

Kew Green Hotels Limited

Financial statements

For the year ended 31 August 2005



A18
COMPANIES HOUSE

AMGD0FC4

288
12/05/2006

Company no.3993178

Company Information

Company registration number

3993178

Registered office

Queen's Wharf
Queen Caroline Street
Hammersmith
LONDON
W6 9RQ

Directors

Mr J Lamb
Mr P Johnson
Mr J Richardson
Mr F Ternofsky
Mr G Sidwell
Mr G Stanley (alternate director to Mr G
Sidwell)

Secretary

Mr J Lamb

Bankers

Bank of Scotland

Solicitors

Taylor Wessing
London

Auditors

Grant Thornton UK LLP
Chartered Accountants
Registered Auditors
2 Parkstone Road
POOLE
Dorset
BH15 2PJ

Index to the financial statements

| | |
|---|----------------|
| Chairman's statement | 3 |
| Report of the directors | 4 - 5 |
| Report of the independent auditors | 6 - 7 |
| Principal accounting policies | 8 - 10 |
| Group profit and loss account | 11 |
| Group balance sheet | 12 |
| Balance sheet | 13 |
| Group cash flow statement | 14 |
| Notes to the financial statements | 15 - 28 |

Chairman's statement

The last 12 months have seen a dramatic step change in the scale of our business. In December we acquired 11 Courtyard by Marriott hotels from Whitbread in a deal that added a third world class brand to our portfolio. In January we opened our third Express by Holiday Inn at Stansted Airport and in April we opened our third Days Hotel in Luton. In the space of a year, Kew Green Hotels has expanded from 4 to 17 trading units and from 150 employees to nearly 800. Such rapid growth brings many operational and financial challenges. I am delighted to report that management have stepped up to the challenge with skill and enthusiasm and the integration of the Courtyard Hotels and the new openings have been successful. Crucially from a shareholder perspective, the changes to the business have been financed in a way that ensures the continued financial stability of the Group. As a management team we remain focused on a sensible financial structure and strong profit delivery.

Over the next twelve months we face further challenges. We have recently embarked on an ambitious renovation programme across the Courtyard by Marriott estate. Our organic growth continues with a new Holiday Inn in Norwich currently under construction. This 150-bedroom city centre hotel will open towards the end of 2006 and will be an excellent addition to our existing portfolio. Our strategy remains to continue to grow the business organically, finding new sites and by selective acquisitions and we are hopeful to be successful on both counts in the next 12 months.

The bedrock of any successful business is its people and we are lucky to have a first class dedicated workforce. Hospitality is a demanding, yet rewarding industry and I would like to take this opportunity to formally thank all of our staff for their considerable contributions over the last twelve months. Change is not always easy to deal with but if properly embraced and managed can be very exciting. I look forward to another challenging and successful twelve months ahead at Kew Green Hotels.

F Ternofsky
Chairman

Date: 2 May 2006

Report of the directors

The directors present their report and the financial statements of the group for the year ended 31 August 2005.

Principal activities and business review

The principal activity of the group is the development and operation of hotels.

During the year the group operated three Express by Holiday Inn hotels in Nottingham, Portsmouth and Stansted (which commenced trading in January 2005) and three Days Hotels in Derby, Luton (which commenced trading in May 2005) and Wakefield.

In a joint venture with Close Brothers Investment Management, the group has completed the construction of a 183 bedroom Express by Holiday Inn in Stansted.

In December 2004, the company acquired from Whitbread Plc the business of operating and managing a portfolio of eleven Courtyard by Marriott hotels situated in Coventry, Ipswich, Leamington Spa, Leeds/Bradford, Lincoln, Milton Keynes, Northampton, Northampton West (Daventry), Reading, Rotherham and Slough. The freeholds or long leaseholds have been or will be acquired from Whitbread Plc by a third party property investment company.

There was a profit for the year after taxation amounting to £1,270,739 (2004 - loss £6,506).

Results and dividends

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.

The directors have not recommended a dividend.

The directors and their interests

The directors who served the company during the year together with their beneficial interests in the shares of the company were as follows:

| | Ordinary Shares of £0.10 each | |
|---|--------------------------------------|-------------------------|
| | At 31 August 2004 | |
| | At | or later date of |
| | 31 August 2005 | appointment |
| Mr J Lamb | 12,980 | 5,500 |
| Mr P Johnson | 118,000 | 50,000 |
| Mr J Richardson | 118,000 | 50,000 |
| Mr F Ternofsky | 7,080 | 3,000 |
| Mr G Sidwell | - | - |
| Mr G Stanley (alternate director to Mr G Sidwell) | - | - |

Mr J Lamb was appointed as a director on 29 April 2005.

Report of the directors

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the group at the end of the year and of the group's profit or loss for the year then ended.

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

select suitable accounting policies, as described on pages 8 to 10; and then apply them consistently;

make judgements and estimates that are reasonable and prudent;

and prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 group and to enable them to ensure that the financial statements comply with the Companies Act 1985. The directors are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disabled employees

The group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

Employee involvement

The group has continued its practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the group. This has been principally achieved through regular meetings between management and employees.

