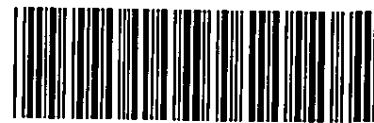


MENZIES HOTELS HOLDINGS LIMITED
Registered in England Number 5302710
Annual Report and Financial Statements
Year ended 31 January 2009

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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

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 director presents his report and audited financial statements of the Group for the year ended 31 January 2009.

Principal activity

The principal activity of the Company is that of a holding company, providing management services to its subsidiary undertakings. The principal activities of the Group are the operation, ownership and leasing of hotels.

Results and dividends

The Group's loss before taxation and impairment provision was £13.7m (2008 £7.7m). Impairment losses of £18.6m (2008 - £nil) have been charged to the profit and loss account during the year. The Group had a tax charge of £0.7m (2008 - credit - £3.5m). No dividends were paid in respect of the year (2008 - £nil).

Review of the business and future developments

Group turnover of £51.3m is a decrease of 4% on the £53.5m achieved in 2008. Operating Profit before depreciation and impairment provisions for the year was £13.4m (2008 - £15.6m).

On 2 June 2008 the Group concluded a deal to lease six of the properties owned and operated by the Group to Travelodge Hotels Limited. The new leases are for an initial term of either 25 or 35 years. The Group turnover in 2009 of £51.3m includes £2.5m in respect of rent from these six hotels.

The results reflect the challenging market environment. After excluding the six hotels leased to Travelodge, the average room rate was £72.23 (2008 - £74.73), with room occupancy decreasing to 59% from 61%. This meant that the room revenue per available room (RevPAR) showed a 7.3% decrease to £42.39 (2008 - £45.75).

The Group's operating costs are closely monitored and action has been taken to match costs with demand.

The Group has invested significant sums in developing the portfolio, in particular the eight hotels acquired from Curzon Properties Limited in 2007. This development was largely completed at the year-end and has subsequently been finalised. The estate is well positioned for when the market recovers.

Following the downturn in trading the carrying value of goodwill and tangible fixed assets has been reviewed, resulting in a total impairment charge of £27.0m, of which £18.6m was charged to the profit and loss account and £8.4m to the revaluation reserve.

The carrying value of the Company's investment in Menzies Hotels Intermediary Holdings Limited has been reviewed following the downturn in the Group's trading performance. As a result, the value of the Company's investment has been reduced to £nil (2008 - £80,377).

Trading since the balance sheet date has continued to be challenging and the director remains in discussions with the bank to restructure the debt (see Going concern). The director remains confident in the long term prospects for the Company and the Group.

Going concern

Notwithstanding the fact that the Company and the Group have net liabilities, the director has prepared the financial statements on a going concern basis. The director has received confirmation from Piccadilly Hotels 2 Limited, a parent undertaking, of its intention to financially support the Company and the Group such that the Company and the Group can meet their obligations for a period of at least twelve months from the date of approval of the accounts. The director considers this to be appropriate, but it is dependent on the matters below:

The Piccadilly Hotels 2 Limited Group (which includes the Menzies Hotels Holdings Limited Group) ("the PH2 Group") meets its day to day working capital requirements through bank loans and an overdraft facility.

The Company and the Group are guarantors under the Piccadilly Hotels 2 Limited group banking facilities. The Company was issued with a default notice on 11 February 2009 stating that the borrowers under the facility had breached various financial covenants. The company has acknowledged these breaches, which have not been formally waived at the date of this report. Following discussions with the bank a Working Capital Facility Amendment Letter was approved on 18 March 2009. This allows for an overdraft from which the PH2 Group meets its day to day working capital requirements. The next review date for the overdraft is 3 January 2010.

The director has prepared cash flow projections for the PH2 Group up until 31 January 2011. These have been presented to the bank and the director anticipates that a restructured facility will be put in place based upon these projections. The director believes that the trading assumptions in these cash flow projections are realistic.

Discussions with the bank are ongoing and the director expects that the bank debt will be restructured although it is possible that the existing overdraft facilities are extended from 3 January 2010 until a full restructure of the debt is completed. However the PH2 Group's lenders are not currently committed to agreeing to a restructure and it is possible that no such agreement is reached.

