Interactive Hotel Services Limited

Directors' report and financial statements

Registered number 4033274

31 March 2005

Contents

Directors' report	1
Statement of directors' responsibilities	2
Report of the independent auditors to the members of Interactive Hotel Services Limited	3
Profit and loss account	4
Balance sheet	5
Reconciliation of movements in shareholder's funds	6
Notes	7

Directors' report

The directors present their annual report together with the audited financial statements of Interactive Hotel Services Limited for the year ended 31 March 2005.

Principal activity

The company operates as a holding company within the Carmelite Capital Limited group.

Business review

The company made a loss before taxation for the year of £5,057,348 (*2004: loss £6,605)* after writing down its investment in Interactive Hotel Services Holdings plc from £5,050,000 to £nil, as the directors consider this investment to be impaired.

Post balance sheet event

On 20 September 2005, Carmelite Capital Ltd ("CCL"), the company's parent undertaking, subscribed for a further 179,509,711 ordinary shares of £1 each in the company on the condition that the company utilise the issue proceeds to subscribe for 17,950,971,100 ordinary shares of £0.01 each in its direct subsidiary undertaking, Interactive Hotel Services Holdings plc ("IHSH") and that IHSH ultimately utilise the subscription proceeds to redeem £179.5m of the £308.5m unsecured zero coupon subordinated loan notes issued to Terra Firma Capital Partners I ("TFCPI"), an English Limited Partnership, acting through its general partner Terra Firma Investments (GP) Limited, a company incorporated in Guernsey, a related party, for an equivalent early redemption amount.

On 15 August 2005 and 13 January 2006, CCL subscribed for 5,000,000 ordinary shares of £1 each in the company, and on 3 February 2006 subscribed for 6,000,000 ordinary shares of £1 each in the company, the total of these subscriptions being £16m. The company utilised the issue proceeds received at each subscription date to subscribe for 1,600,000,000 ordinary shares of £0.01 each in its direct subsidiary undertaking IHSH, who in turn loaned the subscription proceeds to its direct subsidiary undertaking, Quadriga Holdings Ltd ("QHL"). QHL immediately invested the loan proceeds into the operating business of the Quadriga group in order to support the continued growth and development of the Quadriga business.

Directors

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

C P T O'Haire
Q R Stewart

None of the directors who held office at the end of the year had any disclosable interest in the shares of the company.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of group companies were granted to any of the directors or their immediate families, or exercised by them, during the year.

Auditor

Pursuant to section 386 of the Companies Act 1985, elective resolutions are in place to dispense with the obligation to appoint auditors annually and KPMG Audit Plc will therefore remain in office.

On behalf of the board

C P T O'Haire
Director

Date: 21/02/06

Carmelite
50 Victoria Embankment
Blackfriars
London
EC4Y 0DX

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG Audit Plc
PO Box 695
8 Salisbury Square
London EC4Y 8BB
United Kingdom

Report of the independent auditors to the members of Interactive Hotel Services Limited

We have audited the financial statements on pages 4 to 11.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 March 2005 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc 8 March 2006

KPMG Audit Plc
Chartered Accountants
Registered Auditor

Profit and loss account

for the year ended 31 March 2005

	Note	2005 £000	2004 £000
Impairment of investments	*6*	**(5,050)**	-
Loan interest payable	*7*	**(7)**	(7)
Loss on ordinary activities before taxation		**(5,057)**	(7)
Tax on loss on ordinary activities	*5*	**-**	-
Loss for the financial year	*10*	**(5,057)**	(7)

All results relate to continuing operations.

There is no material difference between the result on a historical cost basis and that described in the profit and loss account.

The company has no recognised gains or losses other than the result for the year.

Balance sheet
at 31 March 2005

	Note	2005 £000	2004 £000
Fixed assets			
Investments	6	-	50
Current assets			
Cash at bank and in hand		2	5
Total assets		2	55
Creditors: amounts falling due within one year			
Amount owed to group undertaking		-	(4)
Total assets less current liabilities		2	51
Creditors: loan falling due after more than one year	7	(72)	(65)
Net liabilities		(70)	(14)
Capital and reserves			
Called up share capital	9	5,001	-
Profit and loss account	10	(5,072)	(15)
Other reserves	10	1	1
Shareholder's deficit	10	(70)	(14)

These financial statements were approved by the board of directors on 21 February 2006 and were signed on its behalf by:

C P T O'Haire
Director

Reconciliation of movements in shareholder's funds
for the year ended 31 March 2005

	Note	**2005** **£000**	2004 £000
Loss for the financial year	*10*	**(5,057)**	(7)
New shares issued		**5,001**	-
Net reduction in shareholder's funds		**(56)**	(7)
Opening shareholder's deficit	*10*	**(14)**	(7)
Closing shareholder's deficit	*10*	**(70)**	(14)

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 company's financial statements.

