**Interactive Hotel Services Limited**

# Directors' report and consolidated financial statements

Registered number 4033274

Year ended 31 March 2010

# Contents

# Directors' report

The directors present their annual report and the audited financial statements for Interactive Hotel Services Limited ("the company") and its subsidiaries ("the Group") for the year ended 31 March 2010

**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 in the United Kingdom and Europe The systems deployed provide functionality n 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 and are discussed further n the business review below

*Financial overview*

The Group's trading operations are co-ordinated through a network of overseas subsidiaries and branches (as detailed in note 12) The Group's functional currency is Sterling, however since the trading transactions of the Group are predominantly carried out in Euros and both internal and external presentations of performance are made in Euros, the Group has elected to change this year to a presentation currency of Euros The Directors believe that this will aid the user of the accounts to better understand the underlying trading performance of the business

The Group's key financial performance indicators have been analysed as follows

*Operating loss*
The Group made an operating loss of €4 8m *(2009 €3 0m)* and a loss for the year before taxation of €13 3m *(2009 €4 2m)* Before exceptional restructuring costs the operating loss was €1 3m *(2009 €1 0m)* The loss before taxation increased from €4 2m to €13 3m reflecting the adverse movement of €7 7m of net foreign exchange losses and the increase in exceptional costs of €1 5m

*Cash Flow*
Cash flow generated from the Group's operating activities amounted to €29 7m *(2009 €47 6m)* The 38% decline on the prior year reflects the significant gain made in the prior year due to the strengthening of the Euro against Sterling Cash generated by the Group's operating activity reduced from €33 3m in 2009 to €32 6m in 2010 after removing currency movements. This was driven by exceptional cost increases and a lower improvement in working capital than that seen in 2009

Investment in capital expenditure amounted to €16 4m *(2009 €26 7m)* The fall in capital expenditure reflects the impact of the current economic environment on customers whose appetite for investment in new systems reduced during 2010

The Group generated a cash outflow after financing of €4 6m in the year compared to an inflow of €2 5m during 2009 After adjusting for currency movements cash outflows were €1 8m in 2010 and €11 8m in 2009 These outflows resulted after debt finance redemption of €10 6m and €10 3m respectively

The Group issued share capital to Victorian Capital LP Inc ("VCL"), the ultimate parent company, generating a premium of €1 1m *(2009 €nil)*

*Turnover*
During the year the Group had turnover of €90 7m *(2009 €109 4m)* a decrease of €18 7m (17 1%) on the previous year The overall decrease in turnover was largely due to 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 decreased by €4 2m from €34 7m to €30 5m in the year ended 31 March 2010, reflecting the impact of the lost retail revenue earned from guests using the in-room systems However, the gross margin increased from 31 7% to 33 6% due to an increase of the mix of higher margin rental revenue

# Directors' report *(continued)*

**Business Review** *(continued)*

*Net operating expenses*
Net operating expenses decreased by €4 2m (11 8%) from €35 7m to €31 7m in the year ended 31 March 2010 This decrease is attributable to the restructuring programs carried out over the last 2 years with a consequential reduction in the staff costs

*Strategy*

The strategy adopted by the Group during the year has been to continue to develop its products in order to increase the number of hotel rooms in which these products are installed We launched a major new product called Sensiq during 2009 Commercial installations of Sensiq systems will start in 2010

*Key performance indicators*
The Group's key performance indicators are Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) and the number of hotel rooms in which the Group's systems are installed

EBITDA for the year before exceptional restructuring costs decreased by €1 4m from €31 4m to €29 9m This performance in a challenging economic conditions reflects the strength of Quadriga's business model and the early actions of management to reduce costs The reconciliation of the operating loss to EBITDA is shown below

| | **2010** | 2009 |
|---|---|---|
| | **€'000** | €'000 |
| **Operating loss** | **(4,818)** | (3,002) |
| *Cost of sales adjustment* | | |
| Depreciation of tangible fixed assets | **27,790** | 28,824 |
| Amortisation of intangible fixed assets | **1,788** | 1,900 |
| *Net operating expenses adjustment* | | |
| Depreciation of tangible fixed assets | **1,639** | 1,610 |
| **EBITDA** | **26,399** | 29,332 |
| Exceptional restructuring costs | **3,528** | 2,041 |
| **EBITDA before exceptional restructuring costs** | **29,927** | 31,373 |

The number of hotels in which the Group's Genesis systems are installed grew by 3% in the period

*Going concern*
During the year, the Group's debt financing made up of 10% loan notes issued on the CISX (Guernsey Stock Exchange) has been reduced from €77 0m to €67 5m The notes are held by VCL the ultimate parent company The initial repayment date of the notes is 21 August 2011, however, an option exists (which is exercisable by Interactive Hotel Services Holdings Limited ('IHSH')) to extend to 21 August 2012

