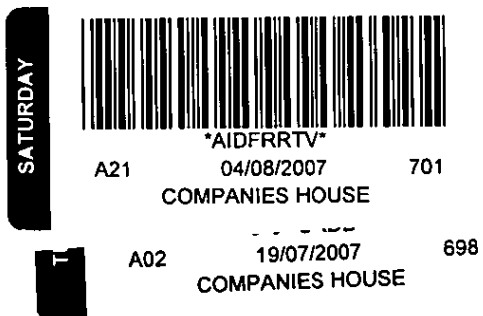


**MENZIES HOTELS HOLDINGS LIMITED (formerly PMH Holdings Limited)**  
**Registered in England Number 5302710**  
**Report and Financial Statements**  
**Year ended 31 January 2007**



## **MENZIES HOTELS HOLDINGS LIMITED**

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## **MENZIES HOTELS HOLDINGS LIMITED**

### **Company information**

#### **Bankers**

Bank of Scotland  
The Mound  
Edinburgh  
EH1 1YZ

#### **Solicitors**

Eversheds LLP  
1 Royal Standard Place  
Nottingham  
NG1 6FZ

Weightman Vizards  
41 Spring Gardens  
Manchester  
M2 2BG

#### **Auditors**

PricewaterhouseCoopers LLP  
Donington Court  
Pegasus Business Park  
Castle Donington  
East Midlands  
DE74 2UZ

#### **Registered Office**

Bakum House  
Etwall Road  
Mickleover  
Derby  
DE3 0DL

Registered in England Number 5302710

## MENZIES HOTELS HOLDINGS LIMITED

### Directors' Report

The Company changed its name to Menzies Hotels Holdings Limited on 21 December 2006 from PMH Holdings Limited. The director presents his report and financial statements of the Group for the year ended 31 January 2007.

#### Principal activity

The principal activity of the Company is that of a holding company, providing management services to its subsidiary undertakings. The principal activity of the Group is the operation and ownership of hotels. The principal activity of the Company's trading subsidiary, Menzies Hotels Operating Limited, is the operation of hotels.

#### Results and dividends

The Group's loss before taxation was £4,233,718 (2006 - £6,191,365) before a taxation credit of £2,078,802 (2006 - charge - £214,647). No dividends were paid in respect of the year (2006 - £nil).

#### Review of the business and future developments

On 10 October 2006 the Company was acquired by Piccadilly Hotels 6 Limited.

During the year the activities of the Group were reorganised. The operation of the Group's hotels was transferred to a new operating company, with the individual hotel properties being transferred to new individual property companies. The directors are satisfied that the transition has been managed successfully.

Turnover increased to £45.9 million (13 months to 31 January 2006 - £43.4 million), a pro-rata increase of 14.6% over the prior period, mainly attributable to the acquisition of the Menzies Cambridge Hotel and Golf Club in January 2006, the opening of the Spa at the Menzies Welcombe Hotel in May 2006 and the disposal of the Menzies Marine Hotel, Salcombe, in September 2006. Operating profit for the year was £7.6 million (13 months to 31 January 2006 - £7.8 million), a pro-rata increase of 4.8% over the prior period. The Group's operating costs are closely monitored and action taken to match costs with demand.

Room revenue per available room (RevPAR) showed a 2% increase to £41.93 (12 months to 31 January 2006 - £41.09) with room occupancy also increasing slightly to 63% from 62% in the previous year. The achieved average room rate increased by 1% to £66.57 (12 months to 31 January 2006 - £65.82).

The Group's year end cash balances decreased to £2.1 million (2006 - £5.0 million). The directors regularly review cash balance forecasts to ensure the Group can meet all its obligations.

At the year end the Group is in a strong position to take advantage of suitable expansion opportunities that may arise.

#### Directors' interests

The interests of the directors in the shares of the Company were as follows:

	Appointed	Resigned	A ordinary shares of 1p each		B ordinary shares of 1p each	
			2007	2006*	2007	2006*
Simon Oakland	-	10 October 2006	-	-	-	-
R Nicholas Menzies	-	30 March 2007	-	-	-	1,462,347
Simon Madgwick	-	10 October 2006	-	-	-	-
Timothy J Penter	10 October 2006	-	-	-	-	-
James Elton	10 October 2006	16 January 2007	-	-	-	-
Mark Tagliaferri	10 October 2006	16 January 2007	-	-	-	-

\* or date of appointment

On 30 June 2006 100,000 C ordinary shares of 1 pence each were issued at par to R Nicholas Menzies. These shares were acquired by Piccadilly Hotels 6 Limited on 10 October 2006. No other director had any interest in the C ordinary shares of the Company whilst appointed as a director during the year or the previous period.

On 31 December 2004 R Nicholas Menzies acquired £5,485,377 of the Unsecured Loan Notes 2014 issued by Menzies Hotels Intermediary Holdings Limited (formerly PMH Acquisitions Limited) on that date. These Loan Notes were repaid on 10 October 2006.

#### Directors' Indemnity Insurance

The Company is party to qualifying third party indemnity provision for the benefit of its directors which remains in force at the date of this report.

#### Tangible fixed assets

Movements in tangible fixed assets are shown in note 7 to the financial statements.

The properties owned by the Group were valued by independent qualified surveyors at 26 September 2006 for a combined valuation of £203.63 million. In the opinion of the directors, there is no material difference between the book values shown in note 7 to the financial statements and current market value.