These factors indicate the existence of a material uncertainty, which may cast doubt on the Company and Group's ability to continue as a going concern. As a result the Company and the Group may be unable in the normal course of business to continue realising its assets and discharging its liabilities. The financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

MENZIES HOTELS HOLDINGS LIMITED

Directors' Report (continued)

Directors

The directors of the Company during the year and up to the date of this report were:

	Appointed	Resigned
Timothy J Penter	-	-
Christopher P Bostock	22 April 2008	1 September 2008

Directors' Indemnity Insurance

The Company is party to qualifying third party indemnity provision for the benefit of its director 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. On 25 July 2007 the properties acquired from Curzon Hotel Properties Limited were valued by independent qualified surveyors for a combined valuation of £56.80 million.

Given the downturn in trade the director has assessed the carrying values of the properties taking into account the nature of each hotel and the projected future trading and rental income. An impairment review was performed for each individual hotel based on the Group's formal forecasts for 2010 and 2011.

As a result of this review an impairment provision of £27.0m has been established. In the view of the director the assumptions used are appropriate to reflect the company's circumstances and the market conditions. Further details of the impairment review are included in note 7 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 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.

Close attention is given to employees' health and safety with particular regard to Health and Safety at Work legislation.

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 these risks are detailed in note 1 to the financial statements.

Policy and practice on the payment of creditors

The Group agrees terms and conditions for its 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 2009 represented 41 days (2008- 66 days) of annual purchases.

MENZIES HOTELS HOLDINGS LIMITED
Directors' Report (continued)

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

The directors are responsible for preparing the Annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement of disclosure of information to auditors

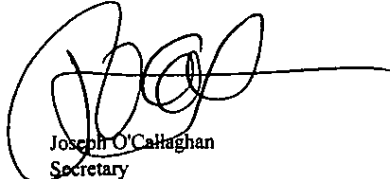
In the case of each of the persons who are directors at the time when the report is approved, the following applies:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- he has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Reappointment of auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the annual general meeting of the Company.

By order of the Board



Joseph O'Callaghan
Secretary
18 December 2009

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 2009 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 Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Reconciliation of Net Cash Flow to Movement in Net Funds 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 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 and the Company information page. 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.

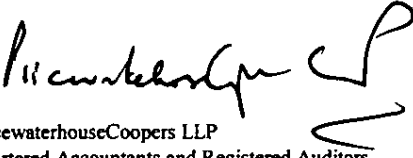
Opinion

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 2009 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.

Emphasis of matter - Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements regarding the Company's ability to continue as a going concern given the uncertainty regarding the continuation of the group's banking facilities. The Group has breached various financial covenants in respect of the banking facilities and these breaches remain in place. The Group has commenced the renegotiation of the facilities but there is no guarantee that this will be satisfactorily concluded before the bank overdraft expires on 3 January 2010. These conditions, and other matters referred to in note 1 to the financial statements indicate the existence of a significant uncertainty which may cast doubt on the Company's ability to continue as a going concern. The financial statements do not include any adjustments that would result if the Company was unable to continue as a going concern.


PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
East Midlands

22 December 2009

MENZIES HOTELS HOLDINGS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 January 2009

	Notes	2009 £	2008 £
TURNOVER	1,2	51,254,539	53,467,091
Cost of sales		<u>-22,100,891</u>	<u>-22,552,870</u>
GROSS PROFIT		29,153,648	30,914,221
Administrative expenses	excluding amortisation of goodwill and impairment amortisation of goodwill impairment loss	-23,475,022 -173,748 <u>-18,562,775</u>	-22,888,421 -173,748 <u>-</u>
Total administrative expenses		-42,211,545	-23,062,169
Exceptional item: Costs of Travelodge transaction	21	<u>-474,732</u>	<u>-</u>
OPERATING (LOSS) / PROFIT	2	-13,532,629	7,852,052
Loss on disposal of tangible fixed assets	21	<u>-56,126</u>	<u>-28,048</u>
(LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION		-13,588,755	7,824,004
Net interest payable and similar charges	3	<u>-18,644,284</u>	<u>-15,502,201</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		-32,233,039	-7,678,197
Taxation on loss on ordinary activities	4	<u>-697,163</u>	<u>3,474,911</u>
LOSS FOR THE YEAR	14	<u>-32,930,202</u>	<u>-4,203,286</u>

All of the Group's operations are continuing.