It is the policy of the group that training, career development and promotion opportunities should be available to all employees.

Auditors

Grant Thornton UK LLP offer themselves for reappointment as auditors in accordance with section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD



J Richardson
Director

Date: *May 2nd 2006*

Report of the independent auditors to the members of Kew Green Hotels Limited

We have audited the financial statements of Kew Green Hotels Limited for the year ended 31 August 2005 which comprise the principal accounting policies, the group profit and loss account, the balance sheets, the group cash flow statement and notes 1 to 27. 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 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

The directors' responsibilities for preparing the report of the directors and the financial statements in accordance with United Kingdom law and accounting standards 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 United Kingdom auditing standards.

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.

We read other information contained in the Directors' Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Report of the independent auditors to the members of Kew Green Hotels Limited (continued)

Basis of opinion

We conducted our audit in accordance with United Kingdom 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 group'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 affairs of the company and of the group as at 31 August 2005 and of the profit of the group for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS

POOLE

8 May 2006

Principal accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention.

The principal accounting policies of the group, which have remained unchanged from the previous year, are set out below.

Basis of consolidation

The group financial statements consolidate those of the company and of its subsidiary undertakings (see Note 9) drawn up to 31 August 2005. Acquisitions of subsidiaries and other businesses are dealt with by the acquisition method of accounting. As a consolidated profit and loss account is published, a separate profit and loss account for the parent company is omitted from the group accounts by virtue of section 230 of the Companies Act 1985.

Joint venture

The group's share of the result of its joint venture is included in the group profit and loss account. The group balance sheet includes the investment in its joint venture at the group's share of net assets.

The company balance sheet shows the investment in the joint venture at cost.

Goodwill

Purchased goodwill, representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired, is capitalised and is amortised on a straight line basis over its useful economic life of 20 years.

Turnover

Turnover is the value of goods and services sold to third parties as part of the group's trading activities, after deducting value added tax.

Hotels operated under management agreements

Following the group's acquisition of the operations of the eleven Courtyard by Marriott hotels, the two long leasehold hotels, Rotherham and Slough, remained under the effective ownership of Whitbread Plc pending the assignment of the long leases to the third party property investment company. The Slough long leasehold property was assigned on 18 March 2005. For the period 9 December 2004 to 18 March 2005 for the Slough hotel, and for the period 9 December 2004 to 31 August 2005 for the Rotherham hotel (which has not yet been formally assigned), the group operated these hotels under a management agreement whereby all operating profits/(losses) accrued to the group. Consequently, the full trading activities of these hotels have been included in these financial statements.

Intangible fixed assets

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Franchise application fees - 20% straight line

Investments

Investments are included at cost.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Fixtures, fittings and equipment - up to 10 years straight line
Stamp duty on leases - straight line over life of lease

Hotel operating items

The hotels' initial operating items such as glass and china and certain other loose equipment of the hotels have been capitalised. The cost of replacement of these items will be charged to revenue in the year in which it is incurred.

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Deferred taxation

Deferred taxation is recognised on all timing differences where the transactions or events that give the group an obligation to pay more tax in the future, or a right to pay less tax in the future, have accrued by the balance sheet date. Deferred tax is measured using current rates of tax.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Finance lease agreements

Where the group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated in accordance with the above depreciation policies. Future instalments under such leases, net of finance charges, are included with creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account on a straight line basis, and the capital element which reduces the outstanding obligation for future instalments.

Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease. All the hotels in the group's operating subsidiaries are considered to be held under operating lease agreements.

Issue costs

Issue costs incurred in respect of raising equity finance have been written off to the share premium account as permitted by section 130(2)(b) of the Companies Act 1985. Issue costs incurred in respect of raising debt finance have been offset against the gross borrowings and will be written off to the profit and loss account as finance costs over the maturity periods of the borrowings.

Provisions for liabilities and charges

As the hotels are leased, and the group companies have a commitment to the landlords to keep the hotels in sound repair and condition, provisions are made for dilapidations and other repairs over the life of the leases.

Rent free periods

In accordance with UITF 28, Operating lease incentives, the initial rent free periods for the hotels are allocated over the period to the date of the first rent review.

