|------------------------|
| Loss for financial year   | (4,166)             | (24,884)               |
| Foreign exchange movement on translation of overseas opening net assets | 6,029               | 5,693                  |
| Total recognised gains/( losses) relating to the financial year         | <u><u>1,863</u></u> | <u><u>(19,191)</u></u> |

**Interactive Hotel Services Limited**  
**Consolidated balance sheet**  
*at 31 March 2009*

|  | <i>Note</i> | 2009            |                      | 2008             |                      |
|--|-------------|-----------------|----------------------|------------------|----------------------|
|  |             | £000            | £000                 | £000             | £000                 |
| <b>Fixed assets</b>  |             |                 |                      |                  |                      |
| Intangible assets  | <i>10</i>   | 6,781           |                      | 6,018            |                      |
| Tangible assets  | <i>11</i>   | <u>87,644</u>   |                      | <u>84,065</u>    |                      |
|  |             |                 | 94,425               |                  | 90,083               |
| <b>Current assets</b>  |             |                 |                      |                  |                      |
| Goods for resale and work in progress                          |             | 4,781           |                      | 6,362            |                      |
| Debtors  | <i>13</i>   | 24,392          |                      | 29,367           |                      |
| Cash at bank and in hand                                       |             | <u>10,364</u>   |                      | <u>7,371</u>     |                      |
|  |             | 39,537          |                      | 43,100           |                      |
| <b>Creditors: amounts falling due within one year</b>          | <i>14</i>   | <u>(27,080)</u> |                      | <u>(101,356)</u> |                      |
| <b>Net current assets/( liabilities)</b>                       |             |                 | <u>12,457</u>        |                  | <u>(58,256)</u>      |
| <b>Total assets less current liabilities</b>                   |             |                 | <b>106,882</b>       |                  | <b>31,827</b>        |
| <b>Creditors: amounts falling due after more than one year</b> | <i>15</i>   |                 | (71,616)             |                  | (99)                 |
| <b>Provisions for liabilities and charges</b>                  | <i>16</i>   |                 | (4,168)              |                  | (2,493)              |
| <b>Net assets</b>  |             |                 | <u><u>31,098</u></u> |                  | <u><u>29,235</u></u> |
| <b>Capital and reserves</b>                                    |             |                 |                      |                  |                      |
| Called up share capital  | <i>17</i>   |                 | 220,512              |                  | 220,512              |
| Profit and loss account - deficit                              | <i>18</i>   |                 | (380,225)            |                  | (382,088)            |
| Other reserves   | <i>18</i>   |                 | <u>190,811</u>       |                  | <u>190,811</u>       |
|  |             |                 | 31,098               |                  | 29,235               |
| Minority interests   | <i>26</i>   |                 | -                    |                  | -                    |
| <b>Shareholders' funds</b>                                     | <i>19</i>   |                 | <u><u>31,098</u></u> |                  | <u><u>29,235</u></u> |

These financial statements were approved by the board of directors on 8 September 2009 and were signed on its behalf by:



W H A Murphy  
*Director*

**Interactive Hotel Services Limited**  
**Company balance sheet**  
**at 31 March 2009**

|  | <i>Note</i> | 2009           |              | 2008         |       |
|--|-------------|----------------|--------------|--------------|-------|
|  |             | £000           | £000         | £000         | £000  |
| <b>Fixed assets</b>  |             |                |              |              |       |
| Investments  | 12          |                | 5,000        |              | 5,000 |
| <b>Current assets</b>  |             |                |              |              |       |
| Debtors  | 13          | 1,186          |              | -            |       |
| Cash at bank and in hand                                       |             | <u>4</u>       |              | <u>5</u>     |       |
|  |             | 1,190          |              | 5            |       |
| <b>Creditors: amounts falling due within one year</b>          | 14          | <u>(1,190)</u> |              | <u>-</u>     |       |
| <b>Net current assets</b>                                      |             |                | <u>-</u>     | <u>5</u>     |       |
| <b>Total assets less current liabilities</b>                   |             |                | 5,000        | 5,005        |       |
| <b>Creditors: amounts falling due after more than one year</b> | 15          |                | (109)        | (99)         |       |
| <b>Net assets</b>  |             |                | <u>4,891</u> | <u>4,906</u> |       |
| <b>Capital and reserves</b>                                    |             |                |              |              |       |
| Called up share capital  | 17          |                | 220,512      | 220,512      |       |
| Profit and loss account - deficit                              | 18          |                | (215,621)    | (215,606)    |       |
| <b>Shareholders' funds</b>                                     | 19          |                | <u>4,891</u> | <u>4,906</u> |       |

These financial statements were approved by the board of directors on 8 September 2009 and were signed on its behalf by:



W H A Murphy  
 Director

**Interactive Hotel Services Limited**  
**Consolidated cash flow statement**  
*for the year ended 31 March 2009*

|   | <i>Note</i> | <b>2009</b>            | 2008                   |
|---|-------------|------------------------|------------------------|
|   |             | <b>£000</b>            | £000                   |
| <b>Cash flow from operating activities</b>                                | 22          | <b>29,495</b>          | 22,164                 |
| <b>Returns on investments and servicing of finance</b>                    | 23          | <b>(6,605)</b>         | 269                    |
| <b>Taxation</b>   | 23          | <b>153</b>             | (355)                  |
| <b>Capital expenditure and financial investment</b>                       | 23          | <b><u>(22,154)</u></b> | <b><u>(33,429)</u></b> |
| Cash inflow/(outflow) before management of liquid resources and financing |             | <b>889</b>             | (11,351)               |
| <b>Financing</b>  |             |                        |                        |
| - Issue of share capital  | 23          | -                      | 5,000                  |
| - Increase in debt  | 23          | <b>2,617</b>           | 6,000                  |
| <b>Increase/(decrease) in cash in the year</b>                            |             | <b><u>3,506</u></b>    | <b><u>(351)</u></b>    |
| <b>Being:</b>   |             |                        |                        |
| Decrease/(increase) in bank overdraft                                     |             | <b>513</b>             | (513)                  |
| Increase in cash and cash equivalents                                     |             | <b><u>2,993</u></b>    | <u>162</u>             |
| <b>Increase/(decrease) in cash in year</b>                                |             | <b><u>3,506</u></b>    | <b><u>(351)</u></b>    |