## **MENZIES HOTELS HOLDINGS LIMITED**

### **Directors' Report ( continued )**

#### **Accounting policies**

Following the acquisition of the Group by Piccadilly Hotels 6 Limited, the accounting policy relating to the revaluation of tangible fixed assets has been changed as set out in note 1 to the financial statements

#### **Employees**

The Group has staff consultative committees, which are based at each of its locations to promote better communication within the Group. The committees will keep staff informed and involved in the progress of the Group, raise awareness of health and safety issues and provide a general means of staff feedback.

#### **Disabled employees**

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

#### **Financial instruments and risk management**

The Group is exposed to financial risk and the policies used in the management of this risk are detailed in note 1 to the financial statements.

#### **Policy and practice on the payment of creditors**

The Group agrees terms and conditions for their business transactions with suppliers. Payment is then made on these terms, subject to the terms and conditions being met by the supplier. Trade creditors at 31 January 2007 represented 17 days (2006- 27 days) of annual purchases.

#### **Statement of directors' responsibilities**

United Kingdom company law requires the directors to prepare financial statements for each financial year, which give a true and fair view of the Company's and the Group's state of affairs at the end of the financial year and the profit or loss of the Group for the year then ended. In preparing those financial statements the directors are required to

- select suitable accounting policies and apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements
- prepare 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 which disclose with reasonable accuracy at any time the financial position of the Company and the Group and to 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 the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

#### **Auditors and disclosure of information to auditors**

So far as the directors are aware, there is no relevant audit information of which the Company's auditors are unaware and they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Deloitte & Touche LLP resigned as the Company's auditors on 21 February 2007. PricewaterhouseCoopers LLP were appointed to succeed them on the same date. A resolution for the re-appointment of PricewaterhouseCoopers LLP will be proposed at the annual general meeting of the Company.

#### **By order of the Board**



**Robert Grainger**  
Secretary  
9 July 2007

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MENZIES HOTELS HOLDINGS LIMITED

We have audited the group and parent company financial statements (the "financial statements") of Menzies Hotels Holdings Limited for the year ended 31 January 2007 which comprise the Consolidated Profit and Loss Account, the Note of Historical Cost Profits and Losses, the Statement of Total Recognised Gains and Losses, the Group and Company Balance Sheets, the Consolidated Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom 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). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

### Basis of audit opinion

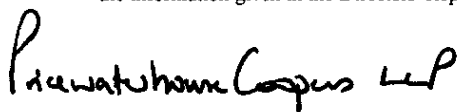
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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's and company's circumstances, consistently applied and adequately disclosed.

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

### Opinion

In our opinion,

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and the Parent Company's affairs as at 31 January 2007 and of the Group's loss and cash flows 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.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
East Midlands

Date 10 July 2007

**MENZIES HOTELS HOLDINGS LIMITED**  
**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**Year ended 31 January 2007**

		Year to 31 January 2007 £	13 months to 31 January 2006 £
	Notes		
<b>TURNOVER</b>	1,2	45,902,581	43,394,840
Cost of sales		<u>-19,368,950</u>	<u>-18,573,374</u>
<b>GROSS PROFIT</b>		26,533,631	24,821,466
Administrative expenses	excluding amortisation of goodwill amortisation of goodwill	-18,791,484 <u>-173,748</u>	-16,812,083 <u>-188,229</u>
Total administrative expenses		<u>-18,965,232</u>	<u>-17,000,312</u>
<b>OPERATING PROFIT</b>	2	7,568,399	7,821,154
Profit on disposal of fixed assets	23	<u>5,090,910</u>	<u>709,154</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION</b>		12,659,309	8,530,308
Net interest payable and similar charges	3	<u>-16,893,027</u>	<u>-14,721,673</u>
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		-4,233,718	-6,191,365
Taxation on loss on ordinary activities	4	<u>2,078,802</u>	<u>-214,647</u>
<b>LOSS ON ORDINARY ACTIVITIES AFTER TAXATION</b>	16	<u>-2,154,916</u>	<u>-6,406,012</u>

All of the Group's operations are continuing

The notes on pages 12 to 22 form part of these financial statements

**MENZIES HOTELS HOLDINGS LIMITED**  
**NOTE OF HISTORICAL COST PROFITS AND LOSSES**  
**Year ended 31 January 2007**

		<b>Year to</b> <b>31 January 2007</b>	<b>13 months to</b> <b>31 January 2006</b>
	<b>Notes</b>	<b>£</b>	<b>£</b>
Reported loss on ordinary activities before taxation		-4,233,718	-6,191,365
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	16	1,104,772	-
<b>Historical cost loss on ordinary activities before taxation</b>		<b>-3,128,946</b>	<b>-6,191,365</b>
<b>Historical cost loss on ordinary activities after taxation</b>		<b>-1,050,144</b>	<b>-6,406,012</b>

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**Year ended 31 January 2007**

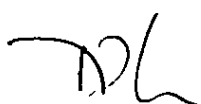
		<b>Year to</b> <b>31 January 2007</b>	<b>13 months to</b> <b>31 January 2006</b>
	<b>Notes</b>	<b>£</b>	<b>£</b>
Loss for the financial period		-2,154,916	-6,406,012
Revaluation of tangible fixed assets	7	50,861,119	-
<b>Total recognised gains and losses relating to the period</b>		<b>48,706,203</b>	<b>-6,406,012</b>
Prior period adjustment	1	-	-
<b>Total gains recognised since last annual report</b>		<b>48,706,203</b>	

