Interactive Hotel Services Limited

Directors' report and consolidated financial statements

Registered number 4033274

31 March 2008

Contents

Directors' report

The directors present their annual report and the audited financial statements for Interactive Hotel Services Limited ("the company") and its subsidiaries ("the Group) for the year ended 31 March 2008

Principal activity

The principal activity of the Group is the supply of equipment and software enabling the provision of in-room technology based services to hotels and similar services to other markets in the United Kingdom and Europe The systems deployed provide functionality in the areas of guest entertainment, hotel information, and communications

Business review

The trading results for the year and the Group's financial position at the end of the year are shown in the attached financial statements and are discussed further in the business review below

Financial overview

The group's trading operations are co-ordinated through a network of overseas subsidiaries and branches (as detailed in note 12) The Group's reporting currency is Sterling, however overseas revenues are predominantly denominated in Euros

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

The group made an operating loss of £2 2m *(2007 £1 6m)* and a loss for the year before taxation of £25 5m *(2007 £20 8m)*

The operating loss for the year increased on the prior year as a result of exceptional expenditure of £1 6m incurred as a result of a refinancing that took place on 6 March 2008 whereby the liabilities of the group were substantially reduced The loss for the year before taxation was principally due to interest on borrowings that were refinanced on 6 March 2008 (as discussed below)

Cash flow generated from the group s operating activities amounted to £22 2m *(2007 £17 1m)* which increased by 30% on the prior year principally through significant investment in the group's rental asset base and new platform development Investment in capital expenditure amounted to £33 4m *(2007 £33 9m)* The group's rental asset investment is a result of entering into long-term contracts with its hotel customers typically of between 5 to 7 years, whereby a significant amount of equipment expenditure is invested at the start of the contract term

Due to the success of its product portfolio, the group invested amounts in excess of its current operating cash flows in its rental asset base and new platform development in order to grow the future profitability and cash generation of the business as quickly as possible

As a consequence, the group generated a cash outflow before management of liquid resources and financing of £11 4m *(2007 21 5m)*

The group issued share capital of £5 0m *(2007 £15 0m)* and drew down £6 0m *(2007 £nil repayment)* in the form of borrowings resulting in a decrease in cash for the year of £0 4m *(2007 £6 5m)*

Turnover

During the year the Group had turnover of £89 1m *(2007 £74 8m)* an increase of £14 2m (19 0%) on the previous year The overall increase in turnover is due to an increase in the rental of Genesis systems and rental and sales of televisions and equipment

Gross profit

The gross profit of the Group increased by £1 9m (7 2%) from £26 2m to £28 1m in the year ended 31 March 2008 However, the gross margin declined from 35 0% to 31 5% due to an increase in lower margin television sales

Directors' report *(continued)*

Business Review *(continued)*

Net operating expenses
Net operating expenses increased by £0 8m (3 0%) from £28 6m to £27 8m in the year ended 31 March 2008 This increase is attributable to the increased level of installations in comparison to the previous year

Strategy

The strategy adopted by the Group during the year has been to continue to develop its software and integration systems in order to increase the number of hotel rooms in which these systems are installed

Key performance indicators

The majority of group companies' key performance indicators are Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) and the number of hotel rooms in which the company's systems are installed

Financial restructuring

On 16 April and 12 June 2007 respectively, Carmelite Capital Limited ("CCL"), a parent undertaking, subscribed for 2,000,000 ordinary shares of £1 each and on 22 June 2007 CCL subscribed for a further 1,000,000 ordinary shares of £1 each (a total of 5,000,000 shares) in the company The company utilised the issue proceeds to subscribe for 2,000,000 £1 A preference shares on 16 April 2007 and on the other two dates to subscribe for a total 300,000,000 ordinary shares of 1p each in its direct subsidiary Interactive Hotel Services Holdings plc ("IHSH"), the total of these subscriptions being £5,000,000 IHSH in turn subscribed for 5,000,000 £1 preference shares in its direct subsidiary Interactive Hotel Services Investments Limited, who in turn subscribed for 2,000,000 £1 preference shares and 3,000,000 £1 ordinary shares in its own direct subsidiary Quadriga Holdings Limited ("QHL"), who invested the proceeds of the three share issues amounting to £5,000,000 in the operating businesses of the Quadriga group

On 6 March 2008 the company passed an ordinary resolution which increased its authorised share capital from £226,510,711 to £226,511,711 by the creation of a new class of 1,000 B ordinary shares of £1 each

On the same day the company issued 1,000 B ordinary shares of £1 each to Co-Investment Acquisition No 10 LP Inc ("CIA 10"), a Guernsey incorporated limited partnership, pursuant to a share exchange agreement under which it acquired 129,856,204 B ordinary shares of 1p each in IHSH in return The company also acquired a further 36,905,476 ordinary shares of 1p each in IHSH from CIA 10 for a payment of £1,000

Change in ownership

On 27 May 2007, Terra Firma Investments (GP) Limited, a wholly owned subsidiary of TFCP Holdings Limited, the ultimate controlling party of the company, agreed to dispose of its entire interest in CCL, the company s parent undertaking, to Co-Investment Acquisition No 2 LP Inc, a Guernsey incorporated limited partnership, and to dispose of its entire interest in the 11% revolving loan notes issued by the company and its subsidiaries to TFCPI to Co-Investment Acquisition No 4 LP Inc a Guernsey incorporated limited partnership These disposals subsequently completed on 19 July 2007

On 23 August 2007 CCL sold its entire holding of shares in the company to CIA 10 The directors now regard CIA 10 as the ultimate parent company and ultimate controlling party of the company and the Group On the same date Co-Investment Acquisition No 4 LP Inc sold its entire interest in the 11% revolving loan notes issued by the company and its subsidiaries to CIA 10

Directors' report *(continued)*

Business Review *(continued)*

Going Concern

As at 31 March 2008 the group had net current liabilities of £58 3m *(2007 £61 6m)* This is principally due to £70m of unsecured 10% loan notes issued by IHSH, a group subsidiary undertaking, to CIA 10 which are due for repayment on 5 March 2009 Under this agreement, the loan interest is not payable, but rather accrues until the redemption date 5 March 2009

On 8 April 2008, IHSH entered into a deed with the company under which the company and CIA 10 agreed, on request by IHSH, to subscribe for £77 2m 10% unsecured loan notes to be issued by the company on 5 March 2009

Having secured the ability to refinance the company's and its group's borrowing commitments until 5 March 2010, the Directors consider it appropriate to prepare the financial statements on a going concern basis

