Fourth Hospitality Limited

Financial statements

For the year ended 31 August 2006

Grant Thornton

Company No. 3887115

Company information

Company registration number	3887115
Registered office	1st Floor Royal Liver Building Liverpool L3 1PS
Directors	D Lilley S E Lilley B Hood
Secretary	A R Lovelady
Bankers	Bank of Scotland 117 Foregate Street Chester CH1 2NX
Solicitors	Fladgates Fielder Solicitors 25 North Row London W1K 6DJ
Auditor	Grant Thornton UK LLP Chartered Accountants Registered Auditors 1st Floor Royal Liver Building Liverpool L3 1PS

Index

Report of the directors

The directors present their report and the financial statements of the company for the year ended 31 August 2006

Principal activity and business review

The principal activity of the company is that of offering services to the restaurant industry

Financial overview
Turnover for continuing operations in the year ended 31 August 2006 was £1 12 million - a rise of 36% on last year (2005 £0 82 million) Operating losses before interest and tax on continued operations were £1 0 million, an improvement of 33 6% from the prior year (2005 operating loss £1 5 million)

The directors are pleased with the performance during the year, which was totally in line with the internal business model Fourth Hospitality Limited is in a strong position to continue to expand its market share and generate both profits and positive cash flow

Turnover
Like-for-like sales have generated growth over the year of 36 2% The company's market leading products have achieved significant market penetration Major restaurant businesses are now using the services provided by Fourth Hospitality, and are realising the associated commercial efficiencies and operating cost reductions

Gross profit
The software based product range has a low level of direct costs Gross Profit for the year equated to 54% (2005 30% including discontinued operations) As market penetration and turnover increase the gross profit margins will show further improvement

Operating costs / income
Fixed costs are monitored closely and have been restricted to the levels needed to support the expanding product range and sales growth

Total operating costs decreased by 37% in the year, reflecting the elimination of costs associated with discontinued operations

The other operating income of £246k in the year is non-recurring

Research and development
The company's product offerings are at the leading edge of internet based computer technology The company continues to devote significant resources to develop and enhance the products, investing in the latest available technologies Where appropriate the company will undertake research and development in order to enable the software products to maintain their market leadership by utilising the latest technical innovations

Summary of key performance indicators
The directors have monitored the progress of the overall company strategy and the individual strategic elements by reference to certain financial key performance indicators

	2006 actual	2005 actual	Method of calculation
Growth in sales (%)	36 2	9 1	Year-on-year sales growth expressed as a percentage
Gross profit margin (%)	54 5	30 1	Gross profit margin is the ratio of gross profit to sales expressed as a percentage

Future Developments
The outlook for the company is buoyant The product range is tailored closely to market needs and generates real cost and commercial benefits for restaurant businesses There is no direct competition for the services provided by Fourth Hospitality The available hospitality market, both in the UK and internationally, is vast and opportunities to grow are substantial Monthly turnover is expected to double this financial year based on the current business model, pulling through gross profit and a positive cash flow

Results and dividends

The loss for the year amounted to £853,085 The directors have not recommended a dividend

Financial risk management objectives and policies

The company uses various financial instruments these include loans, cash, and various items, such as trade debtors and trade creditors that arise directly from its operations The main purpose of these financial instruments is to raise finance for the company's operations

The existence of these financial instruments exposes the company to a number of financial risks, which are described in more detail below

The main risks arising from the company's financial instruments are liquidity risk and credit risk The directors review and agree policies for managing each of these risks and they are summarised below These policies have remained unchanged from previous years

Liquidity risk
The company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably

Short-term flexibility is achieved by overdraft facilities This overdraft facility is due for review in November 2007

Credit risk
The company's principal financial assets are cash and trade debtors The credit risk associated with cash is limited as the counterparties have high credit ratings assigned by international credit-rating agencies The principal credit risk arises therefore from its trade debtors

In order to manage credit risk the directors set limits for customers based on a combination of payment history and third party credit references Credit limits are reviewed on a regular basis in conjunction with debt ageing and collection history

Directors

The directors who served the company during the year were as follows

D Lilley
S E Lilley
B Hood

The company is a wholly owned subsidiary and the interests of the group directors are disclosed in the financial statements of the parent company

Directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the company and hence 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

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

S E Lilley

S E Lilley
Director

23.03 2007

Grant Thornton

Report of the independent auditor to the members of Fourth Hospitality Limited

We have audited the financial statements of Fourth Hospitality Limited for the year ended 31 August 2006 which comprise the principal accounting policies, profit and loss account, balance sheet and notes 1 to 25 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 auditor

The directors' responsibilities for preparing the Report of the Directors 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 in our opinion 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 the Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it

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 company's circumstances, consistently applied and adequately disclosed

Report of the independent auditor to the members of Fourth Hospitality Limited (continued)

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 company's affairs as at 31 August 2006 and of its 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

Emphasis of matter - Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in the principal accounting policies on page 8 concerning the company's ability to continue as a going concern The company incurred a net loss of £853,085 during the year ended 31 August 2006 and, at that date, the company's liabilities exceeded its total assets by £9,873,302 Details of the circumstances by which the directors considered that it is appropriate to prepare the financial statements on the going concern basis are described within the principal accounting policies on page 9 Our opinion is not qualified in this respect

Grant Thornton UK LLP

GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
LIVERPOOL

4 April 2007

Principal accounting policies

Basis of accounting

The financial statements have been prepared under the historical cost convention

The principal accounting policies of the company are set out below

The directors have prepared trading and cash flow forecasts which show that the company can trade within its agreed finance facilities Therefore the directors are of the opinion that because of this, in conjunction with the continued support of the parent undertaking and its shareholders, it is appropriate to prepare the financial statements on a going concern basis

Changes in accounting policies

In preparing the financial statements for the current year, the company has adopted the following Financial Reporting Standards

-the presentation requirements of FRS 25 'Financial Instruments Disclosure and Presentation (IAS 32)'

The adoption of this accounting policy has had no effect on the presentation of information in these financial statements

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is small

Turnover

The turnover shown in the profit and loss account represents amounts receivable during the year, exclusive of Value Added Tax

Fixed assets

All fixed assets are initially recorded 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 and fittings	-	25% straight line
Motor vehicles	-	25% straight line
Equipment	-	25% straight line

Stocks

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

Hire purchase agreements

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account on a straight line basis

Finance lease agreements

Where the company 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

Pension costs

The company operates a defined contribution pension scheme for employees The assets of the scheme are held separately from those of the company The annual contributions payable are charged to the profit and loss account

Deferred taxation

Deferred tax is recognised on all timing differences where the transactions or events that give the company 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 assets are recognised when it is more likely than not that they will be recovered Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date

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

Research and development costs

Research and development expenditure is written off in the year in which it is incurred

Software development costs

All costs relating to the development of the web site are written off to the profit and loss account as they are incurred

Profit and loss account

	Note	2006 £	2005 £
Turnover			
Continuing operations		**1,119,031**	821,161
Discontinued operations		–	1,620,917
		1,119,031	2,442,078
Cost of sales	1	**(509,275)**	(1,707,271)
Gross profit		**609,756**	734,807
Other operating charges	2	**1,582,665**	2,903,565
Operating loss:	4		
Continuing operations		**(972,909)**	(1,465,320)
Discontinued operations		–	(703,438)
		(972,909)	(2,168,758)
Profit on disposal of discontinued operations	7	–	1,510,623
		(972,909)	(658,135)
Interest receivable		–	7,602
Interest payable and similar charges	8	**(29,490)**	(87,197)
Loss on ordinary activities before taxation		**(1,002,399)**	(737,730)
Tax on loss on ordinary activities	9	**(149,314)**	–
Loss for the financial year	20	**(853,085)**	(737,730)

All of the activities of the company are classed as continuing

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

Balance sheet

	Note	2006 £	2005 £
Fixed assets			
Tangible assets	10	**154,761**	225,285
Investments	11	**125**	125
		154,886	225,410
Current assets			
Stocks	12	**1,399**	–
Debtors	13	**285,926**	154,591
Cash at bank		**1,381**	200,694
		288,706	355,285
Creditors: amounts falling due within one year	14	**1,415,964**	655,941
Net current liabilities		**(1,127,258)**	(300,656)
Total assets less current liabilities		**(972,372)**	(75,246)
Creditors: amounts falling due after more than one year	15	**8,900,930**	8,944,971
		(9,873,302)	(9,020,217)
Capital and reserves			
Called-up equity share capital	19	**1,345,300**	1,345,300
Profit and loss account	20	**(11,218,602)**	(10,365,517)
Deficit	21	**(9,873,302)**	(9,020,217)