**Reconciliation of net cash flow to movement in net debt**  
*for the year ended 31 March 2009*

|   | <i>Note</i> | <b>2009</b>            | 2008                    |
|---|-------------|------------------------|-------------------------|
|   |             | <b>£000</b>            | £000                    |
| <b>Increase/(decrease) in cash in year</b>          | 24          | <b>3,506</b>           | (351)                   |
| Loans received                                      |             | <b>(1,000)</b>         | -                       |
| Cash received on issue of notes payable             | 24          | <b>(71,507)</b>        | -                       |
| Cash used to decrease debt financing                | 24          | <b>70,390</b>          | (6,000)                 |
| <b>Change in net debt resulting from cash flows</b> |             | <b><u>1,389</u></b>    | <b><u>(6,351)</u></b>   |
| Non-cash interest                                   | 24          | <b>(497)</b>           | (22,143)                |
| Foreign exchange movements                          | 24          | -                      | (6,317)                 |
| Other non cash movements                            | 24          | -                      | 190,811                 |
| <b>Movement in net debt in the year</b>             |             | <b><u>892</u></b>      | <b><u>156,000</u></b>   |
| <b>Net debt at the beginning of the year</b>        |             | <b><u>(63,631)</u></b> | <b><u>(219,631)</u></b> |
| <b>Net debt at the end of the year</b>              | 24          | <b><u>(62,739)</u></b> | <b><u>(63,631)</u></b>  |

## **Interactive Hotel Services Limited**

**Year ended 31 March 2009**

### **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 financial statements.

##### ***Basis of preparation***

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost accounting rules.

##### **Implementation of Financial Reporting Standards ("FRS's")**

Following the issue of loan Notes by a subsidiary company (as referred to in note 15), which are listed on the CISX (Guernsey Stock Exchange), the group has adopted the disclosure requirements of FRS 13 "Derivatives and other financial instruments: disclosures".

The implementation of FRS 13 has had no impact on the Profit and loss account, Balance sheet, Cash flow statement or Statement of total recognised gains and losses of the group. The principal impact is to increase the level of disclosure requirements in respect of the financial instruments held by the group. These additional disclosures are set out fully in note 15 to the financial statements.

##### ***Basis of consolidation***

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings for the year ended 31 March 2009. The acquisition method of accounting has been adopted. Under this method, the results of any subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account. The company's result for the year is disclosed in note 18.

##### ***Investments***

Investments in subsidiary undertakings are stated at cost less any provision for impairment.

##### ***Intangible fixed assets and amortisation***

Intangible fixed assets purchased separately from a business are capitalised at their cost.

These are amortised to nil by equal annual instalments over the estimated useful life of the intangible asset.

##### ***Research and development expenditure***

Research expenditure is charged to the profit and loss account as incurred. Development expenditure is capitalised only where the technical feasibility of the related project is considered reasonably certain and where it is anticipated with sufficient certainty that further development costs to be incurred on the same project, together with related production, selling and administrative costs, will be exceeded by income from future revenue streams.

Capitalised development expenditure is amortised over the period economic benefits are expected to be derived, which is between 3 and 7 years depending on the nature of the project and the timing of the future revenue stream.

##### ***Goodwill***

Goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions since 1 January 1998 is capitalised. Goodwill is amortised to nil by equal annual instalments over its estimated useful life.

##### ***Tangible fixed assets and depreciation***

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

|                       |               |
|-----------------------|---------------|
| Rental assets         | 3 to 7 years  |
| Office equipment      | 5 years       |
| Computer equipment    | 3 years       |
| Fixtures and fittings | 5 to 10 years |

## Interactive Hotel Services Limited

Year ended 31 March 2009

Notes (continued)

### 1 Accounting policies (continued)

#### *Goods for resale and work in progress*

Goods for resale and work in progress are stated at the lower of cost and net realisable value.

#### *Taxation*

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 'Deferred tax'.

#### *Turnover*

Turnover consists principally of amounts (excluding value added tax) derived from the rental of in-room equipment including software to hotels and is recognised on a straight line basis over the contract life. Income from hotel guests viewing of Pay-TV and other in-room technology based services is recognised as turnover as the service is provided. Turnover also includes amounts derived from the maintenance of this equipment. In addition, turnover includes amounts derived from the outright sale of in-room equipment which is recognised on acceptance of the goods by the customer.

#### *Leases*

Leases in which the group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Payments made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease.

#### *Foreign currencies*

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the weighted average rates of exchange for the year. Exchange differences between overseas operations' results translated at weighted average and closing rates and those arising on the translation of their opening net assets, are taken to reserves net of exchange differences arising on related foreign currency borrowings.

Income and expenses were translated at the average exchange rate for the year ended 31 March 2009 £1:€1.2049 (2008: £1:€1.4198). Assets and liabilities were translated at the closing exchange rate as at 31 March 2009 £1:€1.0763 (2008: £1:€1.2636).

## **Interactive Hotel Services Limited**

**Year ended 31 March 2009**

### **Notes (continued)**

#### **1 Accounting policies (continued)**

##### *Classification of financial instruments issued by the company*

Following the adoption of FRS 25 'Financial Instruments: Disclosure and Presentation', financial instruments issued by the company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and

b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

##### *Post retirement benefits*

The group operates a number of defined contribution pension schemes. The principal scheme operated by the group was established on 23 August 2007.

The assets of the defined contribution scheme are held separately from those of the group in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

##### *Cash and liquid resources*

Cash comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand.

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market.



## Interactive Hotel Services Limited

Year ended 31 March 2009

Notes (continued)

### 2 Segmental information

Based on risks and returns, the directors consider the primary reporting format is by business segment.

The directors consider that there is only one business segment being the supply and outright sale of equipment and software enabling the provision of in-room technology based services to hotels and similar services to other markets across Europe.

The tables below set out information in respect of the business for each of the group's geographic areas of operation for each of the relevant years. The directors consider that there is no material difference between turnover by origin and by destination in the year ended 31 March 2009.

|   | 2009            | 2008            |
|---|-----------------|-----------------|
|   | £'000           | £'000           |
| <b>Turnover by origin (excluding intercompany)</b>                |                 |                 |
| UK  | 18,090          | 20,517          |
| Europe  | 71,355          | 67,584          |
| Rest of the World   | 1,366           | 956             |
|   | <u>90,811</u>   | <u>89,057</u>   |
| <b>Group segment profit / (loss) before interest and taxation</b> |                 |                 |
| UK  | (1,323)         | (580)           |
| Europe  | (1,510)         | (1,312)         |
| Rest of the World   | 341             | (270)           |
| <b>Group segment profit / (loss) before interest and taxation</b> | <u>(2,492)</u>  | <u>(2,162)</u>  |
| Interest receivable and similar income                            | 5,907           | 329             |
| Interest payable and similar charges                              | <u>(6,870)</u>  | <u>(23,677)</u> |
| <b>Loss on ordinary activities before taxation</b>                | <u>(3,455)</u>  | <u>(25,510)</u> |
| <b>Segment net assets / (liabilities) excluding intercompany</b>  |                 |                 |
| UK  | 30,111          | 25,145          |
| Europe  | 72,776          | 73,298          |
| Rest of the World   | 1,314           | 1,281           |
|   | <u>104,201</u>  | <u>99,724</u>   |
| Notes payable/Loans from ultimate parent company (related party)  | <u>(71,616)</u> | <u>(70,489)</u> |
| Interest accrued on Notes payable                                 | (487)           | -               |
| Amounts due to ultimate parent company (related party)            | <u>(1,000)</u>  | <u>-</u>        |
|   | <u>31,098</u>   | <u>29,235</u>   |

