Kew Green Hotels Limited

Financial statements

For the year ended 31 August 2007

Company no.3993178

Company Information

Company registration number	3993178
Registered office	Grove House 27 Hammersmith Grove Hammersmith LONDON W6 0JL
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 Auditor 1 Dorset Street SOUTHAMPTON Hampshire SO15 2DP

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Chairman's statement

Last year was another excellent year as far as the development of our business was concerned In February we acquired the freehold assets of the Courtyard by Marriott estate from our property partners Chiltern Mondiale and in May the hotels were re-branded under the Holiday Inn flag These two events significantly increased our freehold asset base and strengthened our relationship with Intercontinental Hotels Group We have since commenced a capital investment programme aimed at upgrading a number of the hotels to ensure that they remain best in class At the same time we maintained our franchise relationship with Marriott by signing a new agreement to operate a 218 bedroom Courtyard by Marriott at Gatwick Airport This hotel is currently under construction and scheduled to open in January 2009 May was a busy month for the business as we also opened our eighteenth hotel, a new Holiday Inn at Carrow Road in Norwich July saw the opening of a further 71 rooms at our Express by Holiday Inn at Stansted airport, increasing the total number of rooms there to 254

Our financial performance, both in turnover and operating profit before exceptional items continues to grow We remain focused on delivering operational excellence and to help us achieve this we continue to focus on people development and management training This year saw us host our first Internal Performance Awards and launch a Fasttrack training programme to help us identify and retain the best young management talent within our business It was pleasing to receive external recognition through the nomination and being placed second in the prestigious Sunday Times Fasttrack 100 list of privately owned businesses At the same time winning the 'Best Management Team' award

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

F Ternofsky
Chairman

20 November 2007

Report of the directors

The directors present their report and the financial statements of the group for the year ended 31 August 2007

Principal activities and business review

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

The business review is set out in the Chairman's Statement As noted in that report, the company acquired the entire issued share capital of Square Circle Properties Limited, a company incorporated in Jersey, which was subsequently renamed Kew Green (SCP) Limited

As required by Financial Reporting Standard 7 the directors have considered the fair values of the assets and liabilities acquired Substantially all the assets acquired are property assets and having taken independent professional advice the directors have assessed the fair values of these properties to be approximately £53m above their book value (see note 27) This fair value adjustment has given rise to negative goodwill of £37m, which in accordance with Financial Reporting Standard 10, is disclosed on the face of the group balance sheet as a negative asset within intangible fixed assets

Significant exceptional operating expenditure of £2,298,093 was incurred in relation to the formulation of the future strategy of the group, and this is disclosed in note 1 to the financial statements In addition exceptional interest costs of £1,105,088 were incurred following the re-financing of the group's borrowings Before exceptional items the group made a profit before taxation of £712,182

The directors would also like to draw attention to the fact that the majority of the group's external borrowings fall to be accounted for as due within one year The directors' negotiated this particular funding structure to maintain flexibility as to the group's future strategy and have appropriate plans in place to ensure that these short term facilities will be restructured to secure the long term funding position of the group

There was a loss before taxation amounting to £2,690,999 (2006 - profit of £1,127,388) and a loss for the year after taxation amounting to £2,524,690 (2006 - profit of £739,715)

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

Financial risk management objectives and policies

The group finances its operations through a mixture of retained profits, a group overdraft facility, intra-group borrowings and other bank borrowings The policies have remained unchanged from the previous period The group's exposure to interest rate fluctuations on its borrowings is managed on a group basis by the use of both fixed and floating facilities and regular review with the company's bankers The group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably Primarily this is achieved through an overall group treasury facility Short term flexibility is achieved by a group overdraft facility

Key performance indicators

In order to deliver our business objectives we need to deliver to three key stakeholder groups

- our people
- our guests
- our investors

We use a number of measures to assess how well we are delivering to our stakeholders

People measures
Team turnover – this measures how many people leave the business each year and is an indicator of motivation and job satisfaction Motivated and committed staff are key to delivering good customer service There is also a cost associated with recruiting and training staff

Health and safety – this measures how well we look after our people and our guests It is critical to us to provide safe working environments and safe hotels for our guests to stay in This is measured by twice yearly Health and Safety audits by external independent experts