The notes on pages 13 to 21 form part of these financial statements.

MENZIES HOTELS HOLDINGS LIMITED

NOTE OF HISTORICAL COST PROFITS AND LOSSES

Year ended 31 January 2009

	Notes	2009 £	2008 £
Reported loss on ordinary activities before taxation		-32,233,039	-7,678,197
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	14	2,710,194	3,314,316
Historical cost loss on ordinary activities before taxation		-29,522,845	-4,363,881
Historical cost loss on ordinary activities after taxation		-30,220,008	-888,970

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 January 2009

	Notes	2009 £	2008 £
Loss for the year		-32,930,202	-4,203,286
Impairment of properties	14	-8,465,294	-
Total recognised gains and losses relating to the year		-41,395,496	-4,203,286

The notes on pages 13 to 21 form part of these financial statements.

MENZIES HOTELS HOLDINGS LIMITED
Company number 5302710

CONSOLIDATED BALANCE SHEET
At 31 January 2009

		2009		2008	
	Notes	£	£	£	£
FIXED ASSETS					
Intangible assets - purchased goodwill	6		2,432,504		2,606,252
Tangible assets	7		237,298,070		252,466,073
Investments	8		<u>4</u>		<u>4</u>
			239,730,578		255,072,329
CURRENT ASSETS					
Stocks	9	324,708		498,164	
Debtors	10	2,839,448		5,034,761	
Cash at bank and in hand		<u>687,059</u>		<u>4,698,922</u>	
		3,851,215		10,231,847	
CREDITORS - amounts falling due within one year	11	<u>-246,780,434</u>		<u>-227,107,321</u>	
NET CURRENT LIABILITIES			<u>-242,929,219</u>		<u>-216,875,474</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			-3,198,641		38,196,855
PROVISIONS FOR LIABILITIES AND CHARGES	12		-		-
NET (LIABILITIES) / ASSETS			<u>-3,198,641</u>		<u>38,196,855</u>
CAPITAL AND RESERVES					
Called up share capital	13		99,950		99,950
Revaluation reserve	14		35,266,543		46,442,031
Profit and loss account	14		<u>-38,565,134</u>		<u>-8,345,126</u>
TOTAL SHAREHOLDERS' (DEFICIT) / FUNDS	15		<u>-3,198,641</u>		<u>38,196,855</u>

Approved by the board on 18 December 2009 and signed on its behalf by :



Timothy J Penter
Director

The notes on pages 13 to 21 form part of these financial statements.

MENZIES HOTELS HOLDINGS LIMITED
Company number 5302710

COMPANY BALANCE SHEET
At 31 January 2009

	Notes	£	2009 £	2008 £
FIXED ASSETS				
Investments	8		-	80,377
CURRENT ASSETS				
Debtors	10	10,875		10,326
CREDITORS - amounts falling due within one year	11	<u>-100,039</u>	<u>-92,578</u>	
NET CURRENT LIABILITIES			-89,164	-82,252
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>-89,164</u>	<u>-1,875</u>
NET LIABILITIES			<u>-89,164</u>	<u>-1,875</u>
CAPITAL AND RESERVES				
Called up share capital	13		99,950	99,950
Profit and loss account	14		-189,114	-101,825
TOTAL SHAREHOLDERS' DEFICIT	15		<u>-89,164</u>	<u>-1,875</u>

Approved by the board on 18 December 2009 and signed on its behalf by :



Timothy J Penter
Director

The notes on pages 13 to 21 form part of these financial statements.