The notes on pages 12 to 22 form part of these financial statements

**MENZIES HOTELS HOLDINGS LIMITED**  
**CONSOLIDATED BALANCE SHEET**  
**At 31 January 2007**

	Notes	£	2007 £	£	2006 £
<b>FIXED ASSETS</b>					
Intangible assets - purchased goodwill	6		2,780,000		2,953,748
Tangible assets	7		199,324,028		153,426,549
Investments	8		<u>4</u>		<u>4</u>
			202,104,032		156,380,301
<b>CURRENT ASSETS</b>					
Stocks	9	331,143		330,892	
Debtors	10	2,694,361		2,654,099	
Cash at bank and in hand		<u>1,311,532</u>		<u>5,048,410</u>	
		4,337,036		8,033,401	
<b>CREDITORS - amounts falling due within one year</b>	11	<u>-161,263,179</u>		<u>-5,542,609</u>	
<b>NET CURRENT (LIABILITIES) / ASSETS</b>			<u>-156,926,143</u>		<u>2,490,792</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			45,177,889		158,871,093
<b>CREDITORS - amounts falling due after more than one year</b>	12		-		-160,325,555
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	14		-2,777,748		-4,856,550
<b>NET ASSETS / (LIABILITIES)</b>			<u>42,400,141</u>		<u>-6,311,012</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	15		99,950		95,000
Revaluation reserve	16		49,756,347		-
Profit and loss account	16		-7,456,156		-6,406,012
<b>EQUITY SHAREHOLDERS' FUNDS / (DEFICIT)</b>	17		<u>42,400,141</u>		<u>-6,311,012</u>

Approved by the board on 9 July 2007 and signed on its behalf by



**Timothy J Penter**  
**Director**

The notes on pages 12 to 22 form part of these financial statements

**MENZIES HOTELS HOLDINGS LIMITED**  
**COMPANY BALANCE SHEET**  
**At 31 January 2007**

	Notes	£	2007 £	£	2006 £
<b>FIXED ASSETS</b>					
Investments	8		80,377		80,377
<b>CURRENT ASSETS</b>					
Debtors	10	9,683		3,877	
<b>CREDITORS - amounts falling due within one year</b>	11	<u>-86,819</u>		<u>-4,182</u>	
<b>NET CURRENT LIABILITIES</b>			-77,136		-305
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>3,241</u>		<u>80,072</u>
<b>NET ASSETS</b>			<u>3,241</u>		<u>80,072</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	15		99,950		95,000
Profit and loss account	16		-96,709		-14,928
<b>EQUITY SHAREHOLDERS' FUNDS</b>	17		<u>3,241</u>		<u>80,072</u>

Approved by the board on 9 July 2007 and signed on its behalf by



**Timothy J Penter**  
**Director**

The notes on pages 12 to 22 form part of these financial statements

**MENZIES HOTELS HOLDINGS LIMITED**  
**CONSOLIDATED CASH FLOW STATEMENT**  
**Year ended 31 January 2007**

	Notes	£	Year to 31 January 2007 £	£	13 months to 31 January 2006 £
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	20 a )		170,263,601		12,000,334
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>					
Interest paid		-15,383,354		-6,521,162	
Interest received		280,817		541,123	
Debt issue costs		-		-2,026,816	
			-15,102,537		-8,006,855
<b>CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT</b>					
Payments to acquire tangible fixed assets		-5,553,775		-38,342,943	
Sale of tangible fixed assets		10,566,928		2,994,819	
			5,013,153		-35,348,124
<b>ACQUISITIONS AND DISPOSALS</b>					
Acquisition of subsidiaries		-		-123,633,902	
Net cash acquired with subsidiaries		-		4,531,220	
			-		-119,102,682
<b>CASH INFLOW / (OUTFLOW) BEFORE USE OF LIQUID RESOURCES AND FINANCING</b>			160,174,217		-150,457,327
<b>FINANCING</b>					
Issue of ordinary share capital		4,950		95,000	
Issue of unsecured loan notes		-		43,697,737	
New bank term loans		-		113,063,000	
Repayment of bank term loan		-109,913,000		-1,350,000	
Repayment of unsecured loan notes		-52,203,045		-	
			-162,111,095		155,505,737
<b>(Decrease) / increase in cash in the period</b>			<b>-1,936,878</b>		<b>5,048,410</b>
<b>RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS / (DEBT)</b>					
(Decrease) / increase in cash in the period			-1,936,878		5,048,410
Cash outflow / (inflow) from decreases / (increases) in debt and lease financing			162,116,045		-155,410,737
Debt issue costs			-		2,026,816
Change in net debt resulting from cash flows			160,179,167		-148,335,511
Amortisation of issue costs			-1,790,490		-236,326
Interest charged on loan stock provided but not paid			-		-8,505,308
Movement in net debt in the period			158,388,677		-157,077,145
<b>NET DEBT AT 31 JANUARY 2006</b>			<b>-157,077,145</b>		<b>-</b>
<b>NET FUNDS / (DEBT) AT 31 JANUARY 2007</b>	20 b )		<b>1,311,532</b>		<b>-157,077,145</b>

The notes on pages 12 to 22 form part of these financial statements

## **I ACCOUNTING POLICIES**

### **Basis of accounting**

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

### **Change of accounting policy - revaluation of fixed assets**

The Company has changed its accounting policy and will commission a full valuation of its properties by a qualified valuer at least every five years, with an interim valuation in the third year after the full valuation where it is likely there has been a material change in value. Other fixed assets continue to be held at cost.