Guest measures
Brand standards – all of our hotels are audited annually by our brand partners against set criteria to make sure they meet high operational standards and our customers' expectations

Guest satisfaction – we actively seek feedback from our guests so that we can act on their experiences to improve the product and services we provide Guest satisfaction is measured continually and analysed on a monthly basis

Investor measures
Equity value – We measure the underlying growth in equity value of our business on an ongoing basis and report this to our shareholders

Profit growth – We measure our profit growth against last year and against our budgets on a unit by unit basis and report and analyse this every month

The directors and their interests
The directors who served the company during the year were as follows

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

Directors' responsibilities
The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice

United Kingdom 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 group and of the company and of the profit or loss of the group for that year In preparing those financial statements, the directors are required to

- select suitable accounting policies, as described on pages 9 to 11, and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, 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, for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities

In so far as the directors are aware

- there is no relevant audit information of which the company's auditors are unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information

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

Auditor
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

Jeremy Richardson.

J Richardson
Director

Date 20th November 2007

Grant Thornton

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

We have audited the group and parent company financial statements of Kew Green Hotels Limited for the year ended 31 August 2007 which comprise the principal accounting policies, the group profit and loss account, the group and company 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 auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether the information given in the Report of the Directors is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements The other information comprises only the Chairman's Statement and the Directors' Report 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

Grant Thornton

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

Basis of opinion

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

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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 August 2007 and of the group's loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Report of the Directors is consistent with the financial statements

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITOR
CHARTERED ACCOUNTANTS

SOUTHAMPTON

20 November 2007

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 2007 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 Negative goodwill is written back to the profit and loss account to match the recovery of the non-monetary assets acquired, being 50 years straight line

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 Revenue is recognised when rooms are occupied and food and beverages sold

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 or length of franchise agreement

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

Hotels	-	50 years straight line relating to the building element
Hotel structural assets	-	up to 25 years straight line
Fixtures, fittings and equipment	-	up to 10 years straight line
Stamp duty on leases	-	straight line over life of lease

Freehold land is not depreciated

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 occurred 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 group's leased hotels 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

Where group companies have a commitment to the landlords to keep the leased 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 leased hotels are allocated over the period to the date of the first rent review

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities Financial liabilities are presented as such in the balance sheet Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account Finance costs are calculated so as to produce a constant rate of return on the outstanding liability

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument Dividends and distributions relating to equity instruments are debited direct to equity

Group profit and loss account

	Note	Before exceptional items £	Exceptional items £	Year to 31 August 2007 Total £	Before exceptional items £	Exceptional items £	Year to 31 August 2006 Total £
Turnover group and share of joint venture		**39,717,598**	**-**	**39,717,598**	36,642,219	-	36,642,219
Less share of joint venture's turnover	9	**(2,293,327)**	**-**	**(2,293,327)**	(2,142,469)	-	(2,142,469)
Group turnover		**37,424,271**	**-**	**37,424,271**	34,499,750	-	34,499,750
Cost of sales		**6,318,731**	**-**	**6,318,731**	6,073,223	-	6,073,223
Gross profit		**31,105,540**	**-**	**31,105,540**	28,426,527	-	28,426,527
Other operating income and charges	1/2	**(26,336,125)**	**(2,298,093)**	**(28,634,218)**	(26,265,806)	(307,064)	(26,572,870)
Operating profit		**4,769,415**	**(2,298,093)**	**2,471,322**	2,160,721	(307,064)	1,853,657
Share of operating profit of joint venture	9	**451,456**	**-**	**451,456**	417,725	-	417,725
Total operating profit		**5,220,871**	**(2,298,093)**	**2,922,778**	2,578,446	(307,064)	2,271,382
Net interest and similar charges	3	**(4,508,689)**	**(1,105,088)**	**(5,613,777)**	(1,143,994)	-	(1,143,994)
(Loss)/profit on ordinary activities before taxation		**712,182**	**(3,403,181)**	**(2,690,999)**	1,434,452	(307,064)	1,127,388
Tax on (loss)/profit on ordinary activities	5	**166,309**	**-**	**166,309**	(387,673)	-	(387,673)
(Loss)/profit on ordinary activities after taxation	18/19	**878,491**	**(3,403,181)**	**(2,524,690)**	1,046,779	(307,064)	739,715

The company has no recognised gains or losses other than the results for the year as set out above The company has taken advantage of Section 230 of the Companies Act 1985 not to publish its own Profit and Loss Account

The accompanying accounting policies and notes form an integral part of these financial statements.