Group profit and loss account

| | Note | 2005 £ | 2005 £ | 2004 £ | 2004 £ |
|---|------|-------------------|-------------------|----------------|------------------|
| Turnover: group and share of joint venture | | | 26,871,503 | | 5,393,739 |
| Less: share of joint venture's turnover | | | (1,027,503) | | - |
| | | | <u>25,844,000</u> | | <u>5,393,739</u> |
| Group turnover | | | | | |
| Continuing operations | 2 | 7,835,037 | | 5,393,739 | |
| Acquisitions | 2 | <u>18,008,963</u> | | - | |
| | | | 25,844,000 | | 5,393,739 |
| Cost of sales | 1 | | <u>4,478,738</u> | | <u>879,929</u> |
| Gross profit | | | 21,365,262 | | 4,513,810 |
| Other operating income and charges | 1 | | <u>19,263,980</u> | | <u>4,317,483</u> |
| Total operating profit before amortisation | | 2,361,385 | | 196,327 | |
| Goodwill amortisation | | <u>260,103</u> | | - | |
| Total operating profit after amortisation | | <u>2,101,282</u> | | <u>196,327</u> | |
| Operating profit | 2 | | | | |
| Continuing operations | | 1,113,741 | | 196,327 | |
| Acquisitions | | <u>987,541</u> | | - | |
| | | | 2,101,282 | | 196,327 |
| Share of operating profit/(loss) of joint venture | | | <u>76,040</u> | | <u>(6,765)</u> |
| Total operating profit | | | 2,177,322 | | 189,562 |
| Net interest and similar charges | 3 | | <u>(849,754)</u> | | <u>(196,068)</u> |
| Profit/(loss) on ordinary activities before taxation | | | 1,327,568 | | (6,506) |
| Tax on profit/(loss) on ordinary activities | 5 | | <u>(56,829)</u> | | - |
| Retained profit/(loss) for the financial year | 6/18 | | <u>1,270,739</u> | | <u>(6,506)</u> |

All of the activities of the group are classed as continuing.

The company has taken advantage of section 230 of the Companies Act 1985 not to publish its own profit and loss account.

The group has no recognised gains or losses other than the results for the year as set out above.

Group balance sheet

| | Note | 2005 £ | 2005 £ | 2004 £ | 2004 £ |
|--|------|-------------|------------------|----------------|--------------------|
| Fixed assets | 7 | | | | |
| Intangible assets | | | | | |
| Goodwill | | | 6,675,971 | | - |
| Other | | | 23,712 | | 37,248 |
| | | | <u>6,699,683</u> | | <u>37,248</u> |
| Tangible assets | 8 | | 1,713,189 | | 1,292,334 |
| | | | <u>8,412,872</u> | | <u>1,329,582</u> |
| Investment in joint venture | 9 | | | | |
| Share of gross assets | | 4,846,208 | | 2,880,486 | |
| Share of gross liabilities | | (4,607,218) | | (2,544,560) | |
| | | | <u>238,990</u> | | <u>335,926</u> |
| | | | <u>8,651,862</u> | | <u>1,665,508</u> |
| Current assets | | | | | |
| Stocks | 10 | 134,014 | | 20,369 | |
| Debtors | 11 | 2,799,141 | | 444,358 | |
| Cash at bank and in hand | | 3,715,789 | | 482,861 | |
| | | | <u>6,648,944</u> | <u>947,588</u> | |
| Creditors: amounts falling due within one year | 12 | 7,357,751 | | 1,648,319 | |
| Net current liabilities | | | <u>(708,807)</u> | | <u>(700,731)</u> |
| Total assets less current liabilities | | | <u>7,943,055</u> | | <u>964,777</u> |
| Creditors: amounts falling due after more than one year | 13 | | 6,639,703 | | 2,482,512 |
| Provisions for liabilities and charges | 15 | | 1,280,388 | | - |
| | | | <u>22,964</u> | | <u>(1,517,735)</u> |
| Capital and reserves | | | | | |
| Called-up equity share capital | 17 | | 46,846 | | 19,850 |
| Share premium account | 18 | | 394,639 | | 151,675 |
| Profit and loss account | 18 | | (418,521) | | (1,689,260) |
| Shareholders' funds | 19 | | <u>22,964</u> | | <u>(1,517,735)</u> |

These financial statements were approved by the Board of Directors on 02/05/06 and are signed on their behalf by:


Mr J Richardson

Balance sheet

| | Note | 2005 £ | 2005 £ | 2004 £ | 2004 £ |
|--|------|------------------|------------------|----------------|------------------|
| Fixed assets | | | | | |
| Intangible assets | 7 | | 23,712 | | 37,248 |
| Tangible assets | 8 | | 3,118 | | 5,457 |
| Investments | 9 | | 8 | | 6 |
| | | | <u>26,838</u> | | <u>42,711</u> |
| Current assets | | | | | |
| Debtors | 11 | 2,468,624 | | 1,197,674 | |
| Cash at bank and in hand | | <u>3,627,418</u> | | <u>411,941</u> | |
| | | 6,096,042 | | 1,609,615 | |
| Creditors: amounts falling due within one year | 12 | <u>2,595,681</u> | | <u>182,116</u> | |
| Net current assets | | | <u>3,500,361</u> | | <u>1,427,499</u> |
| Total assets less current liabilities | | | <u>3,527,199</u> | | <u>1,470,210</u> |
| Creditors: amounts falling due after more than one year | 13 | | <u>3,262,279</u> | | <u>2,269,199</u> |
| | | | <u>264,920</u> | | <u>(798,989)</u> |
| Capital and reserves | | | | | |
| Called up equity share capital | 17 | | 46,846 | | 19,850 |
| Share premium account | 18 | | 394,639 | | 151,675 |
| Profit and loss account | 18 | | (176,565) | | (970,514) |
| Shareholders' funds | | | <u>264,920</u> | | <u>(798,989)</u> |