MENZIES HOTELS HOLDINGS LIMITED
CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 January 2009

	Notes	£	2009 £	£	2008 £
NET CASH INFLOW FROM OPERATING ACTIVITIES	18 a)		34,449,743		79,840,160
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest paid		-18,718,834		-15,657,796	
Interest received		74,550		155,595	
			-18,644,284		-15,502,201
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT					
Payments to acquire tangible fixed assets		-19,894,522		-5,049,044	
Sale of tangible fixed assets and termination of certain hotel operations		77,200		103,850	
			-19,817,322		-4,945,194
ACQUISITIONS AND DISPOSALS					
Acquisition of hotels		-		-56,005,375	
			-		-56,005,375
CASH (OUTFLOW) / INFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING			-4,011,863		3,387,390
(Decrease) / increase in cash in the year			-4,011,863		3,387,390
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS					
(Decrease) / increase in cash in the year			-4,011,863		3,387,390
Change in net funds resulting from cash flows			-4,011,863		3,387,390
Movement in net funds in the year			-4,011,863		3,387,390
NET FUNDS AT 31 JANUARY 2008			4,698,922		1,311,532
NET FUNDS AT 31 JANUARY 2009	18 b)		687,059		4,698,922

The notes on pages 13 to 21 form part of these financial statements.

MENZIES HOTELS HOLDINGS LIMITED
NOTES TO FINANCIAL STATEMENTS
Year ended 31 January 2009

1 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.

Basis of consolidation

The consolidated financial statements incorporate the audited financial statements of the Company and its subsidiary undertakings, except as stated below, for the year to 31 January 2009 using the acquisition method of accounting.

The Company has not consolidated the financial statements of Menzies Hotels (Property) Limited and Menzies Hotels and Leisure Management Services Limited, on the grounds of immateriality.

Going Concern

Notwithstanding the fact that the Company and the Group have net liabilities, the director has prepared the financial statements on a going concern basis. The director has received confirmation from Piccadilly Hotels 2 Limited, a parent undertaking, of its intention to financially support the Company and the Group such that the Company and the Group can meet their obligations for a period of at least twelve months from the date of approval of the accounts. The director considers this to be appropriate, but it is dependent on the matters below:

The Piccadilly Hotels 2 Limited Group (which includes the Menzies Hotels Holdings Limited Group) ("the PH2 Group") meets its day to day working capital requirements through bank loans and an overdraft facility.

The Company and the Group are guarantors under the Piccadilly Hotels 2 Limited group banking facilities. The Company was issued with a default notice on 11 February 2009 stating that the borrowers under the facility had breached various financial covenants. The company has acknowledged these breaches, which have not been formally waived at the date of this report. Following discussions with the bank a Working Capital Facility Amendment Letter was approved on 18 March 2009. This allows for an overdraft from which the PH2 Group meets its day to day working capital requirements. The next review date for the overdraft is 3 January 2010.

The director has prepared cash flow projections for the PH2 Group up until 31 January 2011. These have been presented to the bank and the director anticipates that a restructured facility will be put in place based upon these projections. The director believes that the trading assumptions in these cash flow projections are realistic.

Discussions with the bank are ongoing and the director expects that the bank debt will be restructured although it is possible that the existing overdraft facilities are extended from 3 January 2010 until a full restructure of the debt is completed. However the PH2 Group's lenders are not currently committed to agreeing to a restructure and it is possible that no such agreement is reached.

These factors indicate the existence of a material uncertainty, which may cast doubt on the Company and Group's ability to continue as a going concern. As a result the Company and the Group may be unable in the normal course of business to continue realising its assets and discharging its liabilities. The financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

Turnover

Turnover is defined as the amounts derived from the provision of goods and services and the rental of properties 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.

Revaluation of tangible fixed assets

The Company 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 or more frequently where it is likely there has been a material change in value. Other fixed assets continue to be held at cost.

Depreciation of tangible fixed assets

Depreciation is not provided on land nor charged on freehold and long leasehold buildings as it is not material. Short leasehold buildings are depreciated over the unexpired term of the lease when less than 50 years. In accordance with FRS 15, an annual impairment review is performed on freehold and long leasehold buildings.

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.

MENZIES HOTELS HOLDINGS LIMITED
NOTES TO FINANCIAL STATEMENTS
Year ended 31 January 2009

1 ACCOUNTING POLICIES (continued)

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.