Future developments for the Group

The group continues to pursue new hotel system installations and new platform development in order to increase the profitability and future cash flows of the group

The significant recent investment in the rental asset base means that the group has a 5 to 7 year contracted revenue stream which generates operating cash inflows sufficient, and for the foreseeable future exceeding, its capital expenditure requirements

Dividends

The directors do not recommend the payment of a dividend *(2007 £nil)*

Principal risks and uncertainties

The management of the businesses of the Group and the nature of its strategy are subject to a number of risks The directors have set out below the principal risks facing the Group The directors are of the opinion that the Group has adopted a risk management process that involves the formal review of all the risks identified below Where possible, processes are in place to monitor and mitigate such risks

Competitor Action and Technological Obsolescence

The company seeks to compete effectively and maintain market share by continuously developing and updating its product portfolio and its relationships with key customers along with a regular review of actions from its competitors, revenues generated and developments in technology and the marketplace

Loss of Key Personnel

The group employed an average of 331 full time employees during the year ended 31 March 2008 *(2007 316)* Regular operational reviews ensure that knowledge and key customer and supplier relationships are retained by the directors and officers of the company so that the impact of the loss of any employee or agent would be reduced

Financial risk management objectives and policies

The principal financial assets of the Group are bank balances and cash, trade and other receivables Its principal financial liabilities are trade, and other payables and interest bearing loans from related parties The main risks arising from the financial instruments of the Group are credit risk, liquidity risk, interest rate and foreign exchange risk The directors review and agree policies for managing each of these risks and they are summarised below

Directors' report *(continued)*

Financial risk management objectives and policies *(continued)*

Economic environment uncertainty

The directors aim to mitigate the effects of uncertainty in the economic environment in its subsidiaries by seeking to

- regularly review the companies' exposure to customer and supplier payment default risk,
- amend the company s credit assessment policies,
- minimise the companies' exposure to fluctuations in hotel occupancy by engaging in fixed fee contracts where appropriate, and
- minimise its risks to any one financial institution by holding cash reserves with a number of providers

Liquidity risk

Liquidity risk is monitored on an ongoing basis by undertaking cash flow forecasting procedures In order to ensure continuity of funding, the company seeks to arrange maintain sufficient cash reserves and un-drawn committed borrowing facilities

Interest rate risk

The exposure of the company to interest rate fluctuations is managed by maintaining funding flexibility through a combination of cash pooling, shareholder funding and borrowings while obtaining a large degree of certainty in its commitments by borrowing extensively under fixed rates

Credit risk

The company actively mitigates the risk of payment default by seeking favourable payment methods and credit arrangements with its customers and by reviewing outstanding payments and provisions for payment default regularly

Foreign exchange risk

The majority of the company s transactions originate in Sterling and Euro with a minimal exposure to foreign exchange fluctuations The company seeks to further reduce this risk by, where possible, matching foreign currency receipts with payments and, for certain countries, to negotiate payments from customers and to suppliers in more stable currencies such as Sterling and Euro

Post balance sheet events

On 8 April 2008 IHSH entered into a deed with the company ("IHSL") under which IHSL agreed, on request by IHSH, to subscribe for £77,240,349 10% unsecured loan notes to be issued by IHSH on 5 March 2009 with a repayment date of 4 March 2010 The purpose of the subscription is to facilitate the repayment by IHSH of all amounts then outstanding in respect of the £69,890,915 10% unsecured loan notes, plus accrued interest, issued to CIA 10 due for repayment on 5 March 2009 The loan notes issued by IHSH under this arrangement will have substantially the same terms as the 10% unsecured loan notes issued to CIA 10

On the same date IHSL entered into a deed with CIA 10 under which CIA 10 agreed on request by IHSL. to subscribe for £77,240,349 10% unsecured loan notes to be issued by IHSL on 5 March 2009 with a repayment date of 4 March 2010 The purpose of the issue is to facilitate the subscription by IHSL for £77,240,349 10% unsecured loan notes to be issued by IHSH on the same date The loan notes to be issued by IHSL under this arrangement will have substantially the same terms as the 10% unsecured loan notes due 5 March 2009 issued to CIA 10 by the company

On 5 September 2008 IHSH entered into a supplemental deed to amend the loan agreement with CIA 10 The amendments allow IHSH to repay the loan and interest in any amount and at any time up to the repayment date at IHSH s discretion Since the amendment. IHSH made an early payment of £1 155 740 to CIA 10

Directors' report *(continued)*

Directors

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

C P T O'Haire	(resigned 19 July 2007)
Q R Stewart	(resigned 19 July 2007)
D N Leyland	(appointed 27 September 2007)
I D Crabb	(appointed 27 September 2007)
K Gozzett	(appointed 19 July 2007)
W H A Murphy	(appointed 19 July 2007)

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

Employees

The Group recognises the value of a workforce drawn from varied backgrounds and requires management to exercise fairness and reasonableness in its human resources practices The Group is committed to operating non-discriminatory policies and practices in relation to recruitment, training, development, compensation, and promotion without regard to race, gender, religion, ethnic origin, marital status and non job-related disabilities of its employees The Group requires the highest standard of ethical, moral and legal behaviour at all times from its employees

Where existing employees become disabled, it is the Group's policy wherever practical to provide continuing employment under normal terms and conditions and to provide training, career development and promotion to disabled employees wherever appropriate

The Group places great emphasis on effective employee communications and has established programs to facilitate this Employee representatives are consulted on a wide variety of issues affecting their current and future interests

Disclosure of information to auditors

The directors who held office at the date of approval of this directors report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Political and charitable contributions

The Group made charitable contributions amounting to £1,000 *(2007 £nil)* and no political contributions during the year

Auditors

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

On behalf of the Board

W H A Murphy
Director

17 November 2008

Carmelite
50 Victoria Embankment
Blackfriars
London
EC4Y 0DX

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards

The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the group and parent company and of the profit or loss for that period

In preparing these financial statements, the directors are required to

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

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

KPMG Audit Plc
8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Independent auditors' report to the members of Interactive Hotel Services Limited

We have audited the group and parent company financial statements (the 'financial statements') of Interactive Hotel Services Limited for the year ended 31 March 2008 which comprise the consolidated profit and loss account, consolidated balance sheet, company balance sheet, cash flow statement and the related notes 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 Directors' Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 6

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 Directors' Report 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 Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

Basis of audit 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 judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group 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

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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 March 2008 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 Directors' Report is consistent with the financial statements