Group balance sheet

	Note	2007 £	2007 £	2006 £	2006 £
Fixed assets					
Intangible assets	7				
Goodwill			5,267,052		5,574,120
Negative goodwill			(36,806,660)		-
			(31,539,608)		5,574,120
Other			200,224		154,205
			(31,339,384)		5,728,325
Tangible assets	8		132,803,760		4,316,412
			101,464,376		10,044,737
Investment in joint venture	9				
Share of gross assets		5,827,326		4,816,711	
Share of gross liabilities		(5,472,961)		(4,560,882)	
			354,365		255,829
			101,818,741		10,300,566
Current assets					
Stocks	10	141,059		123,491	
Debtors	11	3,936,022		3,833,867	
Cash at bank and in hand		2,598,382		2,062,917	
		6,675,463		6,020,275	
Creditors: amounts falling due within one year	12	104,893,536		8,011,947	
Net current liabilities			(98,218,073)		(1,991,672)
Total assets less current liabilities			3,600,668		8,308,894
Creditors: amounts falling due after more than one year	13		4,153,551		6,385,860
Provisions for liabilities and charges	15		1,205,588		1,160,355
			5,359,139		7,546,215
Capital and reserves					
Called-up equity share capital	17	47,200		46,846	
Share premium account	18	397,825		394,639	
Profit and loss account	18	(2,203,496)		321,194	
Shareholders' (deficit)/funds	19		(1,758,471)		762,679
			3,600,668		8,308,894

These financial statements were approved by the Board of Directors on 20th November 2007 and are signed on their behalf by

Jeremy Richardson.
Mr J Richardson

The accompanying accounting policies and notes form an integral part of these financial statements

Balance sheet

	Note	2007	2007	2006	2006
		£	£	£	£
Fixed assets					
Intangible assets	7		**200,224**		154,205
Tangible assets	8		**2,949**		6,257
Investments	9		**88,241,083**		8
			88,444,256		160,470
Current assets					
Debtors	11	**14,193,506**		4,554,258	
Cash at bank and in hand		**923,569**		1,681,253	
		15,117,075		6,235,511	
Creditors. amounts falling due within one year	12	**99,770,905**		3,271,744	
Net current (liabilities)/assets			**(84,653,830)**		2,963,767
Total assets less current liabilities			**3,790,426**		3,124,237
Creditors: amounts falling due after more than one year	13		**3,882,853**		2,854,263
Capital and reserves					
Called up equity share capital	17	**47,200**		46,846	
Share premium account	18	**397,825**		394,639	
Profit and loss account	18	**(537,452)**		(171,511)	
Shareholders' (deficit)/funds			**(92,427)**		269,974
			3,790,426		3,124,237

These financial statements were approved by the Board of Directors on 20th November 2007 and are signed on their behalf by

Jeremy Richardson

Mr J Richardson

The accompanying accounting policies and notes form an integral part of these financial statements.

Group cash flow statement

	Note	2007 £	2007 £	2006 £	2006 £
Net cash inflow from operations	20		**2,686,308**		2,267,252
Returns on investments and servicing of finance					
Interest received		**148,606**		98,231	
Interest and other finance charges paid		**(4,231,116)**		(718,465)	
Debt finance costs paid		**(424,198)**		-	
Finance lease interest paid		**(7,056)**		(17,983)	
Net cash outflow from returns on investments and servicing of finance			**(4,513,764)**		(638,217)
Taxation paid			**-**		(32,044)
Capital expenditure					
Purchase of fixed assets			**(3,286,049)**		(3,092,237)
Acquisitions					
Investment in joint venture	9	**(53,390)**		(31,250)	
Acquisition	27	**(88,241,074)**		-	
Net cash acquired with acquisition	27	**895,513**		-	
Net cash outflow from acquisitions			**(87,398,951)**		(31,250)
Financing					
Issue of shares		**3,540**		-	
Gross receipts from borrowing	21	**100,573,000**		1,000,000	
Repayment of borrowing	21	**(7,476,287)**		(936,334)	
Capital element of finance lease rentals	21	**(52,332)**		(190,042)	
Net cash inflow/(outflow) from financing			**93,047,921**		(126,376)
Increase/(decrease) in cash	21		**535,465**		(1,652,872)