These financial statements were approved by the directors on 23 March 2007 and are signed on their behalf by

S E Lilley

S E Lilley
Director

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

Notes to the financial statements

1 Analysis of cost of sales and net operating expenses

	Continuing Operations	Discontinued Operations	Total
	£	£	£
Year ended 31 August 2006			
Cost of sales	**509,275**	**-**	**509,275**
Administrative expenses	**1,828,406**	**-**	**1,828,406**
Other operating income	**(245,741)**	**-**	**(245,741)**
Net operating expenses	**1,582,665**	**-**	**1,582,665**
Year ended 31 August 2005			
Cost of sales	187,230	1,520,041	1,707,271
Administrative expenses	2,099,251	804,314	2,903,565
Net operating expenses	2,099,251	804,314	2,903,565

2 Other operating charges

	2006	2005
	£	£
Administrative expenses	**1,828,406**	2,903,565
Other operating income	**(245,741)**	-
Administrative expenses	**1,582,665**	2,903,565

3 Other operating income

	2006	2005
	£	£
Other income	**245,741**	-

4 Operating loss

Operating loss is stated after charging/(crediting)

	2006	2005
	£	£
Depreciation of owned fixed assets	**18,118**	53,469
Depreciation of assets held under finance leases and hire purchase agreements	**62,812**	48,387
Profit on disposal of fixed assets	**(6,000)**	(10,377)
Auditor's remuneration		
Audit fees	**11,830**	9,750
Operating lease costs		
Other	**82,084**	44,641

5 Directors and employees

The average number of staff employed by the company during the financial year amounted to

	2006	2005
	No	No
Number of administrative staff	**35**	65
Number of management staff	**1**	1
	36	66

The aggregate payroll costs of the above were

	2006	2005
	£	£
Wages and salaries	**1,074,150**	1,699,249
Social security costs	**160,273**	169,263
Other pension costs	**2,426**	12,241
	1,236,849	1,880,753

6 Directors

Remuneration in respect of directors was as follows

	2006	2005
	£	£
Emoluments receivable	**70,000**	68,334

7 Profit on disposal of discontinued operations

	2006 £	2005 £
Disposal of discontinued operations		
Profit on sale of operation	-	1,510,623

8 Interest payable and similar charges

	2006 £	2005 £
Interest payable on bank borrowing	**23,915**	50,863
Finance charges	**8,438**	8,228
Other similar charges payable	**(2,863)**	28,106
	29,490	87,197

9 Taxation on ordinary activities

(a) Analysis of charge in the year

	2006 £	2005 £
Current tax		
UK Corporation tax based on the results for the year at 30% (2005 - 30%)	**(149,314)**	-
Total current tax	**(149,314)**	-

(b) Factors affecting current tax charge

The tax assessed on the loss on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2005 - 30%)

	2006 £	2005 £
Loss on ordinary activities before taxation	**(1,002,399)**	(737,730)
Loss on ordinary activities by rate of tax	**(300,720)**	(221,319)
Expenses not deductible for tax purposes	**41,616**	-
Research and development tax credits received	**(149,314)**	-
Unrelieved tax losses	**259,104**	221,319
Total current tax (note 9(a))	**(149,314)**	-

10 Tangible fixed assets

	Fixtures and fittings £	Motor vehicles £	Equipment £	Total £
Cost				
At 1 September 2005	51,485	26,330	479,777	557,592
Additions	–	–	10,406	10,406
Disposals	–	(26,330)	–	(26,330)
At 31 August 2006	51,485	–	490,183	541,668
Depreciation				
At 1 September 2005	51,485	23,364	257,458	332,307
Charge for the year	–	2,966	77,964	80,930
On disposals	–	(26,330)	–	(26,330)
At 31 August 2006	51,485	–	335,422	386,907
Net book value				
At 31 August 2006	–	–	**154,761**	**154,761**
At 31 August 2005	–	2,966	222,319	225,285