KPMG Audit Plc

1st November 2008

KPMG Audit Plc
Chartered Accountants
Registered Auditor

Consolidated profit and loss account

for the year ended 31 March 2008

	Note	2008 £'000	2007 £ 000
Group turnover	2	89,057	74,824
Cost of sales	3	(60,998)	(48,643)
Gross profit		28,059	26,181
Net operating expenses	3 4 5	(28,634)	(27,798)
Exceptional financial restructuring costs	6	(1,587)	-
Operating loss		(2,162)	(1,617)
Interest receivable and similar income	7	329	1,805
Interest payable and similar charges	8	(23,677)	(20,979)
Loss on ordinary activities before taxation		(25,510)	(20,791)
Tax on profit on ordinary activities	9	(1,203)	(54)
Loss on ordinary activities after taxation		(26,713)	(20,845)
Minority interests	26	1,829	698
Loss for the financial year		(24,884)	(20,147)

All results relate to continuing operations

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

Consolidated balance sheet
at 31 March 2008

	Note	**2008**	**2008**	2007	2007
		£'000	**£'000**	£'000	£'000
Fixed assets					
Intangible assets	*10*	**6,018**		4,733	
Tangible assets	*11*	**84,065**		63,892	
			90,083		68,625
Current assets					
Goods for resale and work in progress		**6,362**		7,523	
Debtors	*13*	**29,367**		23,234	
Cash and cash equivalents		**7,371**		7,209	
		43,100		37,966	
Creditors amounts falling due within one year	*14*	**(101,356)**		(99,595)	
Net current liabilities			**(58,256)**		(61,629)
Total assets less current liabilities			**31,827**		6,996
Creditors amounts falling due after more than one year	*15*		**(99)**		(151,360)
Provisions for liabilities and charges	*16*		**(2,493)**		(1,194)
Net assets/(liabilities)			**29,235**		(145,557)
Capital and reserves					
Called up share capital	*17*		**220,512**		215,511
Profit and loss account	*18*		**(382,088)**		(341,973)
Other reserves	*18*		**190,811**		-
			29,235		(126,462)
Minority interests	*26*		**-**		(19,095)
Equity			**29,235**		(145 557)

These financial statements were approved by the board of directors on 17 November 2008 and were signed on its behalf by

W H A Murphy
Director

Company balance sheet
at 31 March 2008

	Note	2008 £'000	2007 £'000
Fixed assets			
Investments	*12*	5,000	-
Current assets			
Cash at bank and in hand		5	4
Total assets		5,005	4
Creditors amounts falling due after more than one year	*15*	(99)	(90)
Net assets/(liabilities)		4,906	(86)
Capital and reserves			
Called up share capital	*17*	220,512	215,511
Profit and loss account	*18*	(215,606)	(215,597)
Shareholder's funds		4,906	(86)

These financial statements were approved by the board of directors on 17 November 2008 and were signed on its behalf by

W H A Murphy
Director

Consolidated cash flow statement

for the year ended 31 March 2008

	Note	2008 £'000	2007 £ 000
Cash flow from operating activities	21	22,164	17,065
Returns on investments and servicing of finance	22	269	(4,526)
Taxation	22	(355)	(125)
Capital expenditure and financial investment	22	(33,429)	(33 899)
Cash outflow before management of liquid resources and financing		(11,351)	(21,485)
Management of liquid resources		-	-
Financing – issue of share capital	22	5,000	15,000
– increase in debt	22	6,000	-
Decrease in cash in the year		(351)	(6,485)

Reconciliation of net cash flow to movement in net funds

for the year ended 31 March 2008

	Note	2008 £'000	2007 £'000
Decrease in cash in the year	23	(351)	(6,485)
Cash used to decrease debt financing	23	(6,000)	-
Change in net funds resulting from cash flows		(6,351)	(6,485)
Non-cash interest	23	(22,143)	(16,064)
Foreign exchange movements	23	(6,317)	1,354
Other non-cash movements	23	190,811	-
Movement in net funds in the year		156,000	(21,195)
Net funds at the start of the year	23	(219,631)	(198 436)
Net funds at the end of the year		(63,631)	(219 631)

Consolidated statements of total recognised gains and losses
for the year ended 31 March 2008

	2008 £'000	2007 £'000
Loss for the financial year	(24,884)	(20,147)
Foreign exchange movement	5,693	(1 367)
Total recognised losses relating to the financial year	**(19,191)**	**(21,514)**

Reconciliations of movements in shareholders' funds
for the year ended 31 March 2008

	Group		Company	
	2008 £'000	2007 £ 000	2008 £'000	2007 £'000
Loss for the financial year	(24,884)	(20,147)	(9)	(15,008)
Foreign exchange movement	5,693	(1,367)	-	-
Disposal to minority interests	-	18,396		
Capital contribution	190,811	-	-	-
Acquisition and dilution of minority interests	(20,924)	-	-	-
Share capital issued	5,001	15,000	5,001	15,000
Net addition to /(reduction in) shareholders' funds	155,697	11,882	4,992	(8)
Opening shareholders' deficit	(126,462)	(138,344)	(86)	(78)
Closing shareholders' funds/(deficit)	29,235	(126,462)	4,906	(86)

Notes *(forming part of the financial statements)*

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements

Basis of preparation

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

As at 31 March 2008 the group had net current liabilities of £58 3m *(2007 £61 6m)* This is principally due to £70m of unsecured 10% loan notes issued by Interactive Hotel Services Holdings plc ("IHSH"), a subsidiary undertaking of the company, to CIA 10 which are due for repayment on 5 March 2009 Under this agreement, the loan interest is not payable, but rather accrues until the redemption date

On 8 April 2008 the company's subsidiary Interactive Hotel Services Holdings plc ("IHSH") entered into a deed with the company ("IHSL") under which IHSL agreed, on request by IHSH, to subscribe for £77,240,349 10% unsecured loan notes to be issued by IHSH on 5 March 2009 with a repayment date of 4 March 2010 The purpose of the subscription is to facilitate the repayment by IHSH of all amounts then outstanding in respect of the £69,890,915 10% unsecured loan notes, plus accrued interest, issued to CIA 10 due for repayment on 5 March 2009 The loan notes issued by IHSH under this arrangement will have substantially the same terms as the 10% unsecured loan notes issued to CIA 10