These financial statements were approved by the Board of Directors on 02/05/06 and are signed on their behalf by:



Mr J Richardson

Group cash flow statement

| | Note | 2005 £ | 2005 £ | 2004 £ | 2004 £ |
|--|------|-------------|--------------------|-----------|------------------|
| Net cash inflow from operations | 20 | | 4,942,160 | | 921,922 |
| Returns on investments and servicing of finance | | | | | |
| Interest received | | 74,210 | | 13,809 | |
| Interest and other finance charges paid | | (531,402) | | (162,462) | |
| Debt finance costs paid | | (440,445) | | - | |
| Finance lease interest paid | | (19,656) | | (17,188) | |
| Net cash outflow from returns on investments and servicing of finance | | | (917,293) | | (165,841) |
| Capital expenditure | | | | | |
| Purchase of fixed assets | | | (568,269) | | (406,291) |
| Acquisitions | | | | | |
| Investment in joint venture | | (125,000) | | (187,500) | |
| Acquisition | | (6,586,739) | | - | |
| Net cash acquired with acquisition | | 1,100,000 | | - | |
| Net cash outflow from acquisitions | | | (5,611,739) | | (187,500) |
| Financing | | | | | |
| Issue of shares | | 269,960 | | - | |
| Gross receipts from borrowing | 21 | 5,550,500 | | - | |
| Repayment of borrowing | 21 | (225,000) | | - | |
| Capital element of finance lease rentals | 21 | (207,391) | | (187,020) | |
| Net cash inflow/(outflow) from financing | | | 5,388,069 | | (187,020) |
| Increase/(decrease) in cash | 21 | | 3,232,928 | | (24,730) |

Notes to the financial statements

1 Cost of sales and other operating income and charges

| | Continuing operations £ | Acquired operations £ | Total £ |
|-------------------------------------|-------------------------------|-----------------------------|-------------------|
| Year ended 31 August 2005 | | | |
| Cost of sales | <u>1,157,100</u> | <u>3,321,638</u> | <u>4,478,738</u> |
| Other operating income and charges: | | | |
| Administrative expenses | 5,651,307 | 13,699,784 | 19,351,091 |
| Other operating income | (87,111) | - | (87,111) |
| | <u>5,564,196</u> | <u>13,699,784</u> | <u>19,263,980</u> |
| Year ended 31 August 2004 | | | |
| Cost of sales | <u>879,929</u> | <u>-</u> | <u>879,929</u> |
| Other operating income and charges: | | | |
| Administrative expenses | 4,403,906 | - | 4,403,906 |
| Other operating income | (86,423) | - | (86,423) |
| | <u>4,317,483</u> | <u>-</u> | <u>4,317,483</u> |

2 Turnover and profit/(loss) on ordinary activities before taxation

The turnover and profit/(loss) before tax are attributable to the principal activity of the group.
The turnover arises wholly in the United Kingdom.

| | 2005 £ | 2004 £ |
|---|------------------|------------------|
| Auditors' remuneration | | |
| Audit services | 28,000 | 16,865 |
| Depreciation and amortisation | | |
| Goodwill | 260,103 | - |
| Other intangible fixed assets | 13,536 | 13,534 |
| Tangible fixed assets, owned | 88,522 | 63,667 |
| Tangible fixed assets, held under finance leases and hire purchase contracts | 69,769 | 63,958 |
| Other operating lease rentals | <u>5,849,555</u> | <u>1,355,991</u> |

3 Net interest and other similar charges

| | 2005 £ | 2004 £ |
|--|----------------|----------------|
| On bank loans and overdrafts | 618,267 | 162,281 |
| Debt finance costs | 89,024 | 30,408 |
| Finance charges in respect of finance leases | 19,656 | 17,188 |
| Share of net interest payable by joint venture | 197,017 | - |
| | <u>923,964</u> | <u>209,877</u> |
| Other interest receivable and similar income | (74,210) | (13,809) |
| | <u>849,754</u> | <u>196,068</u> |

4 Directors and employees

Staff costs during the year were as follows:

| | 2005 £ | 2004 £ |
|-----------------------|------------------|------------------|
| Wages and salaries | 6,334,158 | 980,075 |
| Social security costs | 529,947 | 124,558 |
| Other pension costs | 33,687 | 22,709 |
| | <u>6,897,792</u> | <u>1,127,342</u> |

The average number of employees of the group during the year was 770 (including all the employees taken on following the acquisition of the operations of the Courtyard by Marriott hotels) (2004: 71).

Remuneration in respect of directors was as follows:

| | 2005 £ | 2004 £ |
|---|----------------|----------------|
| Emoluments | 331,611 | 210,610 |
| Pension contributions to money purchase schemes | 33,687 | 21,250 |
| Payments to third parties for directors' services | 10,000 | 10,000 |
| | <u>375,298</u> | <u>241,860</u> |

During the year, 3 directors (2004: 2) received pension contributions.