**Interactive Hotel Services Limited**

Year ended 31 March 2009

Notes (continued)

**3 Cost of sales and net operating expenses**

|  | 2009          | 2008          |
|--|---------------|---------------|
|  | £'000         | £'000         |
| <b>Cost of sales</b>   |               |               |
| Depreciation and other amounts written off rental assets               | 23,922        | 19,247        |
| Amortisation of capitalised development costs                          | 1,577         | 1,422         |
| Other cost of sales  | 36,498        | 40,329        |
|  | <u>61,997</u> | <u>60,998</u> |
|  | 2009          | 2008          |
|  | £'000         | £'000         |
| <b>Net operating expenses</b>  |               |               |
| Employee costs (note 5)  | 18,223        | 16,675        |
| Depreciation and other amounts written off other tangible fixed assets | 1,336         | 867           |
| Rentals payable under operating leases                                 | 2,522         | 2,171         |
| Other net operating expenses   | 7,531         | 8,921         |
|  | <u>29,612</u> | <u>28,634</u> |

Included in net operating expenses is £862,000 (2008: £876,000) in respect of expenditure on research and development.

Included in other net operating expenses is remuneration to the auditor for audit services as follows:

|  | 2009       | 2008       |
|--|------------|------------|
|  | £'000      | £'000      |
| Audit of these financial statements                            | 50         | 55         |
| Amounts receivable by auditors and their associates in respect |            |            |
| Audit of financial statements of subsidiaries                  | 384        | 305        |
| Other services relating to taxation                            | 16         | 93         |
| Services relating to recruitment and remuneration              | 5          | 4          |
| All other services   | -          | 18         |
|  | <u>455</u> | <u>475</u> |

Having regard to the nature of the business of the group, the analysis of operating costs as prescribed by the Companies Act 1985 is not meaningful. In the circumstances, as prescribed by paragraph C3(3) of Schedule 4 of the Companies Act 1985, the directors have adapted the prescribed format to the requirements of the group's business.

**4 Remuneration of directors**

The remuneration of directors in respect of qualifying services for the group was as follows:

|                       | 2009       | 2008       |
|-----------------------|------------|------------|
|                       | £'000      | £'000      |
| Directors' emoluments | <u>630</u> | <u>688</u> |

The aggregate of emoluments of the highest paid director was £623,000 (2008: £684,000), and company pension contributions of £7,000 (2008: £4,000) were made on his behalf.

None of the other directors of the company received any emoluments or other benefits in respect of services to the company, during either year.

**Interactive Hotel Services Limited**

Year ended 31 March 2009

Notes (continued)

**5 Staff numbers and costs**

The average number of persons employed by the group (including directors) during the year was as follows:

|                               | Number of employees |            |
|-------------------------------|---------------------|------------|
|                               | 2009                | 2008       |
| Sales                         | 65                  | 78         |
| Operations and administration | 231                 | 242        |
| Research and development      | 5                   | 11         |
|                               | <u>301</u>          | <u>331</u> |

The aggregate payroll costs of these persons were as follows:

|                       | 2009          |  | 2008          |  |
|-----------------------|---------------|--|---------------|--|
|                       | £'000         |  | £'000         |  |
| Wages and salaries    | 14,642        |  | 13,672        |  |
| Social security costs | 2,713         |  | 2,312         |  |
| Other pension costs   | 868           |  | 691           |  |
|                       | <u>18,223</u> |  | <u>16,675</u> |  |
| Redundancy costs      | 1,051         |  | -             |  |
|                       | <u>19,274</u> |  | <u>16,675</u> |  |

Payroll costs in 2008 included £0.2m in respect of potential payments to employees in relation to retention schemes operated by the group.

**6 Exceptional restructuring costs**

|  | 2009         |  | 2008         |  |
|--|--------------|--|--------------|--|
|  | £'000        |  | £'000        |  |
| <i>Restructuring costs</i>                     |              |  |              |  |
| Financial restructuring costs                  | -            |  | 1,587        |  |
| Professional fees                              | 643          |  | -            |  |
| Redundancy costs - wages and salaries (note 5) | 1,051        |  | -            |  |
|  | <u>1,694</u> |  | <u>1,587</u> |  |

**7 Interest receivable and similar income**

|                                     | 2009         |  | 2008       |  |
|-------------------------------------|--------------|--|------------|--|
|                                     | £'000        |  | £'000      |  |
| Bank interest and investment income | 268          |  | 329        |  |
| Net foreign exchange gains          | 5,639        |  | -          |  |
|                                     | <u>5,907</u> |  | <u>329</u> |  |

**8 Interest payable and similar charges**

|                                  | 2009         |  | 2008          |  |
|----------------------------------|--------------|--|---------------|--|
|                                  | £'000        |  | £'000         |  |
| Bank interest                    | 76           |  | 60            |  |
| Interest on related party loans  | 6,794        |  | 20,873        |  |
| Interest on committed facilities | -            |  | 1,280         |  |
| Net foreign exchange losses      | -            |  | 1,464         |  |
|                                  | <u>6,870</u> |  | <u>23,677</u> |  |

**Interactive Hotel Services Limited**

**Year ended 31 March 2009**

**Notes (continued)**

**9 Taxation**

|   | 2009       | 2008         |
|---|------------|--------------|
|   | £'000      | £'000        |
| <i>UK corporation tax</i>                 |            |              |
| Current tax on result for year            | -          | -            |
| Adjustment in respect of prior years      | -          | 18           |
| <i>Overseas tax</i>                       |            |              |
| Current tax on result for year            | 713        | 1,158        |
| Adjustment in respect of prior years      | (2)        | 27           |
| Tax charge on loss on ordinary activities | <u>711</u> | <u>1,203</u> |