On the same date IHSL entered into a deed with CIA 10 under which CIA 10 agreed, on request by IHSL, to subscribe for £77,240,349 10% unsecured loan notes to be issued by IHSL on 5 March 2009 with a repayment date of 4 March 2010 The purpose of the issue is to facilitate the subscription by IHSL for £77,240,349 10% unsecured loan notes to be issued by IHSH on the same date The loan notes to be issued by IHSL under this arrangement will have substantially the same terms as the 10% unsecured loan notes due 5 March 2009 issued to CIA 10 by the company

Having secured the ability to refinance the company's and its group's borrowing commitments until 5 March 2010, the Directors consider it appropriate to prepare the financial statements on a going concern basis

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings for the year ended 31 March 2008 The acquisition method of accounting has been adopted Under this method, the results of any subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal

Under section 230(4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account

Investments

Investments in subsidiary undertakings are stated at cost less any provision for impairment calculated as the lower of the sale value of the investment less costs and the value in use

Tangible fixed assets and depreciation

Depreciation is provided to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

Rental assets	-	3 to 7 years
Office equipment	-	5 years
Computer equipment	-	3 years
Fixtures and fittings	-	5 to 10 years

Notes *(continued)*

1 Accounting policies *(continued)*

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account

The assets and liabilities of overseas subsidiary undertakings are translated at the closing exchange rates Profit and loss accounts of such undertakings are consolidated at the weighted average rates of exchange for the year Exchange differences between overseas operations' results translated at weighted average and closing rates and those arising on the translation of their opening net assets, are taken to reserves net of exchange differences arising on related foreign currency borrowings

Goods for resale

Goods for resale are stated at the lower of cost and net realisable value

Leases

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses

Payments made under operating leases are recognised in the profit and loss accounts on a straight-line basis over the term of the lease

Goodwill and negative goodwill

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on consolidation in respect of acquisitions since 1 January 1998 is capitalised Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life

Taxation

The charge for taxation is based on the result for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes Deferred tax is recognised in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19 'Deferred tax'

Turnover

Turnover consists principally of amounts (excluding value added tax) derived from the rental of in-room equipment including software to hotel and is recognised on a straight line basis over the contract life Income from hotel guests viewing of Pay-TV and other in-room technology based services is recognised as turnover as the service is provided Turnover also includes amounts derived from the maintenance of this equipment Further turnover includes amounts derived from the outright sale of in-room equipment which is recognised on acceptance of the goods by the customer

Research and development expenditure

Research expenditure is charged to the profit and loss account as incurred Development expenditure is capitalised only where the technical feasibility of the related project is considered reasonably certain and where it is anticipated with sufficient certainty that further development costs to be incurred on the same project, together with related production, selling and administrative costs, will be more than covered by a future revenue stream

Capitalised development expenditure is amortised over the period economic benefits are expected to be derived which is between 3 and 7 years depending on the nature of the project and the timing of the future revenue stream

Notes *(continued)*

1 Accounting policies *(continued)*

Classification of financial instruments issued by the Group

Following the adoption of FRS 25, financial instruments issued by the Group are treated as equity (i e forming part of shareholders funds) only to the extent that they meet the following two conditions

a) they include no contractual obligations upon the company (or Group as the case may be) to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company (or Group), and

b) where the instrument will or may be settled in the company s own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company s own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares

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

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges Finance payments associated with financial instruments that are classified as part of shareholders funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements

Post retirement benefits

The Group operates a number of defined contribution pension schemes The principal scheme operated by the Group was established on 23 August 2007 Prior to this date, the company participated in the Thorn Pension Fund in conjunction with other subsidiary undertakings of the Carmelite Capital Limited Group On 23 August 2007, CCL sold its investment in IHSL to CIA 10 and as a result of this transaction the employees of the company de-participated from the Thorn Limited Pension Scheme

The assets of the defined contribution scheme are held separately from those of the Group in an independently administered fund The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period

Cash and liquid resources

Cash, for the purpose of the cash flow statement, comprises cash in hand and deposits repayable on demand, less overdrafts payable on demand

Liquid resources are current asset investments which are disposable without curtailing or disrupting the business and are either readily convertible into known amounts of cash at or close to their carrying values or traded in an active market Liquid resources comprise holdings in collective investment schemes

Notes *(continued)*

2 Segmental information

Based on risks and returns, the directors consider the primary reporting format is by business segment

The directors consider that there is only one business segment being the supply and outright sale of equipment and software enabling the provision of in-room technology based services to hotels and similar services to other markets across Europe

The secondary reporting format is by geographical analysis Based on risks and returns the directors consider that there are three geographical segments being the United Kingdom, the rest of Europe and the rest of World

The tables below sets out information and respect of the business for each of the Group's geographic areas of operation for each of the relevant years The directors consider that there is no material difference between turnover by origin and by destination in the year ended 31 March 2008

	UK		Europe		Rest of World		Total	
	2008	2007	**2008**	2007	**2008**	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000	**£'000**	£'000	**£'000**	£'000
Turnover by origin (excluding intercompany)	**20,517**	20,068	**67,584**	54,170	**956**	586	**89,057**	74,824
Group segment profit/(loss) before interest and taxation	**(580)**	(1,903)	**(1,312)**	511	**(270)**	(225)	**(2,162)**	(1,617)
Interest receivable and similar income							**329**	1,805
Interest payable and similar charges							**(23,677)**	(20,979)
Group profit before taxation							**(25,510)**	(20,791)
Segment net assets (excluding intercompany)	**25,145**	24,692	**73,298**	55,264	**1,281**	986	**99,724**	80,942
External borrowings							-	(55,477)
Loans from related parties							**(70,489)**	(171,023)
Total net assets							**29,235**	(145,557)

Income and expenses were translated at the average exchange rate for the year ended 31 March 2008 £1 €1 4198 *(2007 £1 €1 4755)* Assets and liabilities were translated at the closing exchange rate as at 31 March 2008 £1 €1 2636 *(2007 £1 €1 4721)*

Notes *(continued)*

3 Cost of sales and other operating expenses

	2008 £'000	2007 £'000
Depreciation and other amounts written off rental assets	**19,247**	17,185
Amortisation of capitalised development costs	**1,422**	1,230
Other cost of sales	**40,329**	30,228
Cost of sales	**60,998**	48,643

	2008 £'000	2007 £'000
Employee costs (see note 5)	**16,675**	14,107
Depreciation and other amounts written off other tangible fixed assets	**867**	825
Research and development expenditure	**876**	1,049
Rentals payable under operating leases	**2,171**	2,136
Other net operating expenses	**8,045**	9,681
Other net operating expenses	**28,634**	27,798