The amounts set out above include remuneration in respect of the highest paid director as follows:

| | 2005 £ | 2004 £ |
|---|-----------|-----------|
| Emoluments | 119,652 | 98,044 |
| Pension contributions to money purchase schemes | 13,073 | 10,625 |

5 Tax on profit/(loss) on ordinary activities

(a) Analysis of tax charge in the year

| | 2005 £ | 2005 £ | 2004 £ |
|---|-----------|-----------|-----------|
| Current tax: | | | |
| Corporation tax at 30% | | 33,640 | - |
| Deferred tax: | | | |
| Deferred tax credit for year | (77,770) | | - |
| Share of deferred tax charge of joint venture | 100,959 | | - |
| | | 23,189 | - |
| Tax on profit/(loss) on ordinary activities | | 56,829 | - |

Unrelieved tax losses of £835,000 remain available to offset against future taxable trading profits.

(b) Factors affecting the tax charge for the year

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2004: 30%). The differences are explained as follows:

| | 2005 £ | 2004 £ |
|---|-----------|-----------|
| Profit/(loss) on ordinary activities before taxation | 1,327,568 | (6,506) |
| Profit/(loss) on ordinary activities by rate of tax | 398,270 | (1,952) |
| Expenses not deductible for tax purposes | 35,932 | 16,157 |
| Capital allowances for period in excess of depreciation | (56,990) | (79,948) |
| Profits taxed at a lower rate | (6,124) | (600) |
| Group brought forward losses utilised | (315,416) | (159,290) |
| Group losses not utilised | 41,208 | 226,976 |
| Additional losses claimed via consortium relief | (71,170) | 2,024 |
| Other timing differences | 7,930 | (3,367) |
| Total current tax (note 5 (a)) | 33,640 | - |

6 Profit attributable to members of the parent company

The profit dealt with in the accounts of the parent company was £793,949 (2004: £504,158).

7 Intangible fixed assets

| | The group | | The company | |
|-----------------------------|-------------------------|----------------------|----------------------|----------------------|
| | 2005 | 2004 | 2005 | 2004 |
| | £ | £ | £ | £ |
| Goodwill (a) | 6,675,971 | - | - | - |
| Other intangible assets (b) | 23,712 | 37,248 | 23,712 | 37,248 |
| | <u>6,699,683</u> | <u>37,248</u> | <u>23,712</u> | <u>37,248</u> |

(a) Goodwill

| The group | Purchased goodwill |
|-----------------------------------|---------------------------|
| | £ |
| Cost | |
| At 1 September 2004 | - |
| Acquisition | 6,936,074 |
| At 31 August 2005 | <u>6,936,074</u> |
| Amortisation | |
| At 1 September 2004 | - |
| Provided in the year | 260,103 |
| At 31 August 2005 | <u>260,103</u> |
| Net book amount at 31 August 2005 | <u>6,675,971</u> |
| Net book amount at 31 August 2004 | <u>-</u> |

(b) Other intangible assets

| The group and the company | Franchise application fees |
|--|-----------------------------------|
| | £ |
| Cost | |
| At 1 September 2004 and 31 August 2005 | <u>67,690</u> |
| Amortisation | |
| At 1 September 2004 | 30,442 |
| Provided in the year | 13,536 |
| At 31 August 2005 | <u>43,978</u> |
| Net book amount at 31 August 2005 | <u>23,712</u> |
| Net book amount at 31 August 2004 | <u>37,248</u> |

8 Tangible fixed assets

| The group | Stamp duty on leases £ | Fixtures, fittings and equipment £ | Total £ |
|-----------------------------------|---------------------------------------|---|-------------------------|
| Cost | | | |
| At 1 September 2004 | 38,995 | 1,407,651 | 1,446,646 |
| Additions | 31,550 | 547,596 | 579,146 |
| At 31 August 2005 | <u>70,545</u> | <u>1,955,247</u> | <u>2,025,792</u> |
| Depreciation | | | |
| At 1 September 2004 | 705 | 153,607 | 154,312 |
| Provided in the year | 720 | 157,571 | 158,291 |
| At 31 August 2005 | <u>1,425</u> | <u>311,178</u> | <u>312,603</u> |
| Net book amount at 31 August 2005 | <u>69,120</u> | <u>1,644,069</u> | <u>1,713,189</u> |
| Net book amount at 31 August 2004 | <u>38,290</u> | <u>1,254,044</u> | <u>1,292,334</u> |

Included within the net book value of £1,713,189 is £550,498 (2004: £620,267) relating to assets held under finance leases and hire purchase agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £69,769 (2004: £63,958).