Notes to the financial statements

1 Turnover and profit on ordinary activities before taxation

The turnover and profit before tax are attributable to the principal activity of the group
The turnover arises wholly in the United Kingdom

	2007	2006
	£	£
Depreciation and amortisation		
Goodwill	**307,068**	307,064
Negative goodwill	**(371,784)**	-
Other intangible fixed assets	**17,781**	17,482
Tangible fixed assets, owned	**1,296,940**	296,027
Tangible fixed assets, held under finance leases and hire purchase contracts	**12,584**	23,243
Loss on disposal of fixed assets	**201,914**	-
Other operating lease rentals	**4,508,053**	7,786,871

Remuneration payable to the company's auditor is as follows

	2007	2006
	£	£
Fees payable to the company's auditor for the audit of the company's annual accounts	**22,400**	18,400
Fees payable to the company's auditor for other services		
The audit of the company's subsidiaries pursuant to the legislation	**33,600**	27,600
Tax services	**18,595**	20,900
Corporate finance services	**177,174**	-

Fees paid to Grant Thornton UK LLP for non-audit services to the company itself are not disclosed as such fees have been included on a consolidated basis

Included in the exceptional operating costs are the following

	2007	2006
	£	£
Goodwill amortisation	**307,068**	307,064
Negative goodwill amortisation	**(371,784)**	-
Re-branding costs	**1,812,862**	-
Exceptional professional fees relating to the future strategy of the company	**549,947**	-
	2,298,093	307,064

2 Other operating income and charges

	2007	2006
	£	£
Administrative expenses	**28,634,218**	26,602,111
Other operating income	**-**	(29,241)
	28,634,218	26,572,870

3 Net interest and other similar charges

	2007	2006
	£	£
On bank loans and overdrafts	**4,959,304**	774,220
Debt finance costs	**445,075**	108,546
Finance charges in respect of finance leases	**7,057**	17,983
Share of net interest payable by joint venture	**350,947**	341,476
	5,762,383	1,242,225
Other interest receivable and similar income	**(148,606)**	(98,231)
	5,613,777	1,143,994

Included within interest on bank loans and overdrafts are redemption interest payments arising on the repayment of the existing bank borrowings of £801,413 Debt finance costs include £303,675 in respect of these loans

4 Directors and employees

Staff costs during the year were as follows

	2007	2006
	£	£
Wages and salaries	**9,341,646**	8,700,872
Social security costs	**734,219**	661,153
Other pension costs	**42,312**	42,673
	10,118,177	9,404,698

The average number of employees of the group during the year was 720 (2006 - 697)

Remuneration in respect of directors was as follows

	2007	2006
	£	£
Emoluments	**474,822**	418,458
Pension contributions to money purchase schemes	**42,644**	39,760
Payments to third parties for directors' services	**10,000**	10,000
	527,466	468,218

During the year, 3 directors (2006 3) participated in money purchase pension contributions

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

	2007	2006
	£	£
Emoluments	**177,409**	140,332
Pension contributions to money purchase schemes	**11,394**	13,073

5 Tax on profit on ordinary activities

(a) Analysis of tax charge in the year

	2007	2006
	£	£
Current tax		
Corporation tax at 30%	-	7,535
Adjustments in respect of prior periods	(7,535)	(1,595)
	(7,535)	5,940
Deferred tax		
Deferred tax (credit)/charge for year	(214,137)	291,074
Share of deferred tax charge of joint venture	55,363	90,659
	(158,774)	381,733
Tax on (loss)/profit on ordinary activities	(166,309)	387,673

Unrelieved tax losses of £1,653,000 (2006 - £220,000) 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 lower than the standard rate of corporation tax in the UK of 30% (2006 - 30%) The differences are explained as follows