The change to revaluation of properties is a change in accounting policy and requires a prior period adjustment. The impact on the prior period is £nil, as all properties were recorded at fair market value on the acquisition of the Menzies Hotels business by the Company at the start of the previous accounting period.

### **Basis of consolidation**

The consolidated financial statements incorporate the audited financial statements of the Company's subsidiary undertakings, except as stated below, for the year to 31 January 2007 using the acquisition method of accounting.

The Company has taken advantage of Section 229 of the Companies Act 1985 in not consolidating the financial statements of Menzies Hotels (Property) Limited and Menzies Hotels and Leisure Management Services Limited, on the grounds of immateriality.

### **Turnover**

Turnover is defined as the amounts derived from the provision of goods and services falling within the Group's ordinary activities after the deduction of trade discounts, value added tax and any other sales based taxes.

### **Goodwill**

Goodwill arising on the acquisition of a business represents the difference between the fair value of the purchase consideration and the fair value of the identifiable net assets at acquisition. Goodwill is written off through the profit and loss account on a straight line basis over the economic life of the asset. Given the long commercial life of property assets and the Group's policy of maintaining such assets in good repair, a life of 20 years has been used.

### **Investments**

Investments held as fixed assets are stated at cost less provision for any permanent diminution in value.

### **Depreciation of tangible fixed assets**

Depreciation is not provided on land nor charged on freehold and long leasehold buildings as it is not material. In accordance with FRS 15, an annual impairment review is performed on freehold and long leasehold buildings. The results of this review showed that the recoverable amount of these assets are in excess of the carrying amount. Short leasehold buildings are depreciated over the unexpired term of the lease when less than 50 years.

Depreciation of other tangible fixed assets is provided on a straight line basis over their estimated useful lives. It is calculated at the following rates:

Plant and machinery	6.66 % to 20 % per annum
Motor vehicles	20 % per annum
Fixtures and fittings	10 % to 20 % per annum

Expenditure on repairs and renewals is charged to the profit and loss account at the time of expenditure. Major refurbishment projects forming part of the planned programme of maintaining the properties in a good state of repair are capitalised at cost under the appropriate asset category and depreciated in accordance with the accounting policy. Any net book value attributable to the asset being replaced is written off to the profit and loss account when the refurbishment takes place.

### **Stocks**

Stocks are valued at the lower of cost and net realisable value.

### **Deferred taxation**

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the Group anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances arising from the underlying timing differences in respect of tax allowances on hotel buildings are reversed if and when all conditions for retaining those allowances have been met.

Deferred tax balances are not discounted.

### **Issue costs**

Costs associated with the issue of debt are deducted from the proceeds of the issue and charged to the profit and loss account over the term of the debt so that the amount charged is a constant rate on the carrying amount.

### **Operating leases**

Operating lease payments are charged to the profit and loss account in the period in which they are incurred.

### **Pension costs**

The Group operates a defined contribution pension scheme for certain employees. The contributions payable to the defined contribution scheme are charged to the profit and loss account in the period in which they arise.

**MENZIES HOTELS HOLDINGS LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year ended 31 January 2007**

**1 ACCOUNTING POLICIES ( continued )**

**Derivative financial instruments and hedge accounting**

The Group's activities expose it to the financial risks of changes in interest rates. The Company does not use interest rate swap contracts to hedge this exposure as this risk is managed for the Group by an interest rate swap contract held by Piccadilly Hotels 2 Limited. The Company or the Group do not use derivative financial instruments for speculative purposes.

**2 TURNOVER AND OPERATING PROFIT**

	Year to 31 January 2007 £	13 months to 31 January 2006 £
Turnover and operating profit are wholly attributable to the principal activities of the Group and arise solely in the United Kingdom		
Operating profit is stated after charging		
Amortisation of purchased goodwill	173,748	188,229
Depreciation of owned fixed assets	5,041,397	3,808,753
Auditors remuneration	3,000	2,500
audit services for Menzies Hotels Holdings Limited	49,000	23,500
audit of subsidiaries	1,500	67,325
non - audit services	319,382	332,413
Operating leases	256,063	252,100
plant, machinery and other		
land and buildings		

The payment for non audit services during the year was made to the Company's previous auditors, Deloitte & Touche LLP and relates to a contractual audit of turnover rent calculations. In the prior period the non audit services related due diligence and financial assistance work on the acquisition of hotel properties.

**3 NET INTEREST PAYABLE AND SIMILAR CHARGES**

	Year to 31 January 2007 £	13 months to 31 January 2006 £
INTEREST PAYABLE		
Bank loan	4,573,161	6,521,162
Loan note interest	7,084,254	8,505,308
Interest paid to group holding companies	3,725,939	-
Amortisation of deferred issue costs	1,790,490	236,326
	17,173,844	15,262,796
INTEREST RECEIVABLE		
Bank interest received	-274,321	-541,123
Other interest received	-6,496	-
	16,893,027	14,721,673

**4 TAXATION ON LOSS ON ORDINARY ACTIVITIES**

	Year to 31 January 2007 £	13 months to 31 January 2006 £
4a ) Analysis of credit / (charge) for the period		
Total current tax	-	-
Deferred tax origination and reversal of timing differences	-2,078,802	214,647
	-2,078,802	214,647
4 b ) Factors affecting the current tax charge for the period		
The tax assessed for the period is lower than the standard rate applying in the UK (30%). The differences are explained below		
Loss on ordinary activities before taxation	-4,233,718	-6,191,365
Loss on ordinary activities at the UK tax rate of 30% ( 2006 - 30% )	-1,270,115	-1,857,410
Effects of		
Expenses not deductible for tax purposes	-	2,792,177
Income not taxable	-976,180	-
Capital gains not taxable	-	-69,252
Accelerated capital allowances	773,987	-
Fixed asset timing differences	-	-865,515
Other timing differences	1,472,308	-
	-	-

4c ) Factors which may affect future tax charges are

- ( i ) The Group expects to be able to claim capital allowances in excess of depreciation in future years
- ( ii ) No provision has been made for deferred tax where potentially taxable gains have been rolled over into replacement assets. At present it is not envisaged that any tax in respect of this will become repayable in the foreseeable future.