The company has net liabilities of €0 2m at the end of the year This is primarily due to intercompany balances with IHSH and Quadriga Worldwide Limited ( QWW") The company is not a trading entity, therefore it relies on the cash flows generated by the Group to be able to meet its liabilities as they fall due The Directors have considered the availability of these cash flows, their strength and timing and believe the company will meet its obligations as and when they arise

Consequently, the company and group financial statements have been prepared on a going concern basis

# Directors' report *(continued)*

**Business Review** *(continued)*

*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 7 year contracted revenue stream which generate operating cash flows sufficient to fund its capital expenditure requirements for the foreseeable future

**Dividends**

The directors do not recommend the payment of a dividend *(2009 €nil)*

**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 company 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 276 full time employees during the year ended 31 March 2010 *(2009 301)* 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

**Financial risk management objectives and policies**

The principal financial assets of the Group are bank balances and cash, trade and other receivables Its principal financial liabilities are trade and other payables and interest bearing loans from related parties 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 companies' exposure to customer and supplier payment default risk,
- amend the company's credit assessment policies,
- minimise the companies' 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 company seeks to arrange maintain sufficient cash reserves and un-drawn committed borrowing facilities

*Interest rate risk*
The exposure of the company 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

# Directors' report *(continued)*

**Financial risk management objectives and policies** *(continued)*

*Credit risk*

The company 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 company's transactions originate in Sterling and Euro with a minimal exposure to foreign exchange fluctuations The company 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 Euro

**Directors**

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

| | |
|---|---|
| D G E Naylor-Leyland | |
| I D Crabb | |
| K Gozzett | |
| R D Taylor | (appointed 16 March 2010) |
| W H A Murphy | (resigned 4 March 2010) |

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

**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

## Directors' report *(continued)*

**Political and charitable contributions**

The Group made no charitable contributions or political contributions during the year *(2009 €nil)*

**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

**K Gozzett**
*Director*

16 July 2010

Forum 1
Station Road
Theale
Berkshire
RG7 4RA

## 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)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period In preparing each of the group and parent company 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,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group 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 financial statements of Interactive Hotel Services Limited for the year ended 31 March 2010 set out on pages 9 to 32 The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 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 auditors' 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

As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/UKNP

### Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 March 2010 and of the group's loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

### Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

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

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

**Simon Baxter (Senior Statutory Auditor)**

**for and on behalf of KPMG Audit plc, Statutory Auditor**

Chartered Accountants

22 July 2010

## Consolidated profit and loss account
*for the year ended 31 March 2010*

| | Note | 2010 €'000 | 2009 €'000 |
|---|---|---|---|
| Group turnover | 2 | **90,725** | 109,418 |
| Cost of sales | 3 | **(60,266)** | (74,700) |
| **Gross profit** | | **30,459** | 34,718 |
| Net operating expenses | 3,4,5 | **(31,749)** | (35,679) |
| Exceptional financial restructuring costs | 6 | **(3,528)** | (2,041) |
| **Operating loss** | | **(4,818)** | (3,002) |
| Interest receivable and similar income | 7 | **18** | 7,117 |
| Interest payable and similar charges | 8 | **(8,491)** | (8,278) |
| **Loss on ordinary activities before taxation** | | **(13,291)** | (4,163) |
| Tax on profit on ordinary activities | 9 | **(325)** | (857) |
| **Loss for the financial year** | 18 | **(13,616)** | (5,020) |

All results relate to continuing operations

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

## Consolidated statement of total recognised gains and losses
*for the year ended 31 March 2010*

| | 2010 €'000 | 2009 €'000 |
|---|---|---|
| Loss for financial year | (13,616) | (5,020) |
| Foreign exchange (loss)/gain on translation of overseas opening assets | (455) | 1,550 |
| **Total recognised losses relating to the financial year** | (14,071) | (3,470) |

# Consolidated balance sheet
*at 31 March 2010*

| | Note | 2010 €'000 | 2010 €'000 | 2009 €'000 | 2009 €'000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Intangible assets | *10* | 9,997 | | 7,298 | |
| Tangible assets | *11* | 77,131 | | 94,331 | |
| | | | 87,128 | | 101,629 |
| **Current assets** | | | | | |
| Goods for resale and work in progress | | 3,582 | | 5,146 | |
| Debtors | *13* | 23,957 | | 26,253 | |
| Cash and cash equivalents | | 6,612 | | 11,155 | |
| | | 34,151 | | 42,554 | |
| **Creditors:** amounts falling due within one year | *14* | (30,120) | | (29,146) | |
| **Net current assets** | | | 4,031 | | 13,408 |
| **Total assets less current liabilities** | | | 91,159 | | 115,037 |
| **Creditors:** amounts falling due after more than one year | *15* | | (67,818) | | (77,080) |
| **Provisions for liabilities and charges** | *16* | | (2,821) | | (4,486) |
| **Net assets** | | | 20,520 | | 33,471 |
| **Capital and reserves** | | | | | |
| Called up share capital | *17* | | 237,337 | | 237,337 |
| Share premium | *18* | | 1,120 | | - |
| Profit and loss account | *18* | | (431,722) | | (409,236) |
| Other reserves | *18* | | 213,785 | | 205,370 |
| **Shareholders funds** | *19* | | 20,520 | | 33,471 |