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

	2008 £'000	2007 £'000
Audit of these financial statements	**55**	5
Amounts receivable by auditors and their associates in respect of		
Audit of financial statements of subsidiaries	**305**	323
Other services relating to taxation	**93**	47
Services relating to recruitment and remuneration	**4**	-
All other services	**18**	46
	475	421

Having regard to the nature of the business of the Group, the analysis of operating costs as prescribed by the Companies Act 1985 is not meaningful In the circumstances, as prescribed by paragraph C3(3) of Schedule 4 of the Companies Act 1985, the directors have adapted the prescribed format to the requirements of the Group's business

Notes *(continued)*

4 Remuneration of directors

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

	2008 £'000	2007 £ 000
Directors' emoluments	**688**	606

The aggregate of emoluments of the highest paid director was £684,000 *(2007 £606,000)*, and company pension contributions of £4,000 *(2007 £nil)* were made on his behalf

None of the directors of the company received any emoluments or other benefits in respect of services to the company during the year ended 31 March 2008 *(2007 £nil)*

5 Staff numbers and costs

The average number of persons employed by the group (including directors) during the year was as follows

	Number of employees 2008	2007
Sales	**78**	80
Operations and administration	**242**	228
Research and development	**11**	8
	331	316

The aggregate payroll costs of these persons were as follows

	2008 £'000	2007 £'000
Wages and salaries	**13,672**	11 879
Social security costs	**2,312**	2,015
Other pension costs	**691**	213
	16,675	14 107

Payroll costs include £0 2m *(2007 £nil)* in respect of potential payments to employees in relation to retention schemes operated by the Group In addition, payroll costs in 2007 include a release of a provision of £496,000 against one-off payments related to redundancy costs

6 Exceptional financial restructuring costs

The Quadriga Group incurred professional fees of £1 6m during the year due to financial restructuring projects On 6 March 2008 the Group successfully completed the financial restructuring affecting a number of entities within the Group At 31 March 2008 £1 6m was outstanding and is included in accruals and deferred income

Notes *(continued)*

7 Interest receivable and similar income

	2008	2007
	£'000	£ 000
Bank interest and investment income	329	388
Net foreign exchange gains	-	1 417
	329	1 805

8 Interest payable and similar charges

	2008	2007
	£'000	£ 000
Bank interest	60	62
Related party loans	20,873	15,505
Committed facilities	1,280	5,412
Net foreign exchange losses	1,464	-
	23,677	20 979

Interest payable on loans from related parties is payable principally on three unsecured zero coupon subordinated loan notes which were settled during the year

9 Taxation

	2008	2007
	£'000	£ 000
UK corporation tax		
Current tax on income for the year	-	-
Adjustments in respect of prior years	18	-
Overseas tax		
Current tax on income for the year	1,158	242
Adjustments in respect of prior years	27	(188)
Tax charge on profit on ordinary activities	1,203	54

Notes *(continued)*

9 Taxation *(continued)*

The current tax charge for the year is higher *(2007 higher)* than the standard rate of corporation tax in the United Kingdom of 30% (*2007 30%*) The differences are explained below

	2008	2007
	£'000	£'000
Current tax reconciliation		
Profit/(loss) on ordinary activities before tax	**(25,510)**	(20,791)
Current tax at 30% *(2007 30%)*	**(7,610)**	(6,143)
Effects of		
Income not taxable/expenses not deductible for tax purposes	**230**	393
Interest not deductible for tax purposes	**4,797**	-
Capital allowances for year in excess of depreciation	**2,027**	502
Short term timing differences	**255**	470
Adjustments to tax charge in respect of previous years	**45**	(188)
Losses carried forward	**476**	4,321
Overseas taxation	**937**	23
Other	**46**	676
Total current tax charge (see above)	**1,203**	54

Factors that may affect future tax charge

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

a) Unrecognised deferred tax assets

No deferred tax assets have been recognised on the timing differences set out below as, in the opinion of the directors, as the ability of the group to obtain the tax benefit of these payments is dependant on suitable profits arising in the relevant statutory companies in the future, that are either not currently foreseen or cannot be estimated with sufficient certainty

	2008	2007
	£'000	£ 000
Difference between accumulated depreciation and amortisation and capital allowances	**1,582**	1,905
Other timing differences	**1,927**	1,630
Tax losses	**8,959**	7,324
Non-trading debits	**66**	616
Gross deferred tax asset	**12,534**	11,475

Notes *(continued)*

10 Intangible fixed assets

	Goodwill £'000	Development costs £'000	Total £'000
Group			
Cost			
At beginning of year	165,685	6,543	172,228
Additions	-	2,707	2,707
At end of year	165,685	9,250	174,935
Impairment			
At beginning and end of year	74,220	-	74,220
Amortisation			
At beginning of year	91,465	1,810	93,275
Charge for year	-	1,422	1,422
At end of year	91,465	3,232	94,697
Net book value			
At 31 March 2008	**-**	**6,018**	**6,018**
At 31 March 2007	-	4,733	4,733

Impairment review of goodwill

Goodwill was fully impaired during the year ended 31 March 2006 following the completion of an impairment review conducted in accordance with FRS 11

Impairment review of development costs

A full review of the unamortized balance of all development costs that have been capitalised since digital product development commenced was conducted at each balance sheet date in accordance with FRS 11 No impairment loss has been recognised during the year ended 31 March 2008 *(2007 nil)*

Notes *(continued)*

11 Tangible fixed assets

	Rental assets £'000	Fixtures, equipment and vehicles £'000	Total £'000
Group			
Cost			
At beginning of year	179,755	11 761	191,516
Additions	28,939	1,784	30 723
Disposals	(30 849)	(189)	(31,038)
Translation	22,012	413	22,425
At end of year	199 857	13,769	213,626
Depreciation			
At beginning of year	118,022	9,602	127,624
Charge for year	19,247	867	20,114
On disposals	(31,160)	(188)	(31,348)
Translation	12,855	316	13,171
At end of year	118,964	10,597	129,561
Net book value			
At 31 March 2008	**80,893**	**3,172**	**84,065**
At 31 March 2007	61,733	2,159	63,892

The company has no tangible fixed assets

Notes *(continued)*

12 Fixed asset investments

Company	**Shares in group undertakings** £'000
Cost	
At beginning of year	215 560
Additions	5,000
At end of year	220,560
Impairment	
At beginning and end of year	215,560
Net book value	
At 31 March 2008	**5,000**
At 31 March 2007	-