*Factors affecting the tax charge for the current year*

The current tax charge for the year is higher than (2008: higher than) the standard rate of corporation tax in the UK 28%, (2008: 30%). The difference is explained below:

|  | 2009           | 2008            |
|--|----------------|-----------------|
|  | £'000          | £'000           |
| <i>Current tax reconciliation</i>  |                |                 |
| Loss on ordinary activities before tax   | <u>(3,455)</u> | <u>(25,510)</u> |
| Current tax credit at 28% (2008: 30%)  | (967)          | (7,653)         |
| <i>Effect of:</i>  |                |                 |
| Income not taxable/expenses not deductible for tax purposes                    | 295            | 230             |
| Interest not deductible for tax purposes                                       | 136            | 4,797           |
| Capital allowances for year in excess of depreciation and amortisation charges | (221)          | 2,027           |
| Short term timing differences  | 346            | 255             |
| Unutilised taxation losses   | 441            | 476             |
| Overseas taxation  | 362            | 937             |
| Other  | 238            | 46              |
| Difference in overseas tax rates   | 83             | 43              |
| Adjustments to tax charge in respect of previous years                         | (2)            | 45              |
| Total current tax charge (see above)   | <u>711</u>     | <u>1,203</u>    |

*Factors that may affect future tax charges*

The group has the following timing differences which may give rise to a reduced tax charge in the future:

*Unrecognised deferred tax assets*

No deferred tax asset has been recognised on the timing differences set out below as, in the opinion of the directors, the ability of the group to obtain the tax benefit of these payments is dependant on suitable profits arising in the relevant statutory companies in the future, that are either not currently foreseen or cannot be estimated with sufficient certainty.

|   | 2009          | 2008          |
|---|---------------|---------------|
|   | £'000         | £'000         |
| Difference between accumulated depreciation and amortisation and capital allowances | 8,027         | 1,582         |
| Other timing differences  | 1,058         | 1,927         |
| Unutilised taxation losses - trading  | 877           | 8,959         |
| Unutilised taxation losses - non trading  | 542           | 66            |
|   | <u>10,504</u> | <u>12,534</u> |

**Interactive Hotel Services Limited**

**Year ended 31 March 2009**

**Notes (continued)**

**10 Intangible fixed assets**

|                                    | Development<br>costs<br>£'000 | Goodwill<br>£'000 | Total<br>£'000 |
|------------------------------------|-------------------------------|-------------------|----------------|
| <b>Group</b>                       |                               |                   |                |
| <i>Cost</i>                        |                               |                   |                |
| At beginning of year               | 9,250                         | 165,685           | 174,935        |
| Additions                          | 2,340                         | -                 | 2,340          |
| At end of year                     | <u>11,590</u>                 | <u>165,685</u>    | <u>177,275</u> |
| <i>Amortisation and impairment</i> |                               |                   |                |
| At beginning of year               | 3,232                         | 165,685           | 168,917        |
| Charge for the year                | 1,577                         | -                 | 1,577          |
| At end of year                     | <u>4,809</u>                  | <u>165,685</u>    | <u>170,494</u> |
| <i>Net book value</i>              |                               |                   |                |
| At 31 March 2009                   | <u>6,781</u>                  | <u>-</u>          | <u>6,781</u>   |
| At 31 March 2008                   | <u>6,018</u>                  | <u>-</u>          | <u>6,018</u>   |

Goodwill was fully impaired during the year ended 31 March 2006 following the completion of an impairment review conducted in accordance with FRS 11.

A full review of the unamortised balance of all development costs that have been capitalised since digital product development commenced was conducted at each balance sheet date in accordance with SSAP 20. No impairment loss has been recognised during the year ended 31 March 2009 (2008: £nil).

The company has no intangible assets.

**11 Tangible fixed assets**

|                       | Rental assets<br>£'000 | Other<br>assets<br>£'000 | Total<br>£'000 |
|-----------------------|------------------------|--------------------------|----------------|
| <b>Group</b>          |                        |                          |                |
| <i>Cost</i>           |                        |                          |                |
| At beginning of year  | 199,857                | 13,769                   | 213,626        |
| Additions             | 18,421                 | 1,393                    | 19,814         |
| Disposals             | (37,560)               | (300)                    | (37,860)       |
| Translation           | 22,003                 | 369                      | 22,372         |
| At end of year        | <u>202,721</u>         | <u>15,231</u>            | <u>217,952</u> |
| <i>Depreciation</i>   |                        |                          |                |
| At beginning of year  | 118,964                | 10,597                   | 129,561        |
| Charge for year       | 23,922                 | 1,336                    | 25,258         |
| Disposals             | (36,841)               | (285)                    | (37,126)       |
| Translation           | 12,337                 | 278                      | 12,615         |
| At end of year        | <u>118,382</u>         | <u>11,926</u>            | <u>130,308</u> |
| <i>Net book value</i> |                        |                          |                |
| At 31 March 2009      | <u>84,339</u>          | <u>3,305</u>             | <u>87,644</u>  |
| At 31 March 2008      | <u>80,893</u>          | <u>3,172</u>             | <u>84,065</u>  |

Other assets include fixtures, equipment and vehicles.

The company has no tangible fixed assets.

## Interactive Hotel Services Limited

Year ended 31 March 2009

Notes (continued)

### 12 Fixed asset investments

*Shares in subsidiary companies*

*Cost*

£'000

At beginning and end of year

220,560

*Impairment*

At beginning and end of year

215,560

*Net book value*

At beginning and end of year

5,000

As required by FRS 11 'Impairment of fixed assets and goodwill', the directors have conducted an impairment review on the carrying amount of the investment held by the company in Interactive Hotel Services Holdings plc as at 31 March 2009. Based on a review of the future cash flows expected to be generated by these companies, the directors have determined that no further impairment is required.

The principal operating undertakings in which the company had an interest at the year end are as follows:

|                                       | Country of incorporation | Class and percentage of shares held |
|---------------------------------------|--------------------------|-------------------------------------|
| Quadriga Worldwide Limited            | England                  | Ordinary 100%                       |
| Quadriga EMEA Limited                 | England                  | Ordinary 100%                       |
| Quadriga Interactive Systems Limited  | England                  | Ordinary 100%                       |
| Quadriga Benelux BV                   | Netherlands              | Ordinary 100%                       |
| Quadriga Belgium NV                   | Belgium                  | Ordinary 100%                       |
| Quadriga Danmark AS                   | Denmark                  | Ordinary 100%                       |
| Quadriga Norge AS                     | Norway                   | Ordinary 100%                       |
| Quadriga Finland OY                   | Finland                  | Ordinary 100%                       |
| Quadriga Svenska AB                   | Sweden                   | Ordinary 100%                       |
| Quadriga France SAS                   | France                   | Ordinary 100%                       |
| Quadriga Greece Hotel Technologies SA | Greece                   | Ordinary 100%                       |
| Quadriga Poland SP z.o.o              | Poland                   | Ordinary 100%                       |
| Quadriga Suisse SA                    | Switzerland              | Ordinary 100%                       |
| Quadriga Business Espana SA           | Spain                    | Ordinary 100%                       |
| Quadriga Italia SPA                   | Italy                    | Ordinary 100%                       |
| Quadriga Deutschland GmbH             | Germany                  | Ordinary 100%                       |
| Quadriga EMEA Romania SRL             | Romania                  | Ordinary 100%                       |
| Quadriga d.o.o                        | Croatia                  | Ordinary 100%                       |
| UAB Quadriga Inroom Technologies      | Lithuania                | Ordinary 100%                       |
| Quadriga Latvia SIA                   | Latvia                   | Ordinary 100%                       |

Quadriga Finland OY has an overseas branch operating in Estonia.