The financial statements were approved by the board of directors on 16 July 2010 and were signed on its behalf by

K Gozzett
*Director*

# Company balance sheet
*at 31 March 2010*

| | Note | 2010 €'000 | 2010 €'000 | 2009 €'000 | 2009 €'000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Investments | *12* | | **6,722** | | 5,381 |
| **Current assets** | | | | | |
| Debtors | *13* | **204** | | 1,276 | |
| Cash at bank and in hand | | **141** | | 4 | |
| | | **345** | | 1,280 | |
| Creditors: amounts falling due after more than one year | *14* | **(521)** | | (1,280) | |
| **Net current liabilities** | | | **(176)** | | - |
| **Total assets less current liabilities** | | | **6,546** | | 5,381 |
| **Creditors: amounts falling due after more than one year** | *15* | | **-** | | (117) |
| **Net assets** | | | **6,546** | | 5,264 |
| **Capital and reserves** | | | | | |
| Called up share capital | *17* | | **237,337** | | 237,337 |
| Share premium | *18* | | **1,120** | | - |
| Profit and loss account-deficit | *18* | | **(231,911)** | | (232,073) |
| **Shareholder's funds** | *19* | | **6,546** | | 5,264 |

These financial statements for Interactive Hotel Services Limited, registered number 4033274, were approved by the board of directors on 16 July 2010 and were signed on its behalf by

K Gozzett
*Director*

## Consolidated cash flow statement
*for the year ended 31 March 2010*

| | Note | 2010<br>€'000 | 2009<br>€'000 |
|---|---|---|---|
| **Cash flow from operating activities** | 22 | **29,691** | 47,595 |
| **Returns on investments and servicing of finance** | 23 | **(8,872)** | (8,071) |
| **Taxation** | 23 | **502** | (42) |
| **Capital expenditure and financial investment** | 23 | **(16,434)** | (26,693) |
| Cash inflow before management of liquid resources and financing | | **4,887** | 12,789 |
| Financing – issue of share capital | 23 | **1,120** | - |
| – decrease in debt | 23 | **(10,649)** | (10,301) |
| **(Decrease)/increase in cash in the year** | | **(4,642)** | 2,488 |
| **Being:** | | | |
| (Increase)/decrease in bank overdraft | | **(99)** | 648 |
| (Decrease)/increase in cash and cash equivalents | | **(4,543)** | 1,840 |
| **(Decrease)/increase in cash in the year** | | **(4,642)** | 2,488 |

## Reconciliation of net cash flow to movement in net funds
*for the year ended 31 March 2010*

| | Note | 2010<br>€'000 | 2009<br>€'000 |
|---|---|---|---|
| **(Decrease)/increase in cash in the year** | 24 | **(4,642)** | 2,488 |
| Loans received | | - | (1,076) |
| Cash received on issue of notes payable | | - | (76,936) |
| Cash used to decrease debt financing | 24 | **10,863** | 88,313 |
| Change in net funds resulting from cash flows | | **6,221** | 12,789 |
| Non-cash interest | 24 | **(125)** | (516) |
| **Movement in net debt in the year** | | **6,096** | 12,273 |
| **Net debt at the beginning of the year** | | **(67,526)** | (79,799) |
| **Net debt at the end of the year** | 24 | **(61,430)** | (67,526) |

# 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

The Group's and Company's functional currency is the Pound Sterling, however since the trading transactions of the Group are predominantly carried out in Euros and both internal and external presentations of performance are made in Euros, the Group has elected to change this year to a presentation currency of Euros The Directors believe that this will aid the user of the accounts to better understand the underlying trading performance of the business The comparative figures have been presented in Euro applying the exchange rates in the foreign currency note below The overall effect of this is a change in presentational currency with effect from 1 April 2008

*Going concern*
During the year, the Group's debt financing made up of 10% loan notes issued on the CISX (Guernsey Stock Exchange) has been reduced from €77 0m to €67 5m The notes are held by VCL, the ultimate parent company The initial repayment date of the notes is 21 August 2011, however, an option exists (which is exercisable by Interactive Hotel Services Holdings Limited ("IHSH")) to extend to 21 August 2012

The company has net liabilities of €0 2m at the end of the year This is primarily due to intercompany balances with IHSH and Quadriga Worldwide Limited ("QWW") The company is not a trading entity, therefore it relies on the cash flows generated by the Group to be able to meet its liabilities as they fall due The Directors have considered the availability of these cash flows, their strength and timing and believe the company will meet its obligations as and when they arise

Consequently, the group and company financial statements have been prepared on a going concern basis