On 16 April 2007, the company subscribed 2,000,000 £1 ordinary shares in its subsidiary undertaking IHSH On 12 June 2007 and 22 June 2007, the company subscribed for a total of 300,000,000 1p ordinary shares in IHSH The total of these subscriptions was £5,000,000

Impairment of investment

As required by FRS 11 'Impairment of fixed assets and goodwill , the directors have conducted an impairment review on the carrying amount of the investment held by the company in Interactive Hotel Services Holdings plc as at 31 March 2008 Based on a review of the future cash flows expected to be generated by this companies, the directors have determined that no further impairment is required

At 1 April 2007, a provision of £215,560,000 had been recognised

Notes *(continued)*

12 Fixed asset investments *(continued)*

The principal operating undertakings in which the company has an interest at the year end are as follows

Subsidiary undertaking	Overseas branches	Country of incorporation	Class and percentage of shares held	
Quadriga Worldwide Limited	Portugal	England	Ordinary	100
Quadriga EMEA Limited	Czech Republic, Malta, Turkey, Hungary, Bulgaria	England	Ordinary	100
Quadriga Interactive Systems Limited	Czech Republic, Poland, Hungary	England	Ordinary	100
Quadriga Benelux BV		Netherlands	Ordinary	100
Quadriga Belgium NV		Belgium	Ordinary	100
Quadriga Danmark AS		Denmark	Ordinary	100
Quadriga Norge AS		Norway	Ordinary	100
Quadriga Finland OY	Estonia	Finland	Ordinary	100
Quadriga Svenska AB		Sweden	Ordinary	100
Quadriga France SAS		France	Ordinary	100
Quadriga Greece Hotel Technologies SA		Greece	Ordinary	100
Quadriga Poland SP z o o		Poland	Ordinary	100
Quadriga Suisse SA		Switzerland	Ordinary	100
Quadriga Business Espana SA		Spain	Ordinary	100
Quadriga Italia SPA		Italy	Ordinary	100
Quadriga Deutschland GmbH		Germany	Ordinary	100
Quadriga EMEA Romania SRL		Romania	Ordinary	100

The company has no direct interest in the subsidiary undertakings set out above The principal activity of the subsidiary undertakings is the supply of equipment and software enabling the provision of in-room technology based services to hotels and similar services to other markets in the United Kingdom and Europe The systems deployed provide functionality in the areas of guest entertainment, hotel information, and communications

The non operating subsidiaries of the company are (* denotes direct interest at 31 March 2008)

Subsidiary undertaking	Principal activity	Country of incorporation	Class and percentage of shares held	
Interactive Hotel Services Holdings plc*	Holding company	England	Ordinary	100
			Preference	100
Interactive Hotel Services Investments Limited	Holding company	England	Ordinary	100
			Preference	100
Quadriga Holdings Limited	Holding company	England	Ordinary	100
			Preference	100
Quadriga Overseas Holdings Limited	Holding company	England	Ordinary	100
Quadriga UK Limited	Finance company	England	Ordinary	100
Quadriga Holdings BV	Holding company	Netherlands	Ordinary	100
Thorn France Holdings SAS	Holding company	France	Ordinary	100
Quadriga Technology Limited	Dormant	England	Ordinary	100

Notes *(continued)*

13 Debtors

	Group		Company	
	2008	2007	**2008**	2007
	£'000	£ 000	**£'000**	£ 000
Amounts falling due within one year				
Trade debtors	**22,418**	16,800	-	-
Corporation tax	**311**	233	-	-
Other debtors	**3,967**	3,450	-	-
Prepayments and accrued income	**2,671**	2,751	-	-
	29,367	23,234	-	-

14 Creditors amounts falling due within one year

	Group		Company	
	2008	2007	**2008**	2007
	£'000	£'000	**£'000**	£'000
Committed facilities	-	55,477	-	-
Loans from related parties	**70,390**	20,003	-	-
Trade creditors	**7,473**	7,159	-	-
Customer deposits and rentals in advance	**4,988**	3,511	-	-
Other taxes and social security	**939**	-	-	-
Other creditors	**2,333**	1,258	-	-
Overdraft	**513**	-	-	-
Accruals and deferred income	**14,720**	12,187	-	-
	101,356	99,595	-	-

Loans from related parties at 31 March 2008 comprise 10% unsecured loan notes issued to CIA 10 on 6 March 2008 The balance at the year end represented loan notes with a principal value of £69,891 000 plus accrued interest of £500,000 The loan notes have a maturity date of 5 March 2009

On 6 April 2008, the company entered into a deed with CIA 10 under which CIA 10 agreed, on request by the company to subscribe for £77 240,349 10% unsecured loan notes to be issued by IHSL on 5 March 2009 with a repayment date of 4 March 2010 The purpose of the issue is to facilitate the subscription by IHSL for £77,240,349 10% unsecured loan notes to be issued by the company's subsidiary, Interactive Hotel Services Holdings Plc ("IHSH"), on the same date The loan notes to be issued by the company under this arrangement will have substantially the same terms as the 10% unsecured loan notes due 5 March 2009 issued to CIA 10 by Interactive Hotel Services Holding Plc

On 5 September 2008, IHSH entered into a supplement deed to amend the loan agreement with CIA 10 The amendments allow the company to repay the loan and interest in any amount and at any time up to the repayment date at the company's discretion Since the amendment, the company made an early payment of £1 155 740 to CIA 10

Notes *(continued)*

15 Creditors amounts falling due after more than one year

	Group		Company	
	2008	2007	**2008**	2007
	£'000	£ 000	**£'000**	£ 000
Loans from related parties	**99**	151,360	**99**	90

At 31 March 2008, loans from related parties comprise 11% loan notes issued to Co-Investment Acquisition No 10 LP Inc, plus accrued interest The balance at the year end represented loan notes with a principal value of £50,000 (*2007 £50,000*) plus accrued interest of £49,000 (*2007 £40,000*) and a repayment date of 6 September 2010

At 31 March 2007, loans from related parties also included 11% revolving loan notes issued to TFCPI, acting through its general partner Terra Firma Investments (GP) Limited, with a principal value of £91,566,000 plus accrued interest of £59,704,000 The loan notes had repayment dates of 22 September 2010, 3 December 2011 and 22 January 2014

On 19 July 2007 the loan notes were acquired by Co-Investment Acquisition No 4 LP Inc ("CIA 4") and were subsequently purchased by CIA 10 on 23 August 2007 The loan notes were settled on 6 March 2008