	2007	2006
	£	£
(Loss)/profit on ordinary activities before taxation	(2,690,999)	1,127,388
(Loss)/profit on ordinary activities by rate of tax	(807,300)	338,216
Expenses not deductible for tax purposes	370,847	31,228
Capital allowances for period in excess of depreciation	(105,298)	(197,718)
Utilisation of tax losses	(33,577)	(153,536)
Losses unutilised	557,400	-
Adjustments in respect of prior periods	(7,535)	(1,595)
Other timing differences	17,928	(10,655)
Total current tax (note 5 (a))	(7,535)	5,940

6 Profit attributable to members of the parent company

The loss dealt with in the accounts of the parent company was £365,941 (2006 - profit of £5,054)

7 Intangible fixed assets

	The group 2007	The group 2006	The company 2007	The company 2006
	£	£	£	£
Goodwill (a)	**5,267,052**	5,574,120	**-**	-
Negative goodwill (b)	**(36,806,660)**	-	**-**	-
Other intangible assets (c)	**200,224**	154,205	**200,224**	154,205
	(31,339,384)	5,728,325	**200,224**	154,205

(a) Goodwill

The group	Purchased goodwill £
Cost	
At 1 September 2006 and 31 August 2007	6,141,287
Amortisation	
At 1 September 2006	567,167
Provided in the year	307,068
At 31 August 2007	874,235
Net book amount at 31 August 2007	**5,267,052**
Net book amount at 31 August 2006	5,574,120

The purchased goodwill relates to the acquisition of the trade of the 11 former Courtyard by Marriott hotels in December 2004

(b) Negative goodwill on consolidation

The group	Negative goodwill on consolidation £
Cost	
At 1 September 2006	-
Additions (see note 27)	(37,178,444)
At 31 August 2007	(37,178,444)
Amortisation	
At 1 September 2006	-
Provided in the year	371,784
At 31 August 2007	371,784
Net book amount at 31 August 2007	**(36,806,660)**
Net book amount at 31 August 2006	-

The negative goodwill has arisen on purchase of the share capital of Kew Green (SCP) Limited (formerly Square Circle Properties Limited) (see note 27)

7 Intangible fixed assets (continued)

(c) Other intangible assets

The group and the company	Franchise application fees £
Cost	
At 1 September 2006	215,665
Additions	63,800
At 31 August 2007	279,465
Amortisation	
At 1 September 2006	61,460
Provided in the year	17,781
At 31 August 2007	79,241
Net book amount at 31 August 2007	**200,224**
Net book amount at 31 August 2006	154,205

8 Tangible fixed assets

The group	Hotels £	Hotel under the course of construction £	Structural assets £	Stamp duty on leases £	Fixtures, fittings and equipment £	Total £
Cost						
At 1 September 2006	-	-	995,307	70,545	3,882,433	4,948,285
Additions	-	1,044,003	-	252,453	2,377,330	3,673,786
Acquired with subsidiary	126,325,000	-	-	-	-	126,325,000
Disposals	-	-	-	-	(233,913)	(233,913)
At 31 August 2007	126,325,000	1,044,003	995,307	322,998	6,025,850	134,713,158
Depreciation						
At 1 September 2006	-	-	-	3,257	628,616	631,873
Provided in the year	766,973	-	39,812	7,446	495,293	1,309,524
On disposal	-	-	-	-	(31,999)	(31,999)
At 31 August 2007	766,973	-	39,812	10,703	1,091,910	1,909,398
Net book amount at 31 August 2007	**125,558,027**	**1,044,003**	**955,495**	**312,295**	**4,933,940**	**132,803,760**
Net book amount at 31 August 2006	-	-	995,307	67,288	3,235,817	4,316,412

The hotels comprise 9 freehold hotels (£85,525,000) and 2 long leasehold hotels (£40,800,000)

8 Tangible fixed assets (continued)

Included within the net book value of £132,803,760 is £490,792 (2006 £168,509) 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 £12,584 (2006 £23,243)

The company	Fixtures, fittings and equipment £
Cost	
At 1 September 2006	15,106
Additions	3,189
Transfers	(3,473)
At 31 August 2007	14,822
Depreciation	
At 1 September 2006	8,849
Charge for the year	3,024
At 31 August 2007	11,873
Net book amount at 31 August 2007	**2,949**
Net book amount at 31 August 2006	6,257