***Basis of consolidation***
The consolidated financial statements include the financial statements of the company and its subsidiary undertakings for the year ended 31 March 2010 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 408 of the Companies Act 2006 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

## Notes *(continued)*

### 1 Accounting policies *(continued)*

***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 |

***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 accounts on a straight-line basis over the term of the lease

***Foreign currencies***

*(i) foreign currency transactions*

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate ruling at the date of the transaction Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currency at the foreign exchange rate ruling at that date Foreign exchange differences arising on translation are recognised in the relevant captions of the income statement Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction

*(ii) financial statements of foreign operations*

The assets and liabilities of foreign operations whose functional currency is not the Pound Sterling are translated at foreign exchange rates ruling at the balance sheet date The revenues and expenses of these foreign operations are translated at an average rate for the period where this rate approximates to the foreign exchange rates ruling at the dates of the transactions Exchange differences arising from this retranslation of foreign operations are recognised directly in a separate component of equity (the translation reserve) These are released to the income statement upon disposal in full or in part

Income and expenses were translated at the average exchange rate for the year ended 31 March 2010 £1 €1 1296 *(2009 £1 €1 2049)* Assets and liabilities were translated at closing exchange rate as at 31 March 2010 £1 €1 1204 *(2009 £1 €1 0763)*

## Notes *(continued)*

### 1 Accounting policies *(continued)*

***Classification of financial instruments issued by the Group***

Following the adoption of FRS 25, financial instruments issued by the Group 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 (or Group as the case may be) 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 (or Group), 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

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy The finance cost on the financial liability component is correspondingly higher over the life of the instrument

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 (see dividends policy), 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

## 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 2010

| | 2010<br>€'000 | 2009<br>€'000 |
|---|---|---|
| **Turnover by origin ( excluding intercompany)** | | |
| UK | 14,622 | 21,797 |
| Europe | 75,902 | 85,976 |
| Rest of the World | 201 | 1,645 |
| | 90,725 | 109,418 |
| **Group segment loss before interest and taxation** | | |
| UK | (217) | (1,594) |
| Europe | (4,254) | (1,819) |
| Rest of the World | (347) | 411 |
| Group segment loss before interest and taxation | (4,818) | (3,002) |
| Interest receivable and similar income | 18 | 7,117 |
| Interest payable and similar charges | (8,491) | (8,278) |
| Loss on ordinary activities before taxation | (13,291) | (4,163) |
| **Segment net assets excluding intercompany** | | |
| UK | 29,694 | 32,408 |
| Europe | 58,387 | 78,328 |
| Rest of the World | 72 | 1,415 |
| | 88,153 | 112,151 |
| Notes payable/ Loans from ultimate parent company ( related party) | (67,508) | (77,080) |
| Interest accrued on Notes payable | (125) | (524) |
| Amounts due to ultimate parent company ( related party) | - | (1,076) |
| | 20,520 | 33,471 |

## Notes *(continued)*

### 3 Cost of sales and other operating expenses

| Cost of sales | 2010<br>€'000 | 2009<br>€'000 |
|---|---|---|
| Depreciation and other amounts written off rental assets | 27,790 | 28,824 |
| Amortisation of capitalised development costs | 1,788 | 1,900 |
| Other cost of sales | 30,688 | 43,976 |
| | 60,266 | 74,700 |

| Net operating expenses | 2010<br>€'000 | 2009<br>€'000 |
|---|---|---|
| Employee costs (see note 5) | 18,869 | 21,956 |
| Depreciation and other amounts written off other tangible fixed assets | 1,639 | 1,610 |
| Rentals payable under operating leases | 2,452 | 3,039 |
| Other net operating expenses | 8,789 | 9,074 |
| | 31,749 | 35,679 |

Included in net operating expenses is €927,894 (*2009 €1,039,000*) in respect of expenditure on research and development

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

| | 2010<br>€'000 | 2009<br>€'000 |
|---|---|---|
| Audit of these financial statements | 77 | 60 |
| Amounts receivable by auditors and their associates in respect of | | |
| Audit of financial statements of subsidiaries | 439 | 463 |
| Other services relating to taxation | 47 | 19 |
| Services relating to recruitment and remuneration | 8 | 6 |
| All other services | 3 | - |
| | 574 | 548 |

Having regard to the nature of the company's business, the analysis of operating costs as prescribed by the Companies Act 2006 is not meaningful In the circumstances, as prescribed by section 410 of the Companies Act 2006 the directors have adapted the prescribed format to the requirements of the company's business

## Notes *(continued)*

### 4 Remuneration of directors

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

| | 2010 | 2009 |
|---|---|---|
| | €'000 | €'000 |
| Directors' emoluments | 748 | 759 |

The aggregate of emoluments of the highest paid director was €748,000 *(2009 €751,000)*, and company pension contributions of €10,000 *(2009 €8,000)* were made on his behalf