Quadriga Suisse SA has an overseas branch in Austria.

Quadriga Worldwide Limited has an overseas branch in Portugal.

Quadriga EMEA Limited has overseas branches in the Czech Republic, Malta, Turkey, Hungary, Bulgaria and in the Middle East.

The company has no direct interest in the above subsidiaries.

The principal activity of the subsidiaries above is the supply of equipment and software enabling the provision of in-room technology based services to hotels and similar services to other markets across Europe. The systems deployed provide functionality in the areas of guest entertainment, hotel information, and communications.

In addition to the above subsidiaries the company has the subsidiaries noted below which act as intermediate holding companies, unless otherwise indicated. An \* indicates that the company has a direct interest.

## Interactive Hotel Services Limited

Year ended 31 March 2009

Notes (continued)

### 12 Fixes asset investments (continued)

|  | Country of incorporation | Class and percentage of shares held |      |
|--|--------------------------|-------------------------------------|------|
| Interactive Hotel Services Holdings plc*       | England                  | Ordinary                            | 100% |
|  |                          | Preference                          | 100% |
| Interactive Hotel Services Investments Limited | England                  | Ordinary                            | 100% |
|  |                          | Preference                          | 100% |
| Quadriga Holdings Limited                      | England                  | Ordinary                            | 100% |
|  |                          | Preference                          | 100% |
| Quadriga Overseas Holdings Limited             | England                  | Ordinary                            | 100% |
| Quadriga Holdings BV                           | Netherlands              | Ordinary                            | 100% |
| Thorn France Holdings SAS                      | France                   | Ordinary                            | 100% |
| Quadriga UK Limited (Finance company)          | England                  | Ordinary                            | 100% |
| Quadriga Technology Limited (Dormant company)  | England                  | Ordinary                            | 100% |

### 13 Debtors

|  | Group         |               | Company      |          |
|--|---------------|---------------|--------------|----------|
|  | 2009          | 2008          | 2009         | 2008     |
|  | £'000         | £'000         | £'000        | £'000    |
| <i>Amounts falling due within one year</i> |               |               |              |          |
| Trade debtors                              | 18,441        | 22,418        | -            | -        |
| Corporation tax                            | -             | 311           | -            | -        |
| Other debtors                              | 3,683         | 3,967         | -            | -        |
| Amounts owed by fellow group undertakings  | -             | -             | 1,179        | -        |
| Prepayments and accrued income             | 2,268         | 2,671         | 7            | -        |
|  | <u>24,392</u> | <u>29,367</u> | <u>1,186</u> | <u>-</u> |

### 14 Creditors: amounts falling due within one year

|   | Group         |                | Company      |          |
|---|---------------|----------------|--------------|----------|
|   | 2009          | 2008           | 2009         | 2008     |
|   | £'000         | £'000          | £'000        | £'000    |
| Loans from ultimate parent company (related party)      | -             | 70,390         | -            | -        |
| Trade creditors   | 4,429         | 7,473          | -            | -        |
| Customer deposits and rentals in advance                | 5,313         | 4,988          | -            | -        |
| Other taxes and social security                         | 985           | 939            | -            | -        |
| Other creditors   | 2,689         | 2,333          | -            | -        |
| Corporation tax   | 192           | -              | -            | -        |
| Bank overdraft  | -             | 513            | -            | -        |
| Amounts owed to ultimate parent company (related party) | 1,000         | -              | 1,000        | -        |
| Amounts owed to fellow group undertakings               | -             | -              | 189          | -        |
| Accruals and deferred income                            | 11,985        | 14,720         | 1            | -        |
| Interest accrued on notes payable (related party)       | 487           | -              | -            | -        |
|   | <u>27,080</u> | <u>101,356</u> | <u>1,190</u> | <u>-</u> |

The loans from the ultimate parent company, who is a related party, at 31 March 2008 comprised 10% unsecured loan notes issued to Victorian Capital LP (formerly Co-Investment Acquisition No.10 LP Inc) on 6 March 2008. The balance at that year end represented loan notes with a principal value of £69,891,000 plus accrued interest of £500,000. The loan notes and outstanding interest were repaid in full on 5 March 2009.

The amounts owed to the ultimate parent company at 31 March 2009 are interest free and there is no fixed date of repayment.

**Interactive Hotel Services Limited**

**Year ended 31 March 2009**

**Notes (continued)**

**15 Creditors: amounts falling due after one year**

|  | Group         |           | Company    |           |
|--|---------------|-----------|------------|-----------|
|  | 2009          | 2008      | 2009       | 2008      |
|  | £'000         | £'000     | £'000      | £'000     |
| Loans from ultimate parent company (related party) | 109           | 99        | 109        | 99        |
| Notes payable (related party)                      | 71,507        | -         | -          | -         |
|  | <u>71,616</u> | <u>99</u> | <u>109</u> | <u>99</u> |

Loans from the ultimate parent company, at 31 March 2009 and 31 March 2008, comprised 11% unsecured loans issued to Victorian Capital LP Inc ("VCL") (formerly Co-Investment Acquisition No 10 LP Inc). The balance at the year end comprised the principal of £50,000 (2008:£50,000) plus accrued interest of £59,000 (2008:£49,000). The loan notes have a repayment date of 6 September 2010.

On 5 March 2009, a subsidiary company, Interactive Hotel Services Holdings plc ("IHSH") issued Notes, which are listed on the CISX (Guernsey Stock Exchange). The value of the Notes issued amounted to £71,506,612 and the Notes bear interest at 10% per annum.

The initial repayment date of the Notes is 21 August 2011. However, IHSH have an option, if required, to extend the repayment date to 21 August 2012. In addition, the option exists to redeem the Notes earlier than the original maturity date in amounts to be determined by IHSH. Since the period end IHSH has redeemed £8.5m of the Notes payable, comprising £6.7m of the principal and £1.8m of the accrued interest.

Interest is payable on 5 March 2010, 5 March 2011 and 21 August 2011. Thereafter, it is payable annually on 21 August. If interest is not paid on the due date then the amount is added to the principal.

At 31 March 2009 all of the Notes issued were held by the ultimate parent company, VCL.