The company

| | Fixtures, fittings and equipment £ |
|--|---|
| Cost | |
| At 1 September 2004 and 31 August 2005 | <u>9,446</u> |
| Depreciation | |
| At 1 September 2004 | 3,989 |
| Charge for the year | 2,339 |
| At 31 August 2005 | <u>6,328</u> |
| Net book amount at 31 August 2005 | <u>3,118</u> |
| Net book amount at 31 August 2004 | <u>5,457</u> |

9 Fixed assets investments

Total fixed asset investments comprise:

| | The group | | The company | |
|------------------------------|-----------------------|-----------------------|--------------------|-----------------|
| | 2005 | 2004 | 2005 | 2004 |
| | £ | £ | £ | £ |
| Interest in joint venture | 238,990 | 335,926 | - | - |
| Shares in group undertakings | - | - | 8 | 6 |
| | <u>238,990</u> | <u>335,926</u> | <u>8</u> | <u>6</u> |

Interest in joint venture

The group has a 50% joint venture interest (through its wholly owned subsidiary, Kew Green (Stansted) Limited) in Kew Green VCT (Stansted) Limited. Kew Green VCT (Stansted) Limited, a company incorporated in the United Kingdom, operates an Express by Holiday Inn hotel at a long leasehold site at Stansted Airport.

The group

| | Joint venture £ |
|---|--------------------------------|
| Cost | |
| At 1 September 2004 | 335,926 |
| Additional investment in year | 125,000 |
| Share of operating profit of joint venture | 76,040 |
| Share of interest charge of joint venture | (197,017) |
| Share of deferred tax charge of joint venture | (100,959) |
| At 31 August 2005 | <u>238,990</u> |

The group's share of the results, assets and liabilities of Kew Green VCT (Stansted) Limited was:

| | 2005 | 2004 |
|--|--------------------|-------------|
| | £ | £ |
| Turnover | 1,027,503 | - |
| Loss before tax | (120,977) | (6,765) |
| Fixed assets | 4,360,349 | 2,414,277 |
| Current assets | 485,859 | 466,209 |
| Liabilities due within one year | (912,785) | (41,982) |
| Liabilities due after one year or more | (2,662,451) | (1,849,453) |
| Deferred taxation | (100,959) | - |
| Provisions for liabilities and charges | (40,398) | - |

9 Fixed assets investments (continued)
The company

| | Subsidiaries |
|---------------------|---------------------|
| | £ |
| Cost | |
| At 1 September 2004 | 6 |
| Additions | 2 |
| At 31 August 2005 | <u>8</u> |

The company has the following wholly owned subsidiaries, all of which operate hotels (except where stated) and all of which are incorporated in the United Kingdom.

Kew Green Hotels (Derby) Limited
 Kew Green Hotels (Nottingham) Limited
 Kew Green Hotels (Portsmouth) Limited
 Kew Green Hotels (Stansted) Limited
 Kew Green Hotels (Luton) Limited
 Kew Green Hotels (Wakefield) Limited
 Kew Green (Square) Limited
 Kew Green Hotels (Norwich) Limited (currently dormant)

10 Stocks
The group

| | 2005 | 2004 |
|------------------------------|----------------|---------------|
| | £ | £ |
| Trading stock held at hotels | <u>134,014</u> | <u>20,369</u> |

11 Debtors

| | The group | | The company | |
|------------------------------------|------------------|----------------|--------------------|------------------|
| | 2005 | 2004 | 2005 | 2004 |
| | £ | £ | £ | £ |
| Trade debtors | 1,043,055 | 167,911 | - | - |
| Amounts owed by group undertakings | - | - | 2,395,265 | 1,164,534 |
| Other debtors | 73,070 | 32,227 | 61,981 | 25,673 |
| Deferred tax asset (see note 16) | 111,107 | - | - | - |
| Prepayments and accrued income | 1,571,909 | 244,220 | 11,378 | 7,467 |
| | <u>2,799,141</u> | <u>444,358</u> | <u>2,468,624</u> | <u>1,197,674</u> |

12 Creditors: amounts falling due within one year

| | The group | | The company | |
|--|------------------|------------------|--------------------|----------------|
| | 2005 | 2004 | 2005 | 2004 |
| | £ | £ | £ | £ |
| Bank loans (see note 13) | 579,739 | - | 312,500 | - |
| Other loans (see note 13) | 29,119 | - | 29,119 | - |
| Payments received on account | 444,576 | - | - | - |
| Trade creditors | 1,751,070 | 459,794 | 7,661 | 4,829 |
| Amounts owed to group undertakings | - | - | 1,938,650 | - |
| Corporation tax | 33,640 | - | 13,000 | - |
| Social security and other taxes | 1,089,623 | 197,398 | 62,307 | 31,828 |
| Other creditors | 890,322 | 86,255 | 129,068 | 86,255 |
| Accruals and deferred income | 2,078,754 | 390,770 | 103,376 | 59,204 |
| UITF 28 rent free creditor | 271,106 | 306,730 | - | - |
| Amounts due under finance leases and hire purchase contracts | 189,802 | 207,372 | - | - |
| | <u>7,357,751</u> | <u>1,648,319</u> | <u>2,595,681</u> | <u>182,116</u> |

Amounts due under finance leases and hire purchase contracts are secured on the assets to which they relate.