Operating leases

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

Lessor accounting

Group properties leased to companies outside the Group are capitalised. Operating lease income is accounted for on a straight line basis with any rental increases recognised during the period to which they relate.

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.

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 principal risks and uncertainties of Piccadilly Hotels 2 Limited, which include those of the Company and Group, are discussed on page 17 of Piccadilly Hotels 2 Limited's annual report. The Company and the Group do not use derivative financial instruments for speculative purposes.

2 TURNOVER AND OPERATING (LOSS) / PROFIT

		2009	2008
		£	£
Turnover and operating (loss) / profit are wholly attributable to the principal activities of the Group and arise solely in the United Kingdom.			
Turnover	Operation of hotels	48,760,120	53,467,091
	Leasing of hotels	2,494,419	-
Operating (loss) / profit is stated after charging:			
Amortisation of purchased goodwill		173,748	173,748
Depreciation of owned fixed assets		7,901,130	7,780,476
Impairment of fixed assets		18,562,775	-
Auditors' remuneration	audit services for Menzies Hotels Holdings Limited	3,000	3,000
	audit of subsidiaries	55,000	59,000
	other non audit fees	23,700	204,000
	Operating leases	458,509	424,111
	plant and machinery		
	other	1,542,570	771,490

The payment for non audit fees during the prior year related to due diligence work on the acquisition of the former Thistle hotels (£186,000) and tax compliance work (£18,000). The fees for due diligence work were capitalised as part of the acquisition cost of the former Thistle hotels. The non audit fees during the current year relate to tax compliance work.

MENZIES HOTELS HOLDINGS LIMITED
NOTES TO FINANCIAL STATEMENTS
Year ended 31 January 2009

3 NET INTEREST PAYABLE AND SIMILAR CHARGES

	2009 £	2008 £
INTEREST PAYABLE		
Interest paid to group holding companies	18,718,834	15,657,379
Other interest paid	-	417
	<u>18,718,834</u>	<u>15,657,796</u>
INTEREST RECEIVABLE		
Bank interest received	-62,165	-147,868
Other interest received	-12,385	-7,727
	<u>18,644,284</u>	<u>15,502,201</u>

4 TAXATION ON LOSS ON ORDINARY ACTIVITIES

	2009 £	2008 £
4a) Analysis of charge / (credit) for the year :		
Total current tax	-	-
Deferred tax : origination and reversal of timing differences	697,163	-3,474,911
	<u>697,163</u>	<u>-3,474,911</u>
4 b) Factors affecting the current tax credit for the year:		
The tax assessed for the year is higher (2008 - higher) than the standard rate applying in the UK (28.33%). The differences are explained below :		
Loss on ordinary activities before taxation	-32,233,039	-7,678,197
Loss on ordinary activities at the UK tax rate of 28.33% (2008 - 30%)	-9,130,934	-2,303,459
Effects of:		
Expenses not deductible for tax purposes (including IBAs)	4,700,027	-528,210
Accelerated capital allowances	2,313,376	1,507,264
Group relief surrendered not paid	1,291,244	1,230,082
Other timing differences	826,287	94,323
	<u>-</u>	<u>-</u>

4c) Factors which may affect future tax charges are :

- The Group expects to be able to claim capital allowances in excess of depreciation in future years.
- 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 payable in the foreseeable future.

MENZIES HOTELS HOLDINGS LIMITED
NOTES TO FINANCIAL STATEMENTS
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5 DIRECTORS AND EMPLOYEES

		2009 Number	2008 Number
The monthly average number of persons employed during the year:	- head office	33	37
	- operations	<u>1,501</u>	<u>1,503</u>
		<u>1,534</u>	<u>1,540</u>
		Group £	Group £
Staff costs include :			
Wages and salaries		16,015,912	16,098,388
Social security costs		1,217,357	1,231,510
Pension costs		123,091	97,683
		<u>17,356,360</u>	<u>17,427,581</u>
Directors' remuneration :			
Directors' emoluments		233,732	213,385
Company contributions to money purchase schemes		17,963	30,711
Number of directors accruing benefits under money purchase schemes		<u>2</u>	<u>3</u>
Highest paid director :			
Aggregate emoluments		177,315	158,710
Company contributions to money purchase schemes		<u>12,421</u>	<u>10,491</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 (2008 - nil). The Company's directors were remunerated by other Group companies during the year.