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

### 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 | |
|---|---|---|
| | 2010 | 2009 |
| Sales | 59 | 65 |
| Operations and administration | 212 | 231 |
| Research and development | 5 | 5 |
| | 276 | 301 |

The aggregate payroll costs of these persons were as follows

| | 2010 | 2009 |
|---|---|---|
| | €'000 | €'000 |
| Wages and salaries | 15,316 | 17,642 |
| Social security costs | 2,705 | 3,269 |
| Other pension costs | 848 | 1,046 |
| | 18,869 | 21,957 |
| Redundancy costs | 3,311 | 1,266 |
| | 22,180 | 23,223 |

### 6 Exceptional restructuring costs

| | 2010 | 2009 |
|---|---|---|
| | €'000 | €'000 |
| *Restructuring costs* | | |
| Financial restructuring costs | - | - |
| Professional fees | 217 | 775 |
| Redundancy costs – wages and salaries *( note 5)* | 3,311 | 1,266 |
| | 3,528 | 2,041 |

## Notes *(continued)*

### 7 Interest receivable and similar income

| | 2010 | 2009 |
|---|---|---|
| | €'000 | € 000 |
| Bank interest and investment income | 18 | 323 |
| Net foreign exchange gains | - | 6 794 |
| | 18 | 7 117 |

### 8 Interest payable and similar charges

| | 2010 | 2009 |
|---|---|---|
| | €'000 | € 000 |
| Bank interest | 46 | 92 |
| Interest on related party loans | 7,504 | 8 186 |
| Interest on committed facilities | - | - |
| Net foreign exchange losses | 941 | - |
| | 8,491 | 8 278 |

Interest payable on loans from related parties is payable principally on the loan notes

### 9 Taxation

| | 2010 | 2009 |
|---|---|---|
| | €'000 | € 000 |
| *UK corporation tax* | | |
| Current tax on result for the year | - | - |
| Adjustments in respect of prior years | - | - |
| *Overseas tax* | | |
| Current tax on result for the year | 342 | 859 |
| Adjustments in respect of prior years | (17) | (2) |
| Tax charge on profit on ordinary activities | 325 | 857 |

## Notes *(continued)*

### 9 Taxation *(continued)*

The current tax charge for the year is higher *(2009 higher)* than the standard rate of corporation tax in the United Kingdom of 28% *(2009 28%)* The differences are explained below

| | 2010 | 2009 |
|---|---|---|
| | €'000 | €'000 |
| *Current tax reconciliation* | | |
| Loss on ordinary activities before tax | (13,291) | (4,163) |
| Current tax at 28% *(2009 28%)* | (3,721) | (1,166) |
| *Effects of* | | |
| Income not taxable/expenses not deductible for tax purposes | 131 | 355 |
| Interest not deductible for tax purposes | - | 164 |
| Capital allowances for year in excess of depreciation and amortisation charges | (472) | (265) |
| Disallowable impairment | 932 | - |
| Short term timing differences | 1,006 | 417 |
| Unutilised taxation losses | 1,426 | 531 |
| Overseas taxation | 372 | 436 |
| Other | (112) | 287 |
| Difference in overseas tax rates | 780 | 100 |
| Adjustments to tax charge in respect of previous years | (17) | (2) |
| Total current tax charge (see above) | 325 | 857 |

*Factors that may affect future tax charges*

It was announced in the 2010 Budget that the corporation tax rate will be cut from 28% to 27% from April 2011 The change does not have any effect on the company's assets or liablities at the year end

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

***Unrecognised deferred tax assets***

No deferred tax assets have 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

| | 2010 | 2009 |
|---|---|---|
| | €'000 | €'000 |
| Difference between accumulated depreciation and amortisation and capital allowances | 4,524 | 8,639 |
| Other timing differences | 544 | 1,139 |
| Unutilised taxation losses- trading | 74 | 944 |
| Unutilised taxation losses- non trading | 2,058 | 584 |
| | 7,200 | 11,306 |

## Notes *(continued)*

### 10 Intangible fixed assets

| | Goodwill | Development costs | Total |
|---|---|---|---|
| | €'000 | €'000 | €'000 |
| **Group** | | | |
| ***Cost*** | | | |
| At beginning of year | 178,327 | 12,474 | 190,801 |
| Additions | - | 4,207 | 4,207 |
| Translation | 7,306 | 484 | 7,790 |
| At end of year | 185,633 | 17,165 | 202,798 |
| ***Amortisation*** | | | |
| At beginning of year | 178,327 | 5,176 | 183,503 |
| Charge for year | - | 1,788 | 1,788 |
| Translation | 7,306 | 204 | 7,510 |
| At end of year | 185,633 | 7,168 | 192,801 |
| ***Net book value*** | | | |
| **At 31 March 2010** | - | 9,997 | 9,997 |
| At 31 March 2009 | - | 7,298 | 7,298 |