13 Creditors: amounts fall due after more than one year

| | The group | | The company | |
|--|------------------|------------------|--------------------|------------------|
| | 2005 | 2004 | 2005 | 2004 |
| | £ | £ | £ | £ |
| Bank loans | 6,421,039 | 2,099,199 | 3,067,107 | 2,099,199 |
| Other loans | 195,172 | 170,000 | 195,172 | 170,000 |
| Amounts due under finance leases and hire purchase contracts | 23,492 | 213,313 | - | - |
| | <u>6,639,703</u> | <u>2,482,512</u> | <u>3,262,279</u> | <u>2,269,199</u> |

Included within group bank loans is a loan of £1,500,000 which is repayable in quarterly instalments of £187,500 starting 28 February 2010. Interest is payable at 4% above base rate. Also included within group bank loans are loans of £428,000, incurring interest at a rate of 25% per annum, repayable on 30 November 2011. However, the directors intend to repay the loans of £428,000 in December 2005.

The other loan of £224,291 (2004: £170,000) for both the group and the company relates to a loan from a franchisor which will be amortised over the next 7 years.

All bank loans are secured by fixed and floating charges over the group companies and all the group's property and assets. There is also a cross guarantee covering all group companies.

Amounts due under finance leases and hire purchase contracts are secured on the assets to which they relate.

14 Borrowings
(a) Bank and other borrowings

Bank and other borrowings, excluding finance leases and similar hire purchase agreements, are as follows:

| | The group | | The company | |
|---------------------------------|------------------|------------------|--------------------|------------------|
| | 2005 | 2004 | 2005 | 2004 |
| | £ | £ | £ | £ |
| Within one year | 608,858 | - | 312,500 | - |
| After one and within two years | 713,025 | 2,269,199 | 416,667 | - |
| After two and within five years | 4,556,010 | - | 2,874,731 | 2,269,199 |
| After five years | 1,347,176 | - | - | - |
| | <u>7,225,069</u> | <u>2,269,199</u> | <u>3,603,898</u> | <u>2,269,199</u> |

(b) Finance leases and similar hire purchase agreements
The group

| | 2005 | 2004 |
|---------------------------------|----------------|----------------|
| | £ | £ |
| Within one year | 189,802 | 207,372 |
| After one and within five years | 23,492 | 213,313 |
| | <u>213,294</u> | <u>420,685</u> |

15 Provisions for liabilities and charges
The group

| | Deferred taxation (Note 16) | Other provisions | Total |
|----------------------|--|-----------------------------|------------------|
| | £ | £ | £ |
| At 1 September 2004 | - | - | - |
| Acquisition | - | 1,100,000 | 1,100,000 |
| Provided during year | 33,337 | 147,051 | 180,388 |
| At 31 August 2005 | <u>33,337</u> | <u>1,247,051</u> | <u>1,280,388</u> |

Other provisions relate to obligations in respect of dilapidations and other repairs to the group's leased hotels.

16 Deferred taxation
The group

Deferred taxation provided for in the financial statements is set out below.

| | 2005 £ | 2004 £ |
|--------------------------------------|-----------------|-----------|
| Accelerated capital allowances | 142,011 | 80,493 |
| Other timing differences | (1,644) | (305) |
| Less tax losses carried forward | (218,137) | (80,188) |
| | <u>(77,770)</u> | <u>-</u> |
| Included in financial statements as: | | |
| | 2005 £ | 2004 £ |
| Deferred tax asset (see note 11) | 111,107 | - |
| Deferred tax provision (see note 15) | (33,337) | - |
| | <u>77,770</u> | <u>-</u> |

Deferred tax assets have been included in respect of the existing trading losses of those subsidiaries that are expected to be profitable for the foreseeable future.

17 Share capital
Authorised share capital

| | 2005 £ | 2004 £ |
|---|---------------|---------------|
| 259,600 ordinary shares of £0.10 each | 25,960 | 11,000 |
| 212,400 'A' ordinary shares of £0.10 each | 21,240 | 9,000 |
| | <u>47,200</u> | <u>20,000</u> |

Allotted, called-up and fully paid

| | 2005 | | 2004 | |
|-----------------------------------|----------------|---------------|----------------|---------------|
| | No | £ | No | £ |
| Ordinary shares of £0.10 each | 256,060 | 25,606 | 108,500 | 10,850 |
| 'A' ordinary shares of £0.10 each | 212,400 | 21,240 | 90,000 | 9,000 |
| | <u>468,460</u> | <u>46,846</u> | <u>198,500</u> | <u>19,850</u> |

During the year, the company issued 147,560 ordinary shares of £0.10 each and 122,400 'A' ordinary shares of £0.10 each. All shares were issued at a premium of £0.90 per share. The difference between the total consideration of £269,960 and the total nominal value of £26,996 has been credited to the share premium account (£242,964).