**MENZIES HOTELS HOLDINGS LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year ended 31 January 2007**

		Year to 31 January 2007 number	13 months to 31 January 2006 number
<b>5</b>	<b>DIRECTORS AND EMPLOYEES</b>		
The average number of persons employed during the period			
	- head office	35	32
	- operations	1,254	1,192
		<u>1,289</u>	<u>1,224</u>
		<b>Group £</b>	<b>Group £</b>
Staff costs include			
	Wages and salaries	13,749,415	13,321,657
	Social security costs	1,062,665	971,040
	Pension costs	104,640	107,113
		<u>14,916,720</u>	<u>14,399,810</u>
Directors emoluments comprise			
	Directors emoluments	309,881	310,908
	Company contributions to money purchase schemes	47,875	54,250
	Amounts paid to third parties for directors' services	67,935	99,200
Number of directors accruing benefits under money purchase schemes		<u>2</u>	<u>1</u>
Highest paid director			
	Aggregate emoluments	274,371	310,908
	Company contributions to money purchase schemes	<u>45,750</u>	<u>54,250</u>

The highest paid director did not hold any share options or partake in a long term incentive plan during the year

The Company had no employees other than the directors during the year (2006 - nil) The Company's directors were remunerated by other Group companies during the year

<b>6</b>	<b>INTANGIBLE FIXED ASSETS</b>	<b>£</b>
<b>Purchased goodwill - Group</b>		
<b>Cost</b>		
<b>At 31 January 2006 and 31 January 2007</b>		<u><b>3,141,977</b></u>
<b>Amortisation</b>		
At 31 January 2006		-188,229
Charged in year		-173,748
<b>At 31 January 2007</b>		<u><b>-361,977</b></u>
<b>Net book value</b>		
<b>At 31 January 2007</b>		<u><b>2,780,000</b></u>
At 31 January 2006		<u>2,953,748</u>

The goodwill was acquired by the Group's subsidiary, Menzies Hotels Limited on the purchase of the freehold of the Menzies Welcombe Hotel & Golf Course in August 2003. The unamortised balance was transferred to Menzies Hotels Operating Limited on 26 September 2006 as part of the transfer of the Group's business to that company.

**7 TANGIBLE FIXED ASSETS**

**Group**

	Freehold land and buildings £	Long leasehold land and buildings £	Short leasehold land and buildings £	Plant, fixtures and vehicles £	Total £
<b>Cost</b>					
At 31 January 2006	103,481,481	17,985,178	3,176,029	42,181,231	166,823,919
Revaluation	30,165,267	6,605,313	-665,188	-264,171	35,841,221
Additions	1,635,005	158,563	-	3,760,207	5,553,775
Disposals	-4,481,660	-	-	-1,989,965	-6,471,625
<b>At 31 January 2007</b>	<b>130,800,093</b>	<b>24,749,054</b>	<b>2,510,841</b>	<b>43,687,302</b>	<b>201,747,290</b>
<b>Depreciation</b>					
At 31 January 2006	-	-	-130,179	-13,267,191	-13,397,370
Revaluation	-	-	167,960	14,851,938	15,019,898
Charge for year	-	-	-55,588	-4,985,809	-5,041,397
Disposals	-	-	-	995,607	995,607
<b>At 31 January 2007</b>	<b>-</b>	<b>-</b>	<b>-17,807</b>	<b>-2,405,455</b>	<b>-2,423,262</b>
<b>Net book value</b>					
<b>At 31 January 2007</b>	<b>130,800,093</b>	<b>24,749,054</b>	<b>2,493,034</b>	<b>41,281,847</b>	<b>199,324,028</b>
At 31 January 2006	103,481,481	17,985,178	3,045,850	28,914,040	153,426,549

**Company**

The Company has no fixed assets

**Revaluation**

The Group's fifteen hotel properties, the head office building and associated fixtures and fittings were valued by an independent external valuer, Christie & Co, on an existing use basis as at 18 September 2006 in accordance with the requirements of the RICS Appraisal and Valuation Manual. The value ascribed to the properties was £203.63 million. The gain against book value of £50,861,119 has been recorded in fixed assets above and the revaluation reserve (note 16).

If the fixed assets had not been revalued the total cost of the Group's fixed assets would have been £35,841,221 lower and the accumulated depreciation would have been £13,915,126 higher than the amount stated above at 31 January 2007. If the valuation had not taken place the net book value of the Group's fixed assets would have been £149,567,681 as at 31 January 2007.