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 2010 *(2009 € nil)*

## Notes *(continued)*

### 11 Tangible fixed assets

| | Rental assets €'000 | Other assets €'000 | Total €'000 |
|---|---|---|---|
| **Group** | | | |
| *Cost* | | | |
| At beginning of year | 218,189 | 16,393 | 234,582 |
| Additions | 9,696 | 2,531 | 12,227 |
| Disposals | (26,951) | (392) | (27,343) |
| Translation | 5,266 | 549 | 5,815 |
| At end of year | 206,200 | 19,081 | 225,281 |
| *Depreciation* | | | |
| At beginning of year | 127,415 | 12,836 | 140,251 |
| Charge for year | 27,790 | 1,639 | 29,429 |
| On disposals | (24,711) | (493) | (25,204) |
| Translation | 3,227 | 447 | 3,674 |
| At end of year | 133,721 | 14,429 | 148,150 |
| *Net book value* | | | |
| **At 31 March 2010** | **72,479** | **4,652** | **77,131** |
| At 31 March 2009 | 90,774 | 3,557 | 94,331 |

Other assets include fixtures, equipment and vehicles

The net book value of rental assets includes €318k *(2009 €nil)* of assets capitalised under finance lease arrangements Depreciation charged to profit and loss account on these assets in the year amounted to €nil *(2009 €nil)*

## Notes *(continued)*

### 12 Fixed asset investments

| | |
|---|---|
| *Shares in subsidiary companies* | €'000 |
| ***Cost*** | |
| At beginning of the year | 246,895 |
| Investment in the year | 1,204 |
| Translation | 136 |
| At end of the year | **248,235** |
| ***Impairment*** | |
| At beginning and end of year | **241,513** |
| ***Net book value*** | |
| At beginning and end of year | **6,722** |

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 2010 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 has 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 Denmark 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

## Notes *(continued)*

### 12 Fixed asset investments *(continued)*

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 undernoted subsidiaries which act as intermediate holding companies, unless otherwise indicated An * indicates that the company has a direct interest

| | 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 | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| *Amounts falling due within one year* | **€'000** | €'000 | **€'000** | €'000 |
| Trade debtors | **17,533** | 19,848 | - | - |
| Other debtors | **4,543** | 3,964 | - | - |
| Amounts owed by fellow group undertakings | - | - | **201** | 1,269 |
| Prepayments and accrued income | **1,881** | 2,441 | **3** | 7 |
| | **23,957** | 26,253 | **204** | 1,276 |

## Notes *(continued)*

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **€'000** | €'000 | **€'000** | €'000 |
| Trade creditors | **3,755** | 4,767 | **-** | - |
| Customer deposits and rentals in advance | **6,818** | 5,718 | **-** | - |
| Finance Lease | **77** | - | **-** | - |
| Other taxes and social security | **1,076** | 1,060 | **-** | - |
| Other creditors | **3,919** | 2,895 | **11** | - |
| Corporation tax | **971** | 207 | | |
| Bank overdraft | **99** | - | **-** | - |
| Amounts owed to ultimate parent company ( related party) | **-** | 1,076 | | 1,076 |
| Amounts owed to fellow group undertakings | | - | **486** | 203 |
| Accruals and deferred income | **13,280** | 12,899 | **24** | 1 |
| Interest accrued on notes payable ( related party) | **125** | 524 | | |
| | **30,120** | 29,146 | **521** | 1,280 |

### 15 Creditors: amounts falling due after more than one year

| | Group | | Company | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **€'000** | €'000 | **€'000** | €'000 |
| Loans from ultimate parent company (related party) | **-** | 117 | **-** | 117 |
| Notes payable (related party) | **67,508** | 76,963 | **-** | - |
| Finance Lease | **310** | - | | |
| | **67,818** | 77,080 | **-** | 117 |

The maturity of obligations under finance leases and hire purchase contracts is as follows

| | **2010** | 2009 |
|---|---|---|
| | **€'000** | €'000 |
| Finance lease which expire | | |
| Within one year | **77** | - |
| In the second to fifth years inclusive | **310** | - |
| | **387** | - |
| Less future finance charges | **(32)** | |
| Capital commitment | **355** | - |

The 11% unsecured loan from the ultimate parent company Victorian Capital LP Inc ( "VCL") was fully redeemed on 31 March 2010

Interactive Hotel Services Holdings plc ("IHSH"), a subsidiary of the Group, issued notes, which are listed on the CISX (Guernsey Stock Exchange) The value of the notes at year end amounted to €67 5m (2009 €76 9m) and bear interest at 10% per annum

## Notes *(continued)*

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

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 €5 0m

Interest accrues daily and any interest outstanding at 4 March is added to the principal

At 31 March 2010 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 FRS13 "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 financial liabilities comprises fixed rate sterling denominated loans and Notes payable and finance leases, totalling €67 9m *(2009 €77 1m)* set out above