**Financial instruments**

The group's principal financial instruments, which exclude short-term debtors and creditors as permitted by FRS 13 "Derivatives and other financial instruments: disclosures", comprise loans and cash. The main purpose of these financial instruments is to raise finance for the group's operations.

The main risks arising on these financial instruments are set out in the Directors' report and are discussed further below.

*Interest rate risk*

(a) Financial liabilities

The group has only fixed rate, sterling denominated, financial liabilities comprising the loans and Notes payable, totalling £71.6m (2008: £0.1m), set out above.

The weighted average interest rate in both years is 11% on the loan payable and 10% on the Notes payable. The weighted average period, in both years, equals the length of the loan period as detailed above.

(b) Financial assets

The group has only floating rate financial assets, comprising interest bearing cash deposits. There are no interest free financial assets in either year.

The interest rate risk profile of the financial assets was as follows:

|          | 2009          | 2008         |
|----------|---------------|--------------|
|          | £'000         | £'000        |
| Sterling | 3,920         | 2,245        |
| Euro     | 4,581         | 2,984        |
| Other    | 1,863         | 1,629        |
|          | <u>10,364</u> | <u>6,858</u> |

*Currency risk*

The group's principal currency risk exposure is in respect of its UK subsidiary companies which receive finance in sterling and lend this to trading subsidiaries whose assets are mainly held in Euros. The overseas operations have a minimal exposure to currency risk as their monetary assets and liabilities are held in their functional currencies.



**Interactive Hotel Services Limited**

**Year ended 31 March 2009**

**Notes (continued)**

**15 Creditors: amounts falling due after one year (continued)**

**Financial instruments (continued)**

|                                  |                     |                     |
|----------------------------------|---------------------|---------------------|
| <i>Currency risk (continued)</i> | <b>2009</b>         | <b>2008</b>         |
|                                  | <b>£'000</b>        | <b>£'000</b>        |
| Euro                             | <b>4,581</b>        | <b>2,984</b>        |
| Other                            | <b>1,863</b>        | <b>1,629</b>        |
|                                  | <b><u>6,444</u></b> | <b><u>4,613</u></b> |

*Liquidity risk*

The group's objective is to maintain a balance between continuity of funding and flexibility through the use of loans from its ultimate parent company VCL and loan notes which, whilst publicly traded, are all held by VCL. Short-term flexibility is achieved by working capital facilities if required.

*Maturity of financial liabilities*

The maturity profile of the groups' financial liabilities was as follows:

|   |                      |                      |
|---|----------------------|----------------------|
|   | <b>2009</b>          | <b>2008</b>          |
|   | <b>£'000</b>         | <b>£'000</b>         |
| In one year or less, or on demand                   | -                    | 70,390               |
| In more than one year but not more than two years   | <b>109</b>           | -                    |
| In more than two years but not more than five years | <b>71,507</b>        | <b>99</b>            |
|   | <b><u>71,616</u></b> | <b><u>70,489</u></b> |

*Borrowing facilities*

The group has various undrawn committed borrowing facilities. The facilities available at each year end, in respect of which all conditions precedent had been met were as follows:

|  |                     |                   |
|--|---------------------|-------------------|
|  | <b>2009</b>         | <b>2008</b>       |
|  | <b>£'000</b>        | <b>£'000</b>      |
| Expiring in one year or less                               | -                   | -                 |
| Expiring in more than one year but not more than two years | <b>2,000</b>        | -                 |
| Expiring in more than two years                            | <b>929</b>          | <b>278</b>        |
|  | <b><u>2,929</u></b> | <b><u>278</u></b> |

*Fair value of financial assets and liabilities*

In view of the short maturity of cash, loans and Notes payable, coupled with traded nature of the longer term Notes the group consider the carrying value of the financial assets and liabilities to be equal to their fair value at both year ends.

**16 Provisions for liabilities and charges**

|                                   |                     |                     |                     |
|-----------------------------------|---------------------|---------------------|---------------------|
|                                   | <b>Taxation</b>     | <b>Other</b>        | <b>Total</b>        |
|                                   | <b>£'000</b>        | <b>£'000</b>        | <b>£'000</b>        |
| At beginning of year              | 926                 | 1,567               | 2,493               |
| Utilised during year              | -                   | (276)               | (276)               |
| Charge to profit and loss in year | 361                 | 1,314               | 1,675               |
| Translation                       | -                   | 276                 | 276                 |
| <b>At end of year</b>             | <b><u>1,287</u></b> | <b><u>2,881</u></b> | <b><u>4,168</u></b> |

The company has no provisions for liabilities and charges.

The provision for taxation is in respect of potential overseas tax obligations. The provision will be utilised depending on the outcome of the discussions with the authorities in the relevant territories and will be subject to ongoing reviews as the timing of the outflows are uncertain.

The other provisions principally relate to employee related costs which are presently the subject of ongoing negotiations. The provision will be utilised as and when the outcome of the discussions is established with reasonable certainty.

**Interactive Hotel Services Limited**

**Year ended 31 March 2009**

**Notes (continued)**

**17 Called up share capital**

|   | 2009                  | 2008                  |
|---|-----------------------|-----------------------|
|   | £'000                 | £'000                 |
| <i>Authorised</i>                           |                       |                       |
| 211,510,711 Ordinary shares of £1 each      | 211,511               | 211,511               |
| 1,000 B Ordinary shares of £1 each          | 1                     | 1                     |
| 15,000,000 'B' Preference shares of £1 each | <u>15,000</u>         | <u>15,000</u>         |
|   | <u><b>226,512</b></u> | <u><b>226,512</b></u> |
|   | 2009                  | 2008                  |
|   | £'000                 | £'000                 |
| <i>Allotted, called up and fully paid</i>   |                       |                       |
| 205,510,711 Ordinary shares of £1 each      | 205,511               | 205,511               |
| 1,000 B Ordinary shares of £1 each          | 1                     | 1                     |
| 15,000,000 'B' Preference shares of £1 each | <u>15,000</u>         | <u>15,000</u>         |
|   | <u><b>220,512</b></u> | <u><b>220,512</b></u> |

On 6 September 2006 a shareholders' written resolution was passed which amended the company's Articles of Association amending the rights of the preference shareholders. In particular the preference shares are no longer redeemable or cumulative. As a result the preference shares have been classified as equity as required by FRS 25.

On a winding up, the B preference shares rank above the ordinary shares in issue and the preference shareholders would be entitled to all arrears and accruals of preference dividends and a return of capital before any return to the ordinary shareholders. There are no voting rights attaching to the preference shares. The voting rights attaching to the ordinary shares are one vote per share.

On 6 March 2008 a shareholders' written resolution was passed which amended the company's Articles of Association to include B Ordinary Shares. The holders of the B Ordinary Shares shall have the right to the first £8,541,000 of any profits or assets of the company.