**MENZIES HOTELS HOLDINGS LIMITED**  
**NOTES TO FINANCIAL STATEMENTS**  
**Year ended 31 January 2007**

£

**8 INVESTMENTS AT COST**

Group

At 31 January 2006 and 31 January 2007

4

Company

At 31 January 2006 and 31 January 2007

80,377

Subsidiary undertakings

The following subsidiary undertakings have been included in the consolidated financial statements for the year ending 31 January 2007,

Name	Proportion of voting rights and ordinary share capital	Nature of business
Menzies Hotels Intermediary Holdings Limited (direct)	100%	Provision of finance and management services
Menzies Hotels Group Limited (indirect)	100%	Holding company
Menzies Hotels Limited (indirect)	100%	Holding company
Menzies Hotels Operating Limited (indirect)	100%	Operation of hotels
Menzies Hotels Property No 1 Limited (indirect)	100%	Owning and leasing of hotel
Menzies Hotels Property No 2 Limited (indirect)	100%	Owning and leasing of hotel
Menzies Hotels Property No 3 Limited (indirect)	100%	Owning and leasing of hotel
Menzies Hotels Property No 4 Limited (indirect)	100%	Owning and leasing of hotel
Menzies Hotels Property No 5 Limited (indirect)	100%	Owning and leasing of hotel
Menzies Hotels Property No 6 Limited (indirect)	100%	Owning and leasing of hotel
Menzies Hotels Property No 7 Limited (indirect)	100%	Owning and leasing of hotel
Menzies Hotels Property No 8 Limited (indirect)	100%	Owning and leasing of hotel
Menzies Hotels Property No 9 Limited (indirect)	100%	Owning and leasing of hotel
Menzies Hotels Property No 10 Limited (indirect)	100%	Owning and leasing of hotel
Menzies Hotels Property No 11 Limited (indirect)	100%	Owning and leasing of office building
Menzies Hotels Property No 12 Limited (indirect)	100%	Owning and leasing of hotel
Menzies Hotels Property No 13 Limited (indirect)	100%	Owning and leasing of hotel
Menzies Hotels Property No 14 Limited (indirect)	100%	Owning and leasing of hotel
Menzies Hotels Property No 15 Limited (indirect)	100%	Owning and leasing of hotel
Menzies Hotels Property No 16 Limited (indirect)	100%	Owning and leasing of hotel

The following wholly owned subsidiaries of Menzies Hotels Limited have not been included in the consolidated financial statements for the year ended 31 January 2007 in accordance with the accounting policy set out on page 12

Name	Aggregate share capital and reserves £	Profit for year	Nature of business
Menzies Hotels ( Property ) Limited	2	-	Dormant
Menzies Hotels and Leisure Management Services Limited	-225	-	Dormant

**9 STOCKS**

	Group 2007 £	Group 2006 £
Food and liquor	331,143	330,892

There is no material difference between the replacement cost of stocks and the amount stated above

**MENZIES HOTELS HOLDINGS LIMITED**  
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**Year ended 31 January 2007**

<b>10 DEBTORS</b>	<b>Group 2007 £</b>	<b>Company 2007 £</b>	<b>Group 2006 £</b>	<b>Company 2006 £</b>
Trade debtors	1,845,491	-	1,931,410	-
Amounts owed by group companies	-	9,683	-	3,877
Other debtors	325,456	-	187,457	-
Prepayments and accrued income	523,414	-	535,232	-
<b>Amounts falling due within one year</b>	<b>2,694,361</b>	<b>9,683</b>	<b>2,654,099</b>	<b>3,877</b>
<b>11 CREDITORS - amounts falling due within one year</b>	<b>Group 2007 £</b>	<b>Company 2007 £</b>	<b>Group 2006 £</b>	<b>Company 2006 £</b>
Trade creditors	1,651,885	-	1,879,758	-
Amounts owed to group holding companies	157,774,182	-	-	-
Amounts owed to group companies	-	86,644	-	4,182
Other taxation and social security	823,065	-	169,442	-
Other creditors	258,269	-	673,476	-
Accruals and deferred income	755,778	175	1,019,933	-
	161,263,179	86,819	3,742,609	4,182
Bank loans ( Note 12 )	-	-	1,800,000	-
	<b>161,263,179</b>	<b>86,819</b>	<b>5,542,609</b>	<b>4,182</b>
<b>12 CREDITORS - amounts falling due after more than one year</b>	<b>Group 2007 £</b>	<b>Company 2007 £</b>	<b>Group 2006 £</b>	<b>Company 2006 £</b>
Bank loans	-	-	109,913,000	-
Unsecured loan notes 2014 including accrued interest	-	-	52,203,045	-
Issue costs	-	-	-1,790,490	-
	-	-	<b>160,325,555</b>	-
Financing repayable - amounts falling due				
Within one year or less or on demand	-	-	1,800,000	-
In more than one year but not more than two	-	-	1,800,000	-
In more than two years but not more than five	-	-	5,400,000	-
In more than five years	-	-	153,125,555	-
	-	-	<b>162,125,555</b>	-

**Bank loans**

On 31 December 2004 the Group obtained and drew down in full, two loan facilities from The Royal Bank of Scotland plc. These comprised a £18,000,000 Term Loan facility and a £72,000,000 Revolving Credit facility. The Term Loan was repayable in quarterly instalments of £450,000. Both facilities were repaid in full on 10 October 2006 following the acquisition of the Group by Piccadilly Hotels 6 Limited.

On 4 May 2005 and 12 January 2006 the Group obtained and drew down in full, two further loan facilities from The Royal Bank of Scotland plc comprising Revolving Credit facilities of £10,125,000 and £12,938,000 respectively. These facilities were also repaid in full on 10 October 2006.