Included within the net book value of £154,761 is £140,051 (2005 - £202,863) 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 £62,812 (2005 - £48,387)

11 Investments

	Unlisted investments £
Cost	
At 1 September 2005 and 31 August 2006	**125**
Net book value	
At 31 August 2006	**125**
At 31 August 2005	125

12 Stocks

	2006 £	2005 £
Raw materials	**1,399**	–

13 Debtors

	2006	2005
	£	£
Trade debtors	**162,300**	125,773
VAT recoverable	**–**	2,058
Other debtors	**72,887**	–
Prepayments and accrued income	**50,739**	26,760
	285,926	154,591

14 Creditors: amounts falling due within one year

	2006	2005
	£	£
Bank overdraft	**873,567**	87,795
Trade creditors	**162,676**	93,263
PAYE and social security	**68,369**	250,668
VAT	**24,440**	–
Amounts due under finance leases and hire purchase agreements	**51,097**	83,189
Accruals and deferred income	**235,815**	141,026
	1,415,964	655,941

The amounts shown above for bank overdraft is secured by a debenture from all group companies and by a charge on all assets of the company D and S E Lilley who are directors, have also personally guaranteed this overdraft

15 Creditors: amounts falling due after more than one year

	2006	2005
	£	£
Amounts owed to group undertakings	**8,573,315**	8,493,315
Amounts due under finance leases and hire purchase agreements	**7,756**	58,853
Other creditors	**–**	191,944
Directors' loan accounts	**319,859**	200,859
	8,900,930	8,944,971

16 Commitments under finance leases and hire purchase agreements

Future commitments under finance leases and hire purchase agreements are as follows

	2006	2005
	£	£
Amounts payable within 1 year	**51,097**	83,189
Amounts payable between 1 and 2 years	**7,756**	51,098
Amounts payable between 3 and 5 years	**-**	7,755
	58,853	142,042

17 Leasing commitments

At 31 August 2006 the company had annual commitments under non-cancellable operating leases as set out below

	Land & buildings 2006 £	2005 £
Operating leases which expire		
Within 1 year	**13,600**	-
Within 2 to 5 years	**69,300**	69,300
	82,900	69,300

18 Related party transactions

Included within creditors due after more than on year is £319,859 (2005 £200,859) owing to D Lilley and S E Lilley, directors of the company This directors loan is unsecured and does not bear any interest

In addition the company owed £8,573,315 (2005 £8,493,315) to its parent undertaking, The Restaurant Game Plc

19 Share capital

Authorised share capital

	2006 £	2005 £
500,000,000 Ordinary shares of £0 01 each	**5,000,000**	5,000,000

Allotted, called up and fully paid

	2006 No	2006 £	2005 No	2005 £
Ordinary shares of £0 01 each	**134,530,000**	**1,345,300**	134,530,000	1,345,300

20 Profit and loss account

	2006 £	2005 £
Balance brought forward	**(10,365,517)**	(9,627,787)
Loss for the financial year	**(853,085)**	(737,730)
Balance carried forward	**(11,218,602)**	(10,365,517)

21 Reconciliation of movements in shareholders' funds

	2006	2005
	£	£
Loss for the financial year	**(853,085)**	(737,730)
Opening shareholders' deficit	**(9,020,217)**	(8,282,487)
Closing shareholders' deficit	**(9,873,302)**	(9,020,217)

22 Pensions

During the year, the company operated a defined contribution scheme for the benefit of the employees The contributions payable during the year that have been charged to the profit and loss account amounted to £2,426 (2005 £12,241)

23 Contingencies

The directors have confirmed that there were no contingent liabilities which should be disclosed at 31 August 2006 or 31 August 2005

24 Capital commitments

The directors have confirmed that there were no capital commitments at 31 August 2006 or 31 August 2005

25 Ultimate parent company

The company is a wholly owned subsidiary of The Restaurant Game Plc, a company incorporated in England The company is deemed to be under the control of S E Lilley and D Lilley who control the share capital of The Restaurant Game Plc