6 INTANGIBLE FIXED ASSETS

Purchased goodwill - Group

Cost

At 1 February 2008 and 31 January 2009 3,141,977

Amortisation

At 1 February 2008 -535,725
Charged in the year -173,748

At 31 January 2009 -709,473

Net book amount

At 31 January 2009 2,432,504

At 31 January 2008 2,606,252

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.

MENZIES HOTELS HOLDINGS LIMITED
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Year ended 31 January 2009

7 TANGIBLE FIXED ASSETS

Group

	Freehold land and buildings £	Long leasehold land and buildings £	Short leasehold land and buildings £	Plant, fixtures and vehicles £	Total £
Cost					
At 1 February 2008	166,600,055	37,226,189	3,699,944	55,033,504	262,559,692
Additions	3,464,828	671,330	7,483,678	8,274,686	19,894,522
Disposals	-	-	-	-545,794	-545,794
At 31 January 2009	170,064,883	37,897,519	11,183,622	62,762,396	281,908,420
Accumulated depreciation					
At 1 February 2008	-	-	-71,229	-10,022,390	-10,093,619
Charge for the year	-	-	-53,422	-7,847,708	-7,901,130
Disposals	-	-	-	412,468	412,468
Impairment loss	-15,097,237	-11,558,592	-	-372,240	-27,028,069
At 31 January 2009	-15,097,237	-11,558,592	-124,651	-17,829,870	-44,610,350
Net book value					
At 31 January 2009	154,967,646	26,338,927	11,058,971	44,932,526	237,298,070
At 31 January 2008	166,600,055	37,226,189	3,628,715	45,011,114	252,466,073

Company

The Company has no tangible fixed assets (2008 - £nil).

Asset Leasing

On 2 June 2008 the Group concluded a deal to lease six of the properties owned and operated by the Group to Travelodge Hotels Limited. These properties are included above and comprise cost of £70,274,519 and accumulated depreciation of £5,649,078.

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 was recorded in tangible fixed assets above and the revaluation reserve (note 14).

If the tangible fixed assets had not been revalued the total cost of the Group's tangible fixed assets would have been £35,841,221 lower and the accumulated depreciation would have been £574,678 lower than the amount stated above at 31 January 2009. If the valuation had not taken place the net book value of the Group's fixed assets would have been £202,031,527 as at 31 January 2009.

Impairment

Given the downturn in trade the director has assessed the carrying values of the properties taking into account the nature of each hotel and the projected future trading and rental income. An impairment review was performed for each individual hotel based on the Group's formal forecasts for 2010 and 2011, and expected average annual growth in trading up to 2014 at rates of between 2% and 14% depending on the hotel involved. A long term growth rate beyond the five year period of 2.5% was applied. A pre tax discount rate of 10% was applied for the majority of the hotels. A discount rate of 8% and 12% was applied for certain hotels reflecting different geographical and risk profiles.

As a result of this review an impairment provision of £27.0m has been established of which £18.6m has been charged to the profit and loss account and £8.4m to the revaluation reserve. In the view of the director the assumptions used are appropriate to reflect the Group's circumstances and the market conditions. However there is significant uncertainty in the market and small changes in key assumptions such as the discount rate can significantly alter the view taken. A 1% increase in the discount rate would increase the impairment provision by £16.0m.

MENZIES HOTELS HOLDINGS LIMITED
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Year ended 31 January 2009

8 INVESTMENTS AT COST

Group :	At 31 January 2008 and 31 January 2009	£
		4
Company :	At 31 January 2008	80,377
	Impairment	-80,377
	Net Book Value at 31 January 2009	-

The carrying value of the Company's investment in Menzies Hotels Intermediary Holdings Limited has been reviewed following a downturn in the Group's trading performance. The director has assessed the asset values of the Group's companies and as a result established an impairment provision for the full cost of the Company's investment.