18 Share premium account and reserves
The group

| | Share premium account £ | Profit and loss account £ |
|--------------------------------------|----------------------------------|------------------------------------|
| At 1 September 2004 | 151,675 | (1,689,260) |
| Retained profit for the year | - | 1,270,739 |
| Premium on allotment during the year | 242,964 | - |
| At 31 August 2005 | <u>394,639</u> | <u>(418,521)</u> |

The company

| | Share premium account £ | Profit and loss account £ |
|--------------------------------------|----------------------------------|------------------------------------|
| At 1 September 2004 | 151,675 | (970,514) |
| Retained profit for the year | - | 793,949 |
| Premium on allotment during the year | 242,964 | - |
| At 31 August 2005 | <u>394,639</u> | <u>(176,565)</u> |

19 Reconciliation of movement in shareholders' funds

| | 2005 £ | 2004 £ |
|--|------------------|--------------------|
| Profit/(loss) for the financial year | 1,270,739 | (6,506) |
| Issue of shares | 269,960 | - |
| Net change in shareholders' funds | <u>1,540,699</u> | <u>(6,506)</u> |
| Shareholders' deficiency at 1 September 2004 | (1,517,735) | (1,511,229) |
| Shareholders' funds at 31 August 2005 | <u>22,964</u> | <u>(1,517,735)</u> |

20 Net cash inflow from operating activities

| | 2005 £ | 2004 £ |
|---|------------------|----------------|
| Operating profit | 2,101,282 | 196,327 |
| Depreciation and amortisation of fixed assets | 431,930 | 141,159 |
| Amortisation of non-repayable loans | (18,209) | - |
| (Decrease)/increase in stocks | 34,330 | (12,677) |
| Increase in debtors | (2,243,676) | (280,085) |
| Increase in creditors | 4,489,452 | 877,198 |
| Increase in provisions | 147,051 | - |
| Net cash inflow from operating activities | <u>4,942,160</u> | <u>921,922</u> |

21 Reconciliation of net cash flow to movement in net debt

| | 2005 £ | 2004 £ |
|--|--------------------|--------------------|
| Increase/(decrease) in cash in the year | 3,232,928 | (24,730) |
| Net cash inflow from financing | (5,325,500) | - |
| Cash outflow from finance leases | 207,391 | 187,020 |
| Change in net debt resulting from cash flows | (1,885,181) | 162,290 |
| Amortisation of non-repayable loans | 18,209 | - |
| Net change in debt finance costs | 351,421 | (30,408) |
| Inception of finance leases | - | (213,227) |
| Movement in net debt | (1,515,551) | (81,345) |
| Net debt at 1 September 2004 | (2,207,023) | (2,125,678) |
| Net debt at 31 August 2005 | <u>(3,722,574)</u> | <u>(2,207,023)</u> |

22 Analysis of changes in net debt

| | At 1 September 2004 £ | Cash flow £ | Debt finance costs £ | Non-cash items £ | At 31 August 2005 £ |
|-----------------------------|--------------------------------|--------------------|-------------------------------|------------------------|------------------------------|
| Cash in hand and at bank | 482,861 | 3,232,928 | - | - | 3,715,789 |
| Debt (net of finance costs) | (2,269,199) | (5,325,500) | 351,421 | 18,209 | (7,225,069) |
| Finance leases | (420,685) | 207,391 | - | - | (213,294) |
| | <u>(2,207,023)</u> | <u>(1,885,181)</u> | <u>351,421</u> | <u>18,209</u> | <u>(3,722,574)</u> |

23 Acquisition

In December 2004, the group acquired from Whitbread Plc the business of operating and managing a portfolio of eleven Courtyard by Marriott hotels in the United Kingdom. The freeholds or long leaseholds of the hotels were acquired by a third party property investment company. Goodwill arising on this acquisition has been capitalised.

The assets and liabilities acquired were as follows:

| | Fair value £ |
|---|-------------------------------|
| Trading stock at hotels | 147,975 |
| Cash balances | 1,100,000 |
| Provision for dilapidations and other repairs | (1,100,000) |
| Net assets | <u>147,975</u> |
| Purchased goodwill capitalised | <u>6,936,074</u> |
| | <u><u>7,084,049</u></u> |
| Satisfied by: | |
| Cash | 6,586,739 |
| Other creditors | <u>497,310</u> |
| | <u><u>7,084,049</u></u> |

The directors do not consider it practicable to determine the pre-acquisition results of this business nor the post acquisition cash flows, as the information is not readily available.

24 Capital commitments

Neither the group nor the company had any capital commitments at 31 August 2005 or 31 August 2004.

25 Contingent liabilities

There were no contingent liabilities at 31 August 2005 or 31 August 2004, except for the cross guarantees between group companies as noted in Note 13.

26 Operating lease commitments

Operating lease commitments amounts to £7,386,320 (2004: £1,505,320) are due within one year. The leases to which these amounts relate expire as follows:

| | 2005 | 2004 |
|----------------------------|-------------------------|-------------------------|
| | Land and | Land and |
| | buildings | buildings |
| | £ | £ |
| In one year or less | - | - |
| Between one and five years | - | - |
| In five years or more | 7,386,320 | 1,505,320 |
| | <u>7,386,320</u> | <u>1,505,320</u> |

27 Transactions with related parties

The group is exempt under Financial Reporting Standard No.8 from disclosing any transactions or balances between group entities that have been eliminated on consolidation.

The group received management fees of £123,549 (2004: £Nil) from its joint venture company, Kew Green (VCT) Stansted Limited, of which £52,093 (2004: Nil) was outstanding at the year end.