The bank loans were secured by fixed and floating charges over the assets of the Company and its subsidiary companies. Interest was charged at LIBOR plus a margin based upon the ratio of borrowings to earnings.

**Unsecured Loan Notes 2014**

£35,635,237 Unsecured Loan Notes 2014 were issued at par on 31 December 2004. £4,000,000 and £4,062,500 Unsecured Loan Notes 2014 were issued at par on 4 May 2005 and 12 January 2006 respectively.

The Loan Notes were repaid in full on 10 October 2006 together with the interest accrued up to that date.

**Issue Costs**

Issue costs of £2,026,816 were incurred in obtaining the bank loans and loan notes, and deducted from the proceeds. The unamortised balance of £1,790,490 has been charged to the profit and loss account following the repayment of the associated loans.

**13 HEDGING OF INTEREST RATE RISK**

The Group used interest rate swaps to manage its exposure to interest rate movements on its bank borrowings. A swap contract with a nominal value of £45 million had fixed interest payments at a rate of 4.935 per cent per annum for periods up until 2008 and had floating interest receipts at 3 Months LIBOR. A settlement payment of £110,000 was received on 10 October 2006 from the bank to end this arrangement. This payment has been credited to the profit and loss account for the year.

The Company's activities expose it to the financial risks of changes in interest rates as group interest charges are calculated at floating rates. The Company does not use interest rate swap contracts to hedge this exposure as the risk is offset by the corresponding receipt in the counterparty group company.

**14 PROVISIONS FOR LIABILITIES AND CHARGES**

	2007 £	2006 £
<b>Group deferred taxation</b>		
At 31 January 2006	4,856,550	-
Acquisition of subsidiary	-	4,641,903
(Credit) / charge for year	-2,078,802	214,647
<b>At 31 January 2007</b>	<b>2,777,748</b>	<b>4,856,550</b>
<b>The balance at the year end comprises</b>		
Accelerated capital allowances	3,426,315	4,856,550
Losses	-646,068	-
Pension	-2,499	-
	<b>2,777,748</b>	<b>4,856,550</b>

No provision has been made for deferred taxation on gains recognised on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would become repayable only if the property were sold without it being possible to claim rollover relief. The total amount unprovided is £ nil. At present it is not envisaged that any corporation tax will become payable in the foreseeable future in relation to this.

No provision has been made for deferred taxation relating to tax losses of £835,341 (2006 - nil).

A number of changes to the UK Corporation tax system were announced in the March 2007 Budget Statement and are expected to be enacted in the 2007 and 2008 Finance Acts. The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements.

The effect of the changes to be enacted in the Finance Act 2007 would be to eliminate the deferred tax liability provided at 31 January 2007 £2,778,748. This £2,778,748 decrease in deferred tax would increase profit for the year by £2,778,748. This decrease in the deferred tax liability is due to the reduction in the corporation tax rate from 30 per cent to 28 per cent with effect from 1 April 2008 and to the abolition of balancing adjustments for industrial buildings allowances.

The other changes to be enacted would have no further effects on the deferred tax provided at 31 January 2007.

There are no provisions for liabilities and charges relating to the Company.

**MENZIES HOTELS HOLDINGS LIMITED**  
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<b>15 SHARE CAPITAL</b>	<b>2007</b>	<b>2006</b>
	<b>£</b>	<b>£</b>
Authorised		
8,037,653 A ordinary shares of 1p each	80,377	80,377
1,462,347 B ordinary shares of 1p each	14,623	14,623
500,000 C ordinary shares of 1p each	5,000	5,000
	<b>100,000</b>	<b>100,000</b>
Allotted, called up and fully paid		
8,037,653 A ordinary shares of 1p each	80,377	80,377
1,462,347 B ordinary shares of 1p each	14,623	14,623
495,000 C ordinary shares of 1p each	4,950	-
	<b>99,950</b>	<b>95,000</b>

495,000 C Ordinary shares of 1 pence each were issued to selected employees during the year for a total consideration of £4,950

The rights attaching to each class of equity share are as follows

**Dividends**

Any dividends are distributed in any financial year amongst the holders of the A shares and the B shares, pari passu as if the shares are one and the same class of share, pro rata to the number of A shares and B shares respectively held by the holders. The C shares do not carry a right to receive any distribution of profit.

**Voting rights**

The holders of A and B shares are entitled to attend and vote at any general meeting of the Company. The C shares do not carry a right to vote at general meetings.

**Return of capital**

On a return of assets on liquidation or otherwise, the assets of the Company remaining after the payment of its debts and liabilities and available to holders of Equity Shares shall be distributed between the holders of Equity Shares pari passu, as if the shares are one and the same class of share, pro rata to the number of Equity Shares respectively held by the holders.

**16 RESERVES**

	<b>Group</b>	<b>Group</b>	<b>Company</b>
	<b>Revaluation reserve</b>	<b>Profit and loss account</b>	<b>Profit and loss account</b>
	<b>£</b>	<b>£</b>	<b>£</b>
At 31 January 2006	-	-6,406,012	-14,928
Loss for the year	-	-2,154,916	-81,781
Revaluation of fixed assets (note 7)	50,861,119	-	-
Transfer of depreciation on revalued amounts during the period	-1,104,772	1,104,772	-
<b>At 31 January 2007</b>	<b>49,756,347</b>	<b>-7,456,156</b>	<b>-96,709</b>

The parent company has not presented its own profit and loss account, as permitted by Section 230 of the Companies Act 1985. The loss for the financial year of the parent company amounted to £81,781 (13 months ended 31 January 2006 - £14,928).