9 Fixed assets investments

Total fixed asset investments comprise

	The group		The company	
	2007 £	2006 £	**2007** £	2006 £
Interest in joint venture	**354,365**	225,829	**-**	-
Shares in group undertakings (see note 27)	**-**	-	**17,418,287**	8
Loans to group undertakings (see note 27)	**-**	-	**70,822,796**	-
	354,365	225,829	**88,241,083**	8

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

9 Fixed assets investments (continued)

The group

	Joint venture £
Cost	
At 1 September 2006	255,829
Additional investment in year	53,390
Share of operating profit of joint venture	451,456
Share of interest charge of joint venture	(350,947)
Share of deferred tax charge of joint venture	(55,363)
At 31 August 2007	**354,365**

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

	2007 £	2006 £
Turnover	**2,293,327**	2,142,469
Profit before tax	**100,508**	76,249
Fixed assets	**5,582,124**	4,250,534
Current assets	**245,202**	566,178
Liabilities due within one year	**(1,481,804)**	(509,908)
Liabilities due after one year or more	**(2,440,000)**	(2,804,544)
Deferred taxation	**(246,980)**	(191,617)
Provisions for liabilities and charges	**(155,872)**	(104,813)

The company

	Subsidiaries including loans £
Cost	
At 1 September 2006	8
Additions	88,241,075
At 31 August 2007	**88,241,083**

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 (except where stated)

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
Kew Green Hotels (Gatwick) Limited
Kew Green (SCP) Limited (formerly Square Circle Properties Limited, registered in Jersey, owns 11 hotels)

10 Stocks

The group

	2007	2006
	£	£
Trading stock held at hotels	**141,059**	123,491

11 Debtors

	The group		The company	
	2007	2006	**2007**	2006
	£	£	£	£
Trade debtors	**1,296,909**	1,203,190	**-**	-
Amounts owed by group undertakings	**-**	-	**13,477,787**	3,800,497
Other debtors	**894,596**	541,084	**635,455**	478,317
Prepayments and accrued income	**1,744,517**	2,089,593	**80,264**	275,444
	3,936,022	3,833,867	**14,193,506**	4,554,258

12 Creditors: amounts falling due within one year

	The group		The company	
	2007	2006	**2007**	2006
	£	£	£	£
Bank loans	**96,290,201**	960,560	**96,290,201**	520,833
Other loans (see note 13)	**226,610**	26,610	**226,610**	26,610
Payments received on account	**478,386**	419,741	**-**	-
Trade creditors	**2,575,335**	2,524,413	**127,943**	233,242
Amounts owed to group undertakings	**-**	-	**1,717,726**	2,042,920
Corporation tax	**-**	7,535	**-**	7,535
Social security and other taxes	**1,374,072**	1,015,241	**75,991**	66,246
Other creditors	**1,183,274**	4,223	**1,172,825**	90,925
Accruals and deferred income	**2,282,589**	2,732,435	**159,609**	283,433
UITF 28 rent free creditor	**281,309**	297,937	**-**	-
Amounts due under finance leases and hire purchase contracts	**151,760**	23,252	**-**	-
Preference shares classified as debt	**50,000**	-	**-**	-
	104,893,536	8,011,947	**99,770,905**	3,271,744

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

12 Creditors: amounts falling due within one year (continued)

The bank borrowings reflected in the 2006 figures were repaid on 14 February 2007 and a new £96,573,000 loan facility with a term of 18 months was obtained to refinance the group and fund the acquisition of Kew Green (SCP) Limited The figure included above is shown net of issue costs being amortised over the term of the loan

The bank loan facility is secured by a fixed and floating charge over the group companies and all the group's property and assets The subsidiary companies are party to a composite guarantee in respect of these borrowings

Interest on the bank loan is charged at LIBOR plus 1 48% plus mandatory costs until 1 January 2008 when the rate increases to LIBOR plus 1 98% plus mandatory costs

The directors have appropriate plans in place to ensure that these short term facilities will be restructured to secure the long term funding position of the group