Subsidiary undertakings :

The following subsidiary undertakings have been included in the consolidated financial statements for the year ended 31 January 2009;

Name	Proportion of voting rights and ordinary share capital	Nature of business
Menzies Hotels Intermediary Holdings Limited (direct)	100%	Holding company
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
Menzies Hotels Property No.17 Limited (indirect)	100%	Owning and leasing of hotel
Menzies Hotels Property No.18 Limited (indirect)	100%	Owning and leasing of hotel
Menzies Hotels Property No.19 Limited (indirect)	100%	Owning and leasing of hotel
Menzies Hotels Property No.20 Limited (indirect)	100%	Owning and leasing of hotel
Menzies Hotels Property No.21 Limited (indirect)	100%	Owning and leasing of hotel
Menzies Hotels Property No.22 Limited (indirect)	100%	Owning and leasing of hotel
Menzies Hotels Property No.23 Limited (indirect)	100%	Owning and leasing of hotel
Menzies Hotels Property No.24 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 2009 in accordance with the accounting policy set out on page 13.

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 2009 £	Group 2008 £
Food and liquor	324,708	498,164

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

10 DEBTORS

	Group 2009 £	Company 2009 £	Group 2008 £	Company 2008 £
Trade debtors	1,876,628	-	3,290,489	-
Amounts owed by group companies	-	10,875	-	10,326
Other debtors	427,986	-	184,351	-
Prepayments and accrued income	534,834	-	862,758	-
Group deferred taxation (note 12)	-	-	697,163	-
Amounts falling due within one year	2,839,448	10,875	5,034,761	10,326

MENZIES HOTELS HOLDINGS LIMITED
***NOTES TO FINANCIAL STATEMENTS**
Year ended 31 January 2009

11	CREDITORS - amounts falling due within one year	Group 2009 £	Company 2009 £	Group 2008 £	Company 2008 £
	Trade creditors	2,932,794	-	4,987,026	-
	Amounts owed to group holding companies	239,863,835	-	219,342,470	-
	Amounts owed to group companies	-	99,864	-	92,403
	Other taxation and social security	485,407	-	1,125,183	-
	Other creditors	461,716	-	402,003	-
	Accruals and deferred income	3,036,682	175	1,250,639	175
		246,780,434	100,039	227,107,321	92,578

Intra-group amounts are classified into two types. On 10 October 2006 the Group obtained unsecured loans of £155,026,898 from Piccadilly Hotels 6 Limited in connection with the refinancing of the Group. On 28 August 2007 the Group obtained unsecured loans of £52,139,740 and £3,865,635 from Piccadilly Hotels 2 Limited and Piccadilly Hotels 6 Limited respectively in connection with the acquisition of the Thistle properties. These loans are repayable on demand and interest is calculated at a rate of one per cent above that payable by Piccadilly Hotels 2 Limited for the group bank funding. All other intra-group amounts are also unsecured and repayable on demand, but interest is calculated at a rate of one per cent above the prevailing bank base rate.

12	PROVISIONS FOR LIABILITIES AND CHARGES	2009 £	2008 £
	Group deferred taxation		
	At 1 February 2008	-697,163	2,777,748
	Charge / (Credit) for the year	697,163	-3,474,911
	At 31 January 2009	-	-697,163
	The balance at the year end comprises :		
	Accelerated capital allowances	-	-107,206
	Losses	-	-585,122
	Pension	-	-4,835
		-	-697,163

The deferred tax asset has been presented within debtors (note 10) in the consolidated balance sheet in the prior year.

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 payable only if the property were sold without it being possible to claim rollover relief. The total amount unprovided is £nil (2008 - £nil). At present it is not envisaged that any corporation tax will become payable in the foreseeable future in relation to this.

No deferred tax asset has been recognised relating to accelerated capital allowances of £1,459,384 (2008 - £nil) and tax losses of £1,702,457 (2008 - £599,607) given the uncertainty regarding their recoverability.

The Company has no recognised deferred tax (2008 - £nil). No deferred tax asset has been recognised relating to tax losses of £4,204 (2008 - £4,204) given the uncertainty regarding their recoverability.