**18 Reserves**

| Group                       | Profit and<br>loss account | Other                 | Total                   |
|-----------------------------|----------------------------|-----------------------|-------------------------|
|                             | £'000                      | £'000                 | £'000                   |
| At beginning of year        | (382,088)                  | 190,811               | (191,277)               |
| Loss for the financial year | (4,166)                    | -                     | (4,166)                 |
| Net exchange differences    | 6,029                      | -                     | 6,029                   |
| <b>At the end of year</b>   | <u><b>(380,225)</b></u>    | <u><b>190,811</b></u> | <u><b>(189,414)</b></u> |

On 6 March 2008, the company's subsidiary undertaking Interactive Hotel Services Holdings plc ("IHSH") issued shares to Victorian Capital LP Inc ("VCL") (formerly Co-Investment Acquisition No 10 LP Inc ("CIA 10")) in satisfaction of £166.8m of loan notes. These shares were then transferred to Interactive Hotel Services Limited ("IHSL") via a share for share exchange (see below). On the same day, the company's indirect subsidiary Quadriga Holdings Limited ("QHL") issued shares to CIA10 in satisfaction of £24.0m of debt. These shares were then contributed by CIA 10 to another subsidiary undertaking of the company, Interactive Hotel Services Investments Limited, for a nominal consideration. As a consequence of this capital reconstruction, the group has benefited from a £190.8m reduction in its debt obligations. The excess arising over the nominal value of the shares issued has been credited to the other reserve noted above.

**Company**

|                                | 2009                    | 2008                    |
|--------------------------------|-------------------------|-------------------------|
|                                | £'000                   | £'000                   |
| <b>Profit and loss account</b> |                         |                         |
| At beginning of year           | (215,606)               | (215,597)               |
| Loss for the financial year    | <u>(15)</u>             | <u>(9)</u>              |
| <b>At the end of year</b>      | <u><b>(215,621)</b></u> | <u><b>(215,606)</b></u> |

**Interactive Hotel Services Limited**

**Year ended 31 March 2009**

**Notes (continued)**

**19 Reconciliation of movement in shareholders' funds**

|   | Group                |                      | Company             |                     |
|---|----------------------|----------------------|---------------------|---------------------|
|   | 2009                 | 2008                 | 2009                | 2008                |
|   | £'000                | £'000                | £'000               | £'000               |
| Loss for the financial year                               | (4,166)              | (24,884)             | (15)                | (9)                 |
| Foreign exchange movement                                 | 6,029                | 5,693                | -                   | -                   |
| Capital contribution                                      | -                    | 190,811              | -                   | -                   |
| Acquisition and dilution of minority interests            | -                    | (20,924)             | -                   | -                   |
| Share capital issued                                      | -                    | 5,001                | -                   | 5,001               |
| <b>Net addition to/(reduction in) shareholders' funds</b> | <b>1,863</b>         | <b>155,697</b>       | <b>(15)</b>         | <b>4,992</b>        |
| Opening shareholders' funds / (deficit)                   | <u>29,235</u>        | <u>(126,462)</u>     | <u>4,906</u>        | <u>(86)</u>         |
| <b>Closing shareholders' funds</b>                        | <b><u>31,098</u></b> | <b><u>29,235</u></b> | <b><u>4,891</u></b> | <b><u>4,906</u></b> |

**20 Commitments**

(a) the company and group had no capital commitments at the end of either financial year.

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

| Group                                 | 2009               |              | 2008               |              |
|---------------------------------------|--------------------|--------------|--------------------|--------------|
|                                       | Land and buildings | Other        | Land and buildings | Other        |
|                                       | £'000              | £'000        | £'000              | £'000        |
| Operating leases which expire:        |                    |              |                    |              |
| Within one year                       | 670                | 602          | 723                | 576          |
| In the second to fifth year inclusive | 1,479              | 626          | 846                | 1,050        |
| Over five years                       | 540                | -            | 458                | 0            |
|                                       | <u>2,689</u>       | <u>1,228</u> | <u>2,027</u>       | <u>1,626</u> |

The majority of land and buildings are subject to rent reviews.

The company had no operating lease commitments in either year.

**21 Pension scheme**

From 23 August 2007, the group has operated a defined contribution pension scheme. The main scheme, which covers employees in the United Kingdom, is the Quadriga Worldwide Limited Pension Scheme ('the Scheme'), a defined contribution scheme. Staff engaged outside the United Kingdom are covered by local arrangements, which are largely defined contribution schemes.

The group has accounted for scheme contributions in accordance with FRS 17 'Retirement Benefits'. The charge to the profit and loss account in respect of the current year was £868,000 (2008:£691,000).

At 31 March 2009, contributions amounting to £35,000 were payable by the group to the scheme (2008: £79,000).

The company does not have any employees: consequently there was no charge in respect of contributions during the current or preceding year and there were no outstanding or prepaid contributions at either the beginning or end of the financial year.

**Interactive Hotel Services Limited**

**Year ended 31 March 2009**

**Notes (continued)**

**22 Reconciliation of operating loss to operating cash flows**

|  | 2009          | 2008          |
|--|---------------|---------------|
|  | £'000         | £'000         |
| Operating loss                                   | (2,492)       | (2,162)       |
| Depreciation of tangible fixed assets            | 25,258        | 20,114        |
| Amortisation of intangible assets                | 1,577         | 1,422         |
| Net book value of tangible fixed asset disposals | 734           | (310)         |
| Decrease in goods for resale                     | 1,581         | 1,161         |
| Decrease/(increase) in debtors                   | 4,664         | (6,055)       |
| (Decrease)/increase in creditors                 | (5,052)       | 6,536         |
| Increase in provisions                           | 1,038         | 176           |
| Translation differences                          | 2,187         | 1,282         |
| <b>Net cash inflow from operating activities</b> | <b>29,495</b> | <b>22,164</b> |

**23 Analysis of cash flows**

|   | 2009            | 2008            |
|---|-----------------|-----------------|
|   | £'000           | £'000           |
| <b>Returns on investment and servicing of finance</b>             |                 |                 |
| Interest received   | 268             | 329             |
| Interest paid   | (6,873)         | (60)            |
|   | <u>(6,605)</u>  | <u>269</u>      |
| <b>Taxation</b>   |                 |                 |
|   | <u>153</u>      | <u>(355)</u>    |
| <b>Capital expenditure and financial investment</b>               |                 |                 |
| Purchase of intangible fixed assets                               | (2,340)         | (2,707)         |
| Purchase of tangible fixed assets                                 | (19,814)        | (30,722)        |
|   | <u>(22,154)</u> | <u>(33,429)</u> |
| <b>Financing</b>  |                 |                 |
| New share capital issued  | -               | 5,000           |
| Repayment of loans from related parties due in less than one year | (69,890)        | -               |
| Increase in Notes payable due after one year                      | 71,507          | -               |
| Increase in loans from related parties due in less than one year  | 1,000           | 6,000           |
|   | <u>2,617</u>    | <u>11,000</u>   |