13 Creditors: amounts falling due after more than one year

	The group		The company	
	2007	2006	**2007**	2006
	£	£	**£**	£
Bank loans	**-**	6,212,430	-	2,680,833
Other loans	**3,882,853**	173,430	**3,882,853**	173,430
Amounts due under finance leases and hire purchase contracts	**270,698**	-	-	-
	4,153,551	6,385,860	**3,882,853**	2,854,263

The other loans of £4,109,463 (2006 £200,040) for both the group and the company comprise loans of £175,791 (2006 - £200,040) and £3,933,672 (2006 - £nil) which will be amortised over 7 years and 20 years respectively

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	
	2007	2006	**2007**	2006
	£	£	**£**	£
Within one year	**96,566,811**	987,170	**96,516,811**	547,443
After one and within two years	**226,610**	1,296,122	**226,610**	416,667
After two and within five years	**679,830**	4,918,538	**679,830**	2,437,596
After five years	**2,976,413**	171,200	**2,976,413**	-
	100,449,664	7,373,030	**100,399,664**	3,401,706

14 Borrowings (continued)

(b) Finance leases and similar hire purchase agreements

The group

	2007	2006
	£	£
Within one year	**151,760**	23,252
After one and within five years	**270,698**	-
	422,458	23,252

15 Provisions for liabilities and charges

The group

	Deferred taxation (Note 16)	Other provisions	Total
	£	£	£
At 1 September 2006	213,304	947,051	1,160,355
On acquisition	904,161	-	904,161
Utilised	(214,137)	(644,791)	(858,928)
At 31 August 2007	**903,328**	**302,260**	**1,205,588**

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

	2007	2006
	£	£
Accelerated capital allowances	**1,250,364**	268,331
Other timing differences	**(30,114)**	(16,882)
Less tax losses carried forward	**(316,922)**	(38,145)
	903,328	213,304

17 Share capital

Authorised share capital

	2007	2006
	£	£
259,600 ordinary shares of £0 10 each	**25,960**	25,960
212,400 'A' ordinary shares of £0 10 each	**21,240**	21,240
	47,200	47,200

Allotted, called-up and fully paid

	2007		2006	
	No	£	No	£
Ordinary shares of £0 10 each	**259,600**	**25,960**	256,060	25,606
'A' ordinary shares of £0 10 each	**212,400**	**21,240**	212,400	21,240
	472,000	**47,200**	468,460	46,846

The company made an allotment of 3,540 ordinary £0 10 shares at £1 per share The difference between the total consideration of £3,540 and the total nominal value of £354 has been credited to the share premium account (£3,186)

18 Share premium account and reserves

The group

	Share premium account	Profit and loss account
	£	£
At 1 September 2006	394,639	321,194
Retained loss for the year	-	(2,524,690)
Premium on issue	3,186	-
At 31 August 2007	**397,825**	**(2,203,496)**

The company

	Share premium account	Profit and loss account
	£	£
At 1 September 2006	394,639	(171,511)
Retained loss for the year	-	(365,941)
Premium on issue	3,186	-
At 31 August 2007	**397,825**	**(537,452)**

19 Reconciliation of movement in shareholders' funds

	2007 £	2006 £
(Loss)/profit for the financial year	**(2,524,690)**	739,715
Issue of shares	**354**	-
Premium on new shares	**3,186**	-
Net change in shareholders' funds	**(2,521,150)**	739,715
Shareholders' funds at 1 September 2006	**762,679**	22,964
Shareholders' (deficit)/funds at 31 August 2007	**(1,758,471)**	762,679

20 Net cash inflow from operating activities

	2007 £	2006 £
Operating profit	**2,471,322**	1,853,657
Depreciation and amortisation of fixed assets	**1,262,589**	643,816
Loss on disposal of fixed assets	**201,914**	-
Amortisation of non-repayable loans	**(90,956)**	(24,251)
(Increase)/decrease in stocks	**(17,568)**	10,523
Increase in debtors	**(102,155)**	(1,145,833)
(Decrease)/increase in creditors	**(394,047)**	971,874
Decrease in provisions	**(644,791)**	(42,534)
Net cash inflow from operating activities	**2,686,308**	2,267,252