Basis of preparation

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

The company is exempt by value of section 228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As the company is a wholly owned subsidiary of Carmelite Capital Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Carmelite Capital Limited group (or investees of the group qualifying as related parties). The consolidated financial statements of Carmelite Capital Limited, within which this company is included, can be obtained from the address given in note 13.

Investments

In the company's financial statements, investments in subsidiary undertakings are stated at the lower of cost and net realisable value.

Warrants

Where warrants are in issue which give the holder the option to receive cash or shares, the amount is shown as a liability. Where the amount due under the cash option is calculated by reference to the market value per share on the exercise date, the liability included in the balance sheet is based on the director's best estimate of the open market value of the issuing company.

Payments due under warrants where the amount payable, if any, is calculated based on the value of distributable profits which may be declared in respect of a financial year are accrued and included within creditors when the warrants are exercised.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. 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.

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. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

2 Auditors remuneration

The audit fees of the company were borne by Quadriga Worldwide Limited, a subsidiary undertaking.

Notes *(continued)*

3 Remuneration of directors

No director received any remuneration during the year in respect of services to the company *(2004: £nil)*.

4 Staff numbers and costs

The company has no employees and therefore incurs no wages or salary costs *(2004: £nil)*.

5 Taxation

	2005	2004
	£000	£000
UK corporation tax		
Current tax on loss on ordinary activities	-	-

Factors affecting the tax charge for the current year

The differences between the current £nil tax charge for the year and the standard rate of corporation tax in the United Kingdom of 30% (*2004: 30%*) are explained below.

	2005	2004
	£000	£000
Current tax reconciliation		
Loss on ordinary activities before tax	(5,057)	(7)
Current tax credit at 30% (*2004: 30%*)	(1,517)	(2)
Effects of:		
Expenses not deductible for tax purposes	1,515	-
Unutilised tax losses	2	2
Total current tax charge (see above)	-	-

Factors that may affect future tax charges

The company has the following timing differences which may give rise to reduced tax charges in the future:

Tax losses

Tax losses as at 31 March 2005 amounted to £22,463 *(2004: £14,921)* (£6,739 tax value *(2004: £4,476))*, which are available for offset against future income. No deferred tax asset has been recognised in respect of these losses, as the ability of the company to obtain tax relief is dependant on suitable profits arising in the future, which cannot be estimated with sufficient certainty.

Notes *(continued)*

6 Fixed asset investments

	Shares in group undertakings £000
Shares	
Cost	
At beginning of year	50
Additional investment in year	5,000
At end of year	5,050
Provisions	
At beginning of year	-
Provided in the year	5,050
At end of year	5,050
Net book value	
At 31 March 2005	**-**
At 31 March 2004	50

The company had a direct interest at the year end in the following undertaking:

Subsidiary undertaking	**Country of incorporation**	**Principal activity**	**Class and percentage of shares held**	
Interactive Hotel Services Holdings plc	England	Holding company	Ordinary	100
			Preference	100

On 20 September 2005 the company subscribed for £179.5m of ordinary shares in its subsidiary undertaking Interactive Hotel Services Holdings Plc ("IHSH") (see note 9).

As at the date of the signing of the directors' report, the company had subscribed for a further £16m of ordinary shares in IHSH (see note 9).

7 Creditors: amounts falling due after more than one year

	2005 £000	2004 £000
Loans from related parties (see note 11)	**72**	65

Notes *(continued)*

7 Creditors: amounts falling due after more than one year *(continued)*

Loans from related parties at the year end were provided by Terra Firma Capital Partners I ("TFCPI"), an English Limited Partnership, acting through its general partner Terra Firma Investments (GP) Limited, a company incorporated in Guernsey and consisted of unsecured zero coupon subordinated loan notes plus accrued interest (see note 11). The balance at the year end represented loan notes plus accrued interest, of £50,000 *(2004: £50,000)* and £22,463 *(2004: (15,047)* respectively that have an effective discount rate of 11%, and a repayment date of 6 September 2010.