The weighted average interest rate in both years was 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 risk profile of the financial assets was as follows

| | **2010** | 2009 |
|---|---|---|
| | **€'000** | €'000 |
| Sterling | **1,153** | 4,219 |
| Euro | **4,141** | 4,931 |
| Other | **1,318** | 2,005 |
| | **6,612** | 11,155 |

*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

| | **2010** | 2009 |
|---|---|---|
| | **€'000** | €'000 |
| Euro | **4,141** | 4,931 |
| Other | **1,318** | 2,005 |
| | **5,459** | 6,936 |

## Notes *(continued)*

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

**Financial instruments** *(continued)*

*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

| | 2010 | 2009 |
|---|---|---|
| | €'000 | €'000 |
| In one year or less, or on demand | 77 | 117 |
| In more than two years but not more than five years | 67,818 | 76,963 |
| | 67,895 | 77,080 |

*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

| | 2010 | 2009 |
|---|---|---|
| | €'000 | €'000 |
| Expiring in one year or less | 9,438 | - |
| Expiring in more than one year but not more than two years | - | 2,152 |
| Expiring in more than two years | - | 1,000 |
| | 9,438 | 3,152 |

*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

| | Taxation | Other | Total |
|---|---|---|---|
| | €'000 | €'000 | €'000 |
| At beginning of year | 1,385 | 3,101 | 4,486 |
| Utilised during year | (455) | (2,927) | (3,382) |
| (Credit) / charge to profit and loss in year | (191) | 1,769 | 1,578 |
| Translation | 57 | 82 | 139 |
| At end of year | 796 | 2,025 | 2,821 |

The company has no provisions for liabilities and charges

## Notes *(continued)*

### 16 Provisions for liabilities and charges *(continued)*

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 on-going 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

### 17 Called up share capital

| | 2010 €'000 | 2009 €'000 |
|---|---|---|
| ***Allotted, called up and fully paid*** | | |
| 205,510,712 Ordinary shares of £1 each | **221,191** | 221,191 |
| 1,000 B Ordinary shares of £1 each | **1** | 1 |
| 15,000,000 'B' Preference shares of £1 each | **16,145** | 16,145 |
| | **237,337** | 237,337 |

On 6 September 2006, a shareholders' written resolution was passed which amended the company's Articles of Association including the rights of the preference shareholders In particular the preference shares are no longer redeemable or cumulative Further, any right to receive dividends is at the discretion of the company

On 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 relating to the calculated preferred participation and a return of capital before any return to the ordinary shareholders There are no voting rights attached to the preference shares

On 6 March 2008, the company's authorised share capital was increased from €286,218,934 to €286,220,198 by the creation of a new class of 1,000 B Ordinary shares of €1 26 each The holders of the B ordinary shares have the right to the first €10,792,408 of any profits or assets of the company The B-Ordinary shares have voting rights

On 30 March 2010 the company issued 1 ordinary share for a total consideration of €1,120,000

### 18 Reserves

| Group | Share premium €'000 | Profit and loss account €'000 | Other reserves €'000 | Total €'000 |
|---|---|---|---|---|
| At beginning of year | - | (409,236) | 205,370 | (203,866) |
| Loss for the financial year | - | (13,616) | - | (13,616) |
| Share capital issued | 1,120 | - | - | 1,120 |
| Net exchange differences | - | (8,870) | 8,415 | (455) |
| At end of year | 1,120 | (431,722) | 213,785 | (216,817) |

## Notes *(continued)*

### 18 Reserves *(continued)*

| Company | 2010 €'000 | 2009 €'000 |
|---|---|---|
| **Profit and loss account** | | |
| At beginning of year | **(232,073)** | (231,138) |
| Loss for the financial year | **(54)** | (18) |
| Foreign exchange movement | **216** | (917) |
| At end of year | **(231,911)** | (232,073) |

### 19 Reconciliation of movement in shareholders' funds

| | Group 2010 €'000 | Group 2009 €'000 | Company 2010 €'000 | Company 2009 €'000 |
|---|---|---|---|---|
| **Loss for the financial year** | **(13,616)** | (5,020) | **(54)** | (18) |
| Foreign exchange movements | **(455)** | 1,550 | **216** | (917) |
| Share capital issued | **1,120** | - | **1,120** | - |
| **Net (reduction) in / addition to shareholders' funds** | **(12,951)** | (3,470) | **1,282** | (935) |
| Opening shareholders' funds | **33,471** | 36,941 | **5,264** | 6,199 |
| **Closing shareholders' funds** | **20,520** | 33,471 | **6,546** | 5,264 |

### 20 Commitments

(a) The company had no capital commitments at the end of either financial year

The Group had the following capital commitments under finance lease arrangements

| | 2010 €'000 | 2009 €'000 |
|---|---|---|
| Finance lease which expire | | |
| Within one year | **77** | - |
| In the second to fifth years inclusive | **310** | - |
| | **387** | - |

