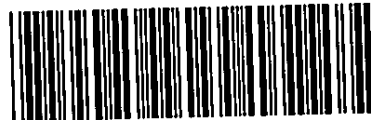


MENZIES HOTELS HOLDINGS LIMITED
Registered in England Number 5302710
Annual Report and Financial Statements
Year ended 31 January 2010

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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

Martineau
No 1 Colmore Square
Birmingham
B4 6AA

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 the audited consolidated financial statements of the Group for the year ended 31 January 2010

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 £11.5m (2009 - £13.7m). The Group had a tax charge of £nil (2009 - £0.7m). No dividends were paid in respect of the year or the prior year.

Review of the business and future developments

On a like for like basis, turnover in the 17 operated hotels of £40.3m was 8% behind the £43.9m achieved in 2009. The economic downturn impacted across the estate in particular on the corporate market. Turnover on rooms was 5% behind last year with both rate and occupancy levels declining. The average room rate fell to £60.09 from £61.79, and occupancy fell to 54.9% from 56.3%. This resulted in revenue per available room falling by 5% to £33.01 from £34.80. Given the downturn in trading action was taken to reduce payroll and operating costs to match demand.

Income from the six hotels leased to Travelodge Hotels Limited was £4.7m compared to £2.5m in 2009. Prior to the properties being leased part way through 2009 they were operated within the Menzies estate. Included in turnover for 2009 is an amount of £4.8m in respect of their operations as hotels. Two of the leases have an initial term of 25 years and four have a term of 35 years.

Total Group turnover of £45.0m is 12% behind the £51.3m achieved in 2009.

During 2009 and in the early part of 2010 the Group invested significant sums in developing the portfolio, in particular the eight properties bought from Curzon Properties Limited in 2007. This, together with the action taken to control costs has ensured that the estate is well positioned for a market recovery. Whilst business since the balance sheet date has remained challenging, the Group has recently seen a stabilisation in trade and the director remains confident in the long term prospects for the Company and 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 written 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 31 December 2010.

The director has prepared cash flow projections for the PH2 Group up until 31 January 2015. The projections were presented to the bank and have subsequently been reviewed and reported on by professional advisors. The director therefore anticipates that the 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 31 December 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 director of the Company during the year and up to the date of this report was

Timothy J Penter

Environment

The Group recognises its responsibility towards the environment. Each hotel has identified its own environmental policy.

With 17 hotels located throughout England and Scotland, we are very much aware that our businesses have an impact on both the local and regional environment. As a company we are therefore fully committed to improving our environmental performance by implementing a wide range of environmental solutions.

In 2009 we commenced a working relationship with the Green Tourism Business Scheme (GTBS). It has an accreditation scheme that credits environmental good practice and helps businesses identify cost savings relating to energy efficiency, water conservation and waste minimisation. All 17 hotels have achieved a Green Tourism Award.

Directors' Indemnity Insurance

The Company is party to a 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.

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.

As a result of this review an impairment provision of £48.0m has been established. In the view of the director the assumptions used are appropriate to reflect the group'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 2010 represented 36 days (2009 - 41 days) of annual purchases.

MENZIES HOTELS HOLDINGS LIMITED

Directors' Report (continued)

Directors' responsibilities statement

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 Company and 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.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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.

By order of the Board



Joseph O'Callaghan

Secretary

23 December 2010

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 2010 which comprise the Consolidated Profit and Loss Account, the Consolidated and Company Balance Sheets, the