**24 Analysis of net debt**

|                                | Cash          | Net debt payable after more than one year | Net debt payable within one year | Total           |
|--------------------------------|---------------|---|----------------------------------|-----------------|
|                                | £'000         | £'000                                     | £'000                            | £'000           |
| At beginning of year           | 6,858         | (99)                                      | (70,390)                         | (63,631)        |
| Cash flow                      | 3,506         | -   | -                                | 3,506           |
| Loans repaid in period         | -             | -   | 70,390                           | 70,390          |
| Loans received in period       | -             | -   | (1,000)                          | (1,000)         |
| Notes payable issued in period | -             | (71,507)                                  | -                                | (71,507)        |
| Non-cash interest              | -             | (10)                                      | (487)                            | (497)           |
| <b>At end of year</b>          | <b>10,364</b> | <b>(71,616)</b>                           | <b>(1,487)</b>                   | <b>(62,739)</b> |

## Interactive Hotel Services Limited

Year ended 31 March 2009

Notes (continued)

### 25 Related party disclosures

During the period ended 31 March 2009 the only related party with which the group and company had transactions with was Victorian Capital LP Inc ("VCL") (formerly Co-Investment Acquisition No.10 LP Inc), their ultimate parent company as set out in note 28.

The following transactions existed between the group and VCL during the year:

a) The group had a £50,000 loan note bearing interest at 11% per annum. Interest accrued during the year was £10,000 and the amount outstanding at the end of the period was £109,000, comprising the principal of £50,000 plus accrued interest of £59,000. The loan is repayable on 6 September 2010.

b) Of the 10% revolving loan notes of £70,391,000 issued on 6 March 2008, £1,156,000 was repaid on 5 September 2008 and £4,000,000 was repaid on 23 December 2008. Interest accrued on the loan in the period was £6,278,000. On 5 March 2009 the total amount outstanding of £71,513,000 was repaid in full.

c) On 5 March 2009 Interactive Hotel Services Holdings plc ("IHS"), a subsidiary company, issued 10% Notes in the amount of £71,506,612. These Notes have been listed on CISX (Guernsey Stock Exchange). The Notes are repayable on 21 August 2011. Interest accrued on these Notes to the period end was £487,126 and the principal outstanding at the period end was £71,506,612. At the period end VCL held £71,506,612 (100%) of these Notes. Further details on these Notes is contained in note 15.

#### 2008

The directors considered Terra Firma Capital Partners I ("TFCPI"), VCL and Carmelite Capital Limited ("CCL") to be related parties for the year ended 31 March 2008.

On 19 July 2007 Co-Investment Acquisition No 4 LP Inc ("CIA 4") acquired 11% revolving loan notes, plus accrued interest, from TFCPI. These were subsequently purchased by VCL. The balance at the year end represented loan notes with principal value of £50,000 plus accrued interest of £49,000 and a repayment date of 6 September 2010.

On 19 July 2007 Co-Investment No 2 LP Inc purchased the committed banking facilities provided by the Royal Bank of Scotland Group to the group and the inter group loan from Thorn Finance Limited, a fellow group undertaking within the CCL group. These loans were subsequently acquired by VCL on 23 August 2007 as part of the transaction under which it acquired Interactive Hotel Systems Limited from CCL.

On 29 August 2007 VCL increased the amount outstanding on the above loans by lending a further £2m to the group. The loan was increased by further payments from VCL of £1.75m on 16 October 2007, £0.25m on 19 October 2007 and £2m on 18 December 2007.

On 6 March 2008 the debt owed by Quadriga Holdings Limited to VCL was transferred by VCL to IHS following the issue of £69,890,915 unsecured loan notes with an interest rate of 10% by IHS to VCL.

The group had the following transactions during the year and balances outstanding at 31 March 2008 with TFCPI, CIA 4 and VCL:

|                                      | 11%<br>revolving<br>loan notes | 10%<br>revolving<br>loan notes |
|--------------------------------------|--------------------------------|--------------------------------|
|                                      | £'000                          | £'000                          |
| Accrued interest during year         |                                |                                |
| TFCPI                                | 4,832                          | -                              |
| CIA 4                                | 1,570                          | -                              |
| VCL                                  | <u>9,088</u>                   | <u>500</u>                     |
| Amount outstanding at the period end |                                |                                |
| VCL                                  | <u>-</u>                       | <u>70,391</u>                  |

During the year, interest payable of £1,067,000 was paid on the committed facilities provided by PCI 2, £3,806,000 was paid on the committed facilities provided by VCL and £nil (2007: £514,000) was paid on the committed facilities provided by Thorn Finance Limited.

## Interactive Hotel Services Limited

Year ended 31 March 2009

Notes (continued)

### 26 Minority interests

|  | 2009     | 2008     |
|--|----------|----------|
| Group                                  | £'000    | £'000    |
| At beginning of year                   | -        | (19,095) |
| Share of loss for the year             | -        | (1,829)  |
| Acquisition of subsidiary undertakings | -        | 20,924   |
|  | <u>-</u> | <u>-</u> |

On 6 September 2006, shares in Interactive Hotel Services Investments Limited ("IHSI") were issued to certain executives of the group. IHSI owned 100% of Quadriga Holdings Limited ("QHL") and its subsidiary undertakings.

On 6 March 2008 QHL issued 27,530,338 ordinary shares of £1 each to Interactive Hotel Services Holdings plc ("IHS"). As a result of this IHSI now owns 10% of the issued ordinary share capital and voting rights in QHL and its subsidiary undertakings. In addition, IHS repurchased a number of the shares issued to the executives. As a result of these transactions, there is no material minority interest in the assets of IHSI at either period end.

### 27 Post balance sheet events

Since the year end the group has repaid some of the Notes and arranged a new working capital facility as described in the going concern section of the Directors' report.

In June 2009 the group responded to the impact that the current economic environment has had on our customers which has a consequent effect on the group's anticipated growth rates. To address the issue a restructuring announcement was made applying to all our operating entities. The main impact of this announcement will be to significantly reduce the cost base of the group by reducing the number of employees.

### 28 Ultimate parent company and parent undertaking of a larger group of which the company is a member

The directors regard Victorian Capital LP Inc (formerly Co-Investment Acquisition No.10 LP Inc), a Guernsey incorporated limited partnership, as the ultimate parent company and ultimate controlling party.