## Notes *(continued)*

### 20 Commitments *(continued)*

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

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | **Land and buildings** | **Other** | Land and buildings | Other |
| **Group** | **€'000** | **€'000** | €'000 | €'000 |
| Operating leases which expire | | | | |
| Within one year | **746** | **663** | 721 | 648 |
| In the second to fifth years inclusive | **1,089** | **826** | 1,592 | 674 |
| Over five years | **537** | **-** | 581 | - |
| | **2,372** | **1,489** | 2,894 | 1,322 |

The majority of leases 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 €848,000 *(2009 €1,046,000)*

At 31 March 2010, contributions amounting to €39,000 were payable by the Group to the scheme *(2009 €38,000)*

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

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

| | 2010 | 2009 |
|---|---|---|
| | **€'000** | €'000 |
| Operating loss | **(4,818)** | (3,002) |
| Depreciation of tangible fixed assets | **29,429** | 30,433 |
| Amortisation of intangible assets | **1,788** | 1,900 |
| Net book value of tangible fixed asset disposals | **2,140** | 884 |
| Decrease in goods for resale | **1,563** | 2,893 |
| Decrease in debtors | **2,296** | 10,462 |
| Increase/(decrease) in creditors excluding bank overdraft | **1,895** | (11,141) |
| (Decrease)/increase in provisions | **(1,728)** | 886 |
| Translation differences | **(2,875)** | 14,280 |
| Net cash inflow from operating activities | **29,691** | 47,595 |

## Notes *(continued)*

### 23 Analysis of cash flows

| | 2010 €'000 | 2009 €'000 |
|---|---|---|
| **Returns on investment and servicing of finance** | | |
| Interest received | 18 | 323 |
| Interest paid | (8,890) | (8,394) |
| | (8,872) | (8,071) |
| **Taxation** | 502 | (42) |
| **Capital expenditure and financial investment** | | |
| Purchase of intangible fixed assets | (4,207) | (2,819) |
| Purchase of tangible fixed assets | (12,227) | (23,874) |
| | (16,434) | (26,693) |

| | 2010 €'000 | 2009 €'000 |
|---|---|---|
| **Financing** | | |
| New share capital issued | 1,120 | - |
| Repayment of loans from related parties due in less than one year | (10,649) | (88,313) |
| Increase in notes payable due after one year | - | 76,936 |
| Increase in loans from related parties due in less than one year | - | 1,076 |
| | (9,529) | (10,301) |

### 24 Analysis of net funds

| | Cash €'000 | Overdraft €'000 | Net debt payable after more than one year €'000 | Net debt payable within one year €'000 | Total €'000 |
|---|---|---|---|---|---|
| At beginning of year | 11,155 | - | (77,080) | (1,601) | (67,526) |
| Cash flow | (4,543) | (99) | - | - | (4,642) |
| Loans repaid in period | - | - | 9,262 | 1,601 | 10,863 |
| Non-cash interest | - | - | - | (125) | (125) |
| At end of year | 6,612 | (99) | (67,818) | (125) | (61,430) |

## Notes *(continued)*

### 25 Related party transactions

During the year ended 31 March 2009 the only related party with which the Group and Company had transactions with was Victorian Capital LP Inc ( VCL' )as set out in note 26

The following transactions existed between the Group and VCL during the year

a) The Group had repaid the Loan note bearing interest at 11% with the accrued interest

b) Of the €76,962,566 10% Notes listed on the CISX (Guernsey Stock Exchange), €12 607,981 was repaid of the principal loan with interest amounting to €7,488 672 in the year Interest accrued on these notes to the year end was €124 987 and the principal outstanding at the end of the year was €67 508.028 At the year end VCL held €67,508,028 (100%) of these notes

Further details on these notes are contained in note 15

**2009**

The following transactions existed between the Group and VCL during the year ended 31 March 2009

a) The Group had a €53,815 Loan note bearing interest at 11% per annum Interest accrued during the year was €10,763 and the amount outstanding at the end of the year was €117,317 comprising the principal of €53,815 plus accrued interest of €63,502 The loan was repayable on 6 September 2010

b) Of the 10% revolving loan notes of €88,946,000 issued on 6 March 2008, €1,393,000 was repaid on 5 September 2008 and €4,820,000 was repaid on 23 December 2008 Interest accrued on the loan in the year was €6,757,000 On 5 March 2009 the total amount outstanding of€76,969,000 was repaid in full

c) On 5 March 2009 Interactive Hotel Services Holdings plc ("IHSH"), a subsidiary company, issued 10% notes in the amount of €76,962,566 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 year end was €524,294 and the principal outstanding at the year end was €76,962,566 At the year end VCL held €76,962,566 (100%) of these notes

### 26 Ultimate parent company and parent undertakings of larger Group

The directors regard Victorian Capital LP Inc, a Guernsey incorporated limited partnership, as the ultimate parent company and ultimate controlling party