16 Provisions for liabilities and charges

	Taxation	Other	Total
	£'000	**£'000**	**£'000**
Group			
At beginning of year	-	1,194	**1,194**
Utilised during year	-	(174)	**(174)**
Released unutilised	-	-	-
Charge/(credit) for the year	926	350	**1,276**
Translation	-	197	**197**
At end of year	**926**	**1,567**	**2,493**

The company has no provisions for liabilities and charges

The provision for taxation is in respect of potential overseas tax obligations The provision will be utilised depending on the outcome of the discussions with the authorities in the relevant territories and will be subject to on-going reviews as the timing of the outflows are uncertain

Notes *(continued)*

17 Called up share capital

	2008 £'000	2007 £ 000
Authorised		
211,510,711 Ordinary shares of £1 each	**211,511**	211,511
1,000 B Ordinary shares of £1 each	**1**	-
15,000,000 'B Preference shares of £1 each	**15,000**	15,000
	226,512	226,511
Allotted, called up and fully paid		
205,510,711 Ordinary shares of £1 each	**205,511**	200,511
1,000 B Ordinary shares of £1 each	**1**	-
15,000,000 'B' Preference shares of £1 each	**15,000**	15,000
	220,512	215,511

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

On winding up, the B-preference shares rank above the ordinary shares in issue and the preference shareholders would be entitled to all arrears and accruals relating to the calculated preferred participation and a return of capital before any return to the ordinary shareholders There are no voting rights attached to the preference shares

On 6 March 2008, the company's authorised share capital was increased from £226,510,711 to £226,511,711 by the creation of a new class of 1,000 B Ordinary shares of £1 each The holders of the B ordinary shares have the right to the first £8,541,000 of any profits or assets of the company The B-Ordinary shares have voting rights

On 16 April 2007 and 12 June 2007, CCL subscribed for 2,000 000 £1 ordinary shares in the company On 22 June 2007, CCL subscribed for a further 1,000,000 £1 ordinary shares As set out in note 12, the company used the proceeds to subscribe for shares in IHSH

On 6 March 2008, CIA 10 purchased £1 000 of B ordinary shares The consideration for these shares was satisfied via a share for share exchange resulting in the transfer of CIA 10's investment in 129,856,204 B Ordinary shares in IHSH to the company

Notes *(continued)*

18 Profit and loss account and other reserves

Group	Profit and loss account £000	Other reserves £000	Total £000
At beginning of year	(341,973)	-	**(341,973)**
Profit for the financial year	(24,884)	-	**(24,884)**
Acquisition and dilution of minority interests	(20,924)	-	**(20,924)**
Capital contribution on financial restructuring	-	190,811	**190,811**
Net exchange differences	5,693	-	**5,693**
At end of year	**(382,088)**	**190,811**	**(191,277)**

On 6 March 2008, the company's subsidiary undertaking IHSH issued shares to CIA 10 in satisfaction of £166 8m of loan notes These shares were then transferred to IHSL via a share for share exchange (see below) On the same day, the company s indirect subsidiary Quadriga Holdings Limited ("QHL") issued shares to CIA10 in satisfaction of £24 0m of debt These shares were then contributed by CIA 10 to another subsidiary undertaking of the company, Interactive Hotel Services Investments Limited, for a nominal consideration As a consequence of this capital reconstruction, the group has benefited from a £190 8m reduction in its debt obligations The excess arising over the nominal value of the shares issued has been credited to a separate reserve

Company	Profit and loss £'000
At beginning of year	(215,597)
Loss for the financial year	(9)
At end of year	(215,606)

19 Commitments

(a) The company and group had no capital commitments at the end of the financial year *(2007 £nil)*

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

	2008		2007	
Group	**Land and buildings £'000**	**Other £'000**	Land and buildings £ 000	Other £ 000
Operating leases which expire				
Within one year	**723**	**576**	565	386
In the second to fifth years inclusive	**846**	**1,050**	951	726
Over five years	**458**	-	458	-
	2,027	**1,626**	1,974	1 112

The majority of leases of land and buildings are subject to rent reviews The company had no operating lease commitments *(2007 nil)*

Notes *(continued)*

20 Pension scheme

From 23 August 2007, the Group has operated a defined contribution pension scheme The main scheme, which covers employees in the United Kingdom, is the Quadriga Worldwide Limited Pension Scheme ('the Scheme), a defined contribution scheme Staff engaged outside the United Kingdom are covered by local arrangements, which are largely defined contribution schemes

The Group formerly participated in the Thorn Pension Fund in conjunction with other subsidiary undertakings of the CCL Group On 23 August 2007, CCL sold its entire holding of shares in IHSL to CIA 10 and as a result of this transaction the employees of the company de-participated from the Thorn Limited pension scheme

The Group has accounted for scheme contributions in accordance with FRS 17 'Retirement Benefits' The charge to the profit and loss account in respect of the current year was £691,000 *(2007 213,000)* There was no prior year charge as a result of the Thorn Limited pension scheme being in a surplus position

At 31 March 2008, contributions amounting to £79,000 were payable by the Group to the scheme *(2007 £18,000)*

The company does not have any employees consequently there was no charge in respect of contributions during the current or preceding year and there were no outstanding or prepaid contributions at either the beginning or end of the financial year

21 Reconciliation of operating loss to operating cash flows

	2008	2007
	£'000	£'000
Operating loss	**(2,162)**	(1,617)
Depreciation	**21,536**	19,538
Net book value of rental asset disposals	**(310)**	1,236
Decrease in goods for resale	**1,161**	371
Increase in debtors	**(6,055)**	(5,208)
Increase in creditors and provisions	**6,712**	2,690
Translation differences	**1,282**	55
Net cash inflow from operating activities	**22,164**	17,065

Notes *(continued)*

22 Analysis of cash flows

	2008	2008	2007	2007
	£'000	£'000	£ 000	£ 000
Returns on investment and servicing of finance				
Interest received	329		388	
Interest paid	(60)		(4,914)	
		269		(4,526)
Taxation		(355)		(125)
Capital expenditure and financial investment				
Purchase of intangible fixed assets	(2,707)		(2,040)	
Purchase of tangible fixed assets	(30,722)		(31,859)	
		(33,429)		(33,899)
Financing				
New share capital issued	5,000		15,000	
Increase in loans from related parties due in less than one year	6,000		18,999	
Repayment of committed facilities due in less than one year	-		(18,999)	
		11,000		15,000