21 Reconciliation of net cash flow to movement in net debt

	2007 £	2006 £
Increase/(decrease) in cash in the year	**535,465**	(1,652,872)
Net cash inflow from financing	**(93,096,713)**	(63,666)
Cash outflow from finance leases	**52,332**	190,042
Change in net debt resulting from cash flows	**(92,508,916)**	(1,526,496)
New finance leases	**(451,538)**	-
Preference share liability taken over with acquisition	**(50,000)**	-
Amortisation of non-repayable loans	**90,956**	24,251
Net change in debt finance costs	**(20,877)**	(108,546)
Movement in net debt	**(92,940,375)**	(1,610,791)
Net debt at 1 September 2006	**(5,333,365)**	(3,722,574)
Net debt at 31 August 2007	**(98,273,740)**	(5,333,365)

22 Analysis of changes in net debt

	At 1 September 2006 £	Cash flow £	Debt finance costs £	Non-cash items £	At 31 August 2007 £
Cash in hand and at bank	2,062,917	535,465	-	-	**2,598,382**
Debt (net of finance costs)	(7,373,030)	(93,096,713)	(20,877)	40,956	**(100,449,664)**
Finance leases	(23,252)	52,332	-	(451,538)	**(422,458)**
	(5,333,365)	(92,508,916)	(20,877)	(410,582)	**(98,273,740)**

The debt non-cash movement of £40,956 comprises the following

- Amortisation of the franchisor loans of £90,956
- The £50,000 preference share liability acquired with the purchase of Square Circle Properties Limited

23 Capital commitments

Neither the group nor the company had any capital commitments at 31 August 2007 or 31 August 2006 Subsequent to the year end Kew Green (Gatwick) Limited signed a contract to construct a hotel at Gatwick at a committed cost of £16m

24 Contingent liabilities

There were no contingent liabilities at 31 August 2007 or 31 August 2006, except for the composite guarantee between group companies and Kew Green Hotels Limited as noted in Note 12

25 Operating lease commitments

Operating lease commitments amounts to £3,601,635 (2006 £7,529,282) are due within one year The leases to which these amounts relate expire as follows

	2007 Land and buildings £	2006 Land and buildings £
In five years or more	**3,387,380**	7,529,282

26 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 £356,700 (2006 £287,054) from its joint venture company, Kew Green (VCT) Stansted Limited, of which £114,299 (2006 74,371) was outstanding at the year end

27 Acquisition

On 14 February 2007 the company acquired the entire issued share capital of Square Circle Properties Limited and took over the bank debt of that company for a total of £88,241,074 in cash Negative goodwill arising on the acquisition of £37,178,444 has been capitalised This acquisition has been accounted for using the acquisition method of accounting Following the acquisition, Square Circle Properties Limited changed its name to Kew Green (SCP) Limited

The summarised profit and loss account of Square Circle Properties Limited for the period from 1 April 2006 to 14 February 2007 was as follows

	Period 1 April 2006 to 14 February 2007 £
Turnover	4,753,407
Operating profit	5,983,335
Profit before taxation	2,690,322
Taxation	-
Profit after taxation	2,690,322

The profit after taxation for the period from 25 October 2004 to 31 March 2006 was £1,663,081

The fair value of the assets and liabilities of Square Circle Properties Limited acquired were as follows

	At 14 February 2007 £	Fair value adjustment £	Fair value £
Fixed assets			
Tangible	72,776,693	53,548,307	**126,325,000**
Current assets			
Cash	895,513	-	**895,513**
Current liabilities			
Sundry creditors	(601,859)	-	**(601,859)**
VAT	(239,477)	-	**(239,477)**
Preference shares classed as debt including accrued finance charges	(55,498)	-	**(55,498)**
	(896,834)	-	**(896,834)**
Provisions			
Deferred tax provision	(904,161)	-	**(904,161)**
Net assets acquired (excluding debt taken over)	71,871,211	53,548,307	**125,419,518**
Negative goodwill			**(37,178,444)**
Purchase consideration			**88,241,074**

27 Acquisitions (continued)

Satisfied by	£
Cash	88,241,074

The total investment of £88,241,074 comprises investment in shares of £17,418,278 and the refinancing of debt of £70,822,796

The fair value adjustment of £53,548,307 relates to the revaluation of the 11 hotels to their estimated open market value, having taken appropriate external professional advice

The net cash outflow in respect of this acquisition is disclosed on the face of the group cash flow statement