Interest payable accrued during the year amounted to £7,416 *(2004: £6,605).*

8 Warrants

As at 1 April 2004, 99,999 warrants with an exercise price of £0.01 had been issued by the company and were held entirely by TFCPI.

On 4 May 2004, all of the outstanding warrants were acquired by CCL. On 7 May 2004, all of the outstanding warrants were exercised by CCL and exchanged for ordinary shares in the company. Amounts received in respect of warrants are held in other reserves.

The warrants were for cash settlement or the issue of one £0.01 ordinary share per warrant at a strike price of £0.01. Upon exercise of the warrants, if cash settlement is selected, the cash settlement amount per warrant shall be the excess (if any) of the open market value of an ordinary share in the issuing company over the cost to subscribe at par for an ordinary share.

9 Called up share capital

	2005	2004
	£000	£000
Authorised		
Equity: 32,001,000 Ordinary shares of £1 each	**32,001**	1
Allotted, called up and fully paid		
Equity: 5,001,000 Ordinary shares of £1 each	**5,001**	-

On 7 May 2004, the company issued 99,999 £0.01 ordinary shares to its immediate parent undertaking, CCL following the exercise of its holding of warrants issued by the company at an exercise price of £0.01.

On 28 January 2005 the allotted, called up and fully paid share capital of the company, consisting of 100,000 ordinary shares of £0.01 each was consolidated into 1,000 ordinary shares of £1 each. The authorised share capital was then increased from £1,000 to £32,001,000 by the creation of an additional 32,000,000 ordinary shares of £1 each. Pursuant to the increase in the authorised share capital of the company, CCL subscribed for 5,000,000 £1 ordinary shares.

On 20 September 2005, the authorised share capital was increased from £32,001,000 to £211,510,711 by the creation of an additional 179,509,711 ordinary shares of £1 each.

On 20 September 2005, CCL subscribed for 179,509,711 ordinary shares of £1 each in the company on the condition that the company utilise the issue proceeds to subscribe for 17,950,971,100 ordinary shares of £0.01 each in its direct subsidiary undertaking, Interactive Hotel Services Holdings plc ("IHSH") and that IHSH ultimately utilise the subscription proceeds to redeem £179.5m of the £308.5m unsecured zero coupon subordinated loan notes issued to TFCPI, a related party, for an equivalent early redemption amount.

Notes *(continued)*

9 Called up share capital *(continued)*

On 15 August 2005 and 13 January 2006, CCL subscribed for 5,000,000 ordinary shares of £1 each in the company, and on 3 February 2006 subscribed for 6,000,000 ordinary shares of £1 each in the company, the total of these subscriptions being £16m.

10 Reserves

	Other reserves £000	Profit and loss account £000
At beginning of year	1	(15)
Loss for the financial year	-	(5,057)
At end of year	**1**	**(5,072)**

11 Contingent liabilities

The company participates in a cross guarantee arrangement for loans held by certain subsidiary undertakings of the CCL group. The amount outstanding as at 31 March 2005, under this arrangement was £83.3m *(2004:£78.9m)*.

12 Related party transactions

TFCPI is a related party by virtue of the fact that during the year ended 31 March 2005 it had the ability to exercise a controlling influence over the company through its holding of warrants to subscribe for ordinary shares in the company. On 4 May 2004, TFCPI transferred its holding of warrants to subscribe for ordinary shares in the company to CCL. On 7 May 2004 all of the aforementioned warrants were exercised. TFCPI holds 100% of the issued share capital of CCL, the largest group of which the company is a member and for which group accounts are drawn up.

The directors therefore consider TFCPI to be a related party.

During the year, £7,416 *(2004: £6,605)* has been accrued as interest payable to TFCPI on £50,000 subordinated loan notes bearing interest at a rate of 11% per annum. At 31 March 2005 total interest accruing to TFCPI was £22,463 *(2004: £15,047)*.

13 Ultimate parent company and parent undertakings of larger group of which the company is a member

The directors regard TFCP Holdings Limited, a company incorporated in Guernsey, as the ultimate parent and controlling party of the company.

Carmelite Capital Limited is the largest and smallest group of which the company is a member and for which group accounts are drawn up. Copies of the accounts are available to the public and may be obtained from Carmelite, 50 Victoria Embankment, Blackfriars, London EC4Y 0DX.