The tax losses carried forward have been updated to reflect the agreed tax computations for 2008.

13	SHARE CAPITAL	2009 £	2008 £
	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
		100,000	100,000
	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	4,950
		99,950	99,950

13 SHARE CAPITAL (continued)

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.

14 RESERVES

	Group Revaluation reserve £	Group Profit and loss account £	Company Profit and loss account £
At 1 February 2008	46,442,031	-8,345,126	-101,825
Loss for the year	-	-32,930,202	-87,289
Transfer of depreciation on revalued amounts during the year	-2,710,194	2,710,194	-
Property impairment	-8,465,294	-	-
At 31 January 2009	35,266,543	-38,565,134	-189,114

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 £87,289 (2008 - £5,116).

15 RECONCILIATION OF MOVEMENTS IN TOTAL SHAREHOLDERS' (DEFICIT) / FUNDS

	Group 2009 £	Company 2009 £	Group 2008 £	Company 2008 £
Loss for the financial year	-32,930,202	-87,289	-4,203,286	-5,116
Property impairment	-8,465,294	-	-	-
Net reduction to shareholders' (deficit) / funds	-41,395,496	-87,289	-4,203,286	-5,116
Opening shareholders' funds / (deficit)	38,196,855	-1,875	42,400,141	3,241
Closing shareholders' (deficit) / funds	-3,198,641	-89,164	38,196,855	-1,875

16 COMMITMENTS UNDER OPERATING LEASES

	2009 Land and buildings £	2009 Other £	2008 Land and buildings £	2008 Other £
The Group had annual commitments under operating leases as set out below:				
Operating leases expiring :				
Within one year	-	49,028	-	51,356
In two to five years	-	63,252	-	100,501
In more than five years	1,484,790	52,094	1,334,742	56,183
	1,484,790	164,374	1,334,742	208,040

The Company had no annual commitments under operating leases (2008 - £nil).

17 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 £123,091 (2008 - £97,683) represents contributions payable by the Group. The balance owed to the pension scheme at 31 January 2009 was £33,161 (2008 - £17,266).

MENZIES HOTELS HOLDINGS LIMITED
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18 RECONCILIATION OF OPERATING (LOSS) / PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

18 a)	2009 £	2008 £
Operating (loss) / profit	-13,532,629	7,852,052
Depreciation	7,901,130	7,780,476
Amortisation of purchased goodwill	173,748	173,748
Impairment loss	18,562,775	-
Decrease / (increase) in stocks	173,456	-167,021
Decrease / (increase) in debtors	1,498,150	-1,643,237
Increase in creditors	19,673,113	65,844,142
	34,449,743	79,840,160

18 b) ANALYSIS OF NET FUNDS

	2008 £	Cash flow £	Other non-cash changes £	2009 £
Cash at bank and in hand	4,698,922	-4,011,863	-	687,059
Total	4,698,922	-4,011,863	-	687,059

Net funds includes cash and external bank loans but excludes unsecured intergroup loans.

19 CAPITAL COMMITMENTS

	Group 2009 £	Company 2009 £	Group 2008 £	Company 2008 £
Contracted but not provided for	659,833	-	4,615,690	-

20 RELATED PARTY TRANSACTIONS

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

21 LOSS ON DISPOSAL OF TANGIBLE FIXED ASSETS AND TERMINATION OF CERTAIN HOTEL OPERATIONS

	Group 2009 £	Group 2008 £
Loss on disposal of tangible fixed assets	-56,126	-28,048
Exceptional item: Costs of Travelodge transaction	-474,732	-
	-530,858	-28,048

The exceptional item of £474,732 related to operational and other costs incurred as part of the deal to lease six properties to Travelodge Hotels Limited.

22 CONTINGENT LIABILITIES

Cross guarantees exist between Group undertakings in respect of the Company's bankers. The total indebtedness of Piccadilly Hotels 2 Limited to the bank at 31 January 2009 and therefore the contingent liability of the Company amounted to £227,268,217 (2008 - £207,261,661).

22 PARENT UNDERTAKINGS

Name	Address from where group accounts are obtainable
Smallest and largest group holding company preparing group accounts 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.