**17 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS / (DEFICIT)**

	Group 2007 £	Company 2007 £	Group 2006 £	Company 2006 £
Loss for the financial year	-2,154,916	-81,781	-6,406,012	-14,928
Issue of shares	4,950	4,950	95,000	95,000
Revaluation of fixed assets	50,861,119	-	-	-
Net addition / (reduction) to shareholders' funds	48,711,153	-76,831	-6,311,012	80,072
Opening shareholders' (deficit) / funds	-6,311,012	80,072	-	-
Closing shareholders' funds / (deficit)	42,400,141	3,241	-6,311,012	80,072

**18 COMMITMENTS UNDER OPERATING LEASES**

The Group had annual commitments under operating leases as set out below

	2007	2007	2006	2006
	Land and buildings £	Other £	Land and buildings £	Other £
Operating leases expiring				
Within one year	-	51,049	-	46,722
In two to five years	-	89,526	-	92,540
In more than five years	167,190	17,042	147,242	24,803
	167,190	157,617	147,242	164,065

The Company had no annual commitments under operating leases (2006 - nil)

**19 PENSION COMMITMENTS**

The Group contributes to a defined contribution pension scheme for the benefit of certain employees. The assets of the scheme are held separately from the Group in independently administered funds. The pension cost charge of £104,759 (2006 - £107,113) represents contributions payable by the Group. The balance owed to the pension scheme at 31 January 2007 was £8,328 (2006 - £8,073).

**MENZIES HOTELS HOLDINGS LIMITED**  
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**20 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES**

20 a )	Year to 31 January 2007 £	13 months to 31 January 2006 £
Operating profit	7,568,399	7,821,154
Depreciation	5,041,397	3,808,753
Amortisation of purchased goodwill	173,748	188,229
Increase in stocks	-251	-5,257
Increase in debtors	-40,262	-495,593
Increase in creditors	157,520,570	683,048
	<b>170,263,601</b>	<b>12,000,334</b>

**20 b ) ANALYSIS OF NET FUNDS / (DEBT)**

	2006 £	Cash flow £	Other non-cash changes £	2007 £
Cash at bank and in hand	5,048,410	-3,736,878	-	1,311,532
Debt due after more than one year	-160,325,555	162,116,045	-1,790,490	-
Debt due within one year	-1,800,000	1,800,000	-	-
<b>Total</b>	<b>-157,077,145</b>	<b>160,179,167</b>	<b>-1,790,490</b>	<b>1,311,532</b>

Non-cash changes comprise the amortisation of issue costs of debt incurred and deducted from the proceeds of issue in accordance with FRS 4

	Group 2007 £	Company 2007 £	Group 2006 £	Company 2006 £
<b>21 CAPITAL COMMITMENTS</b>				
Contracted but not provided for	1,412,078	-	2,532,040	-

**22 RELATED PARTY TRANSACTIONS**

R Nicholas Menzies, a former director and shareholder of the Company was also a director of the subsidiary undertaking Menzies Hotels Intermediary Holdings Limited. During the year the total amount of accrued interest paid on redemption relating to R Nicholas Menzies and his family under loan note agreements with Menzies Hotels Intermediary Holdings Limited was £2,117,806.

The loan note balance outstanding to R Nicholas Menzies and his family of £7,603,183 was repaid on 10 October 2006.

Pall Mall Hotels Limited was the immediate parent company of the Group. During the year the total amount of accrued interest paid on redemption relating to Pall Mall Hotels Limited under loan note agreements was £13,471,755.

The loan note balance outstanding to Pall Mall Hotels Limited following its acquisition of the Group on 31 December 2004 was £30,149,861. £8,062,500 of additional loan notes were issued. On 10 October 2006 the balance outstanding was repaid.

Nikko Principal Investments Limited was a parent company of the Group. During the year the Group was charged £67,935 relating to the provision of directors services by Nikko Principal Investments Limited.

The Company has taken advantage of the exemption provided by FRS 8 relating to the disclosure of transactions between group companies.

**23 PROFIT ON DISPOSAL OF FIXED ASSETS**

<b>Group</b>	<b>Group</b>
<b>2007</b>	<b>2006</b>
<b>£</b>	<b>£</b>
<b>5,090,910</b>	<b>709,154</b>

In the current year the profit on disposal of fixed assets includes the sale of the Marine Hotel, Salcombe for a consideration of £10.5 million which gave rise to a profit on disposal of £5.03 million. In the comparative period, profit on disposal of fixed assets included the sale of land adjacent to the Belford Hotel, Edinburgh, for a consideration of £3.0 million giving a profit on disposal of £0.8 million.

**24 CONTINGENT LIABILITIES**

Cross guarantees exist between Group undertakings in respect of the Company's bankers. The Group had funds placed with the bank totalling £1,291,562 and therefore there was no contingent liability at 31 January 2007 (2006 - £106,689,260).

**25 PARENT UNDERTAKINGS**

<b>Name</b>	<b>Address from where group accounts are obtainable</b>
<b>Smallest and largest group holding company preparing group accounts</b> Piccadilly Hotels 2 Limited	Bakum House, Etwall Road Mickleover, Derbyshire DE3 0DL

The immediate parent company is Piccadilly Hotels 6 Limited, a company registered in the Cayman Islands. The ultimate controlling party is the Tchenguiz Family Trust.