23 Analysis of net funds

	At beginning of year £'000	Cash flow £'000	Non-cash interest £'000	Non-cash movements £'000	Exchange movements £'000	At end of year £'000
Cash	7,209	(351)	-	-	-	6,858
Net funds receivable after more than one year	(151,360)	-	(15,490)	166,751	-	(99)
Net funds receivable within one year	(75,480)	(6,000)	(6,653)	24,060	(6,317)	(70,390)
Total	**(219,631)**	**(6,351)**	**(22,143)**	**190,811**	**(6,317)**	**(63,631)**

Notes *(continued)*

24 Post balance sheet events

On 8 April 2008 IHSH entered into a deed with IHSL under which IHSL agreed, on request by IHSH, to subscribe for £77,240,349 10% unsecured loan notes to be issued by IHSH on 5 March 2009 with a repayment date of 4 March 2010 The purpose of the subscription is to facilitate the repayment by IHSH of all amounts then outstanding in respect of the £69,890,915 10% unsecured loan notes, plus accrued interest, issued to CIA 10 due for repayment on 5 March 2009 The loan notes issued by IHSH under this arrangement will have substantially the same terms as the 10% unsecured loan notes issued to CIA 10

On the same date IHSL entered into a deed with CIA 10 under which CIA 10 agreed, on request by IHSL, to subscribe for £77,240,349 10% unsecured loan notes to be issued by IHSL on 5 March 2009 with a repayment date of 4 March 2010 The purpose of the issue is to facilitate the subscription by IHSL for £77,240,349 10% unsecured loan notes to be issued by IHSH on the same date The loan notes to be issued by IHSL under this arrangement will have substantially the same terms as the 10% unsecured loan notes due 5 March 2009 issued to CIA 10 by the company

On 5 September 2008 IHSH entered into a supplemental deed to amend the loan agreement with CIA 10 The amendments allow IHSH to repay the loan and interest in any amount and at any time up to the repayment date at IHSH's discretion Since the amendment, IHSH made an early payment of £1,155,740 to CIA 10

25 Related party transactions

From 1 April 2007 to 19 July 2007 Terra Firma Capital Partners I ("TFCPI"), an English Limited Partnership, acting through its general partner Terra Firma Investments (GP) Limited, a company incorporated in Guernsey, held 100% of the issued share capital of Carmelite Capital Limited ("CCL"), which was formerly the largest group of which the company is a member and for which group financial statements are prepared

On 27 May 2007, Terra Firma Investments (GP) Limited, a wholly owned subsidiary of TFCP Holdings Limited, the ultimate controlling party of the company, agreed to dispose of its entire interest in CCL, the company s parent undertaking, to Co-Investment Acquisition No 2 LP Inc, a Guernsey incorporated limited partnership, and to dispose of its entire interest in the 11% revolving loan notes issued by the company and its subsidiaries to TFCPI to Co-Investment Acquisition No 4 LP Inc, a Guernsey incorporated limited partnership These disposals subsequently completed on 19 July 2007

On 23 August 2007 CCL sold its entire holding of shares in the company to CIA 10 The directors now regard CIA 10, as the ultimate parent company and ultimate controlling party of the company and the Group On the same date Co-Investment Acquisition No 4 LP Inc sold its entire interest in the 11% zero coupon subordinated loan notes issued by the company and its subsidiaries to CIA 10

CIA10 now holds 100% of the issued share capital of IHSL the largest group of which the company is a member and for which group financial statements are prepared

The directors therefore consider TFCPI CIA 10 and the CCL Group to be related parties for the year ended 31 March 2008

On 19 July 2007 CIA 4 acquired 11% revolving loan notes plus accrued interest, from TFCPI These were subsequently purchased by CIA 10 The balance at the year end represented loan notes with principal value £50,000 *(2007 £50,000)* plus accrued interest of £49 000 *(£40,000)* and a repayment date of 6 September 2010

On 19 July 2007 CIA 2 purchased the committed banking facilities provided by RBS to the company and the inter group loan from Thorn Finance Limited a fellow group undertaking within the CCL Group These loans were subsequently acquired by CIA 10 on 23 August 2007 as part of the transaction under which it acquired Interactive Hotel Systems Limited from CCL

On 29 August 2007 CIA 10 increased the amount outstanding on the above loans by lending a further £2m to the company The loan was increased by further payments from CIA 10 of £1 75m on 16 October 2007 £0 25m on 19 October 2007 and £2m on 18 December 2007

On 6 March 2008 the debt owed by QHL to CIA 10 was transferred by CIA 10 to IHSH following the issue of £69,890 915 unsecured loan notes with an interest rate of 10% by IHSH to CIA 10

Notes *(continued)*

25 Related party transactions *(continued)*

The group had the following transactions during the year and balances with at 31 March 2008 with TFCPI, CIA 4 and CIA 10

	11% revolving loan notes		10% revolving loan notes issued 6 March 2008	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Accrued interest during the year				
TFCPI	**4,832**	14,991	**-**	-
CIA 4	**1,570**	-	**-**	-
CIA 10	**9,088**	-	**500**	-
Balance at end of the year				
TFCPI	**-**	151,270	**-**	-
CIA 10	**-**	-	**70,391**	-

During the year, interest payable of £1,067,000 *(2007 £nil)* was paid on the committed facilities provided by PCI 2, £3,806,000 *(2007 £nil)* was paid on the committed facilities provided by CIA 10 and £nil *(2007 £514,000)* was paid on the committed facilities provided by Thorn Finance Limited

26 Minority interests

	Group	
	2008	2007
	£'000	£'000
At beginning of year	**(19,095)**	-
Disposal of subsidiary undertakings	**-**	(18,396)
Share of loss for year	**(1,829)**	(698)
Acquisition of subsidiary undertakings	**20,924**	-
	-	(19,095)

On 6 September 2006, shares in IHSI were issued to certain executives of the group IHSI owned 100% of QHL and its subsidiary undertakings

On 6 March 2008 QHL issued 27,530,338 ordinary shares of £1 each to IHSH As a result of this IHSI now owns 10% of issued ordinary share capital and voting rights in QHL and its subsidiary undertakings In addition, IHSH repurchased a number of the shares issued to the executives As a result of these transactions, there is no material minority interest in the assets of IHSI at 31 March 2008

27 Ultimate parent company and parent undertakings of larger group

The directors regard Co-Investment Acquisition No 10 LP Inc a Guernsey incorporated limited partnership as the ultimate parent company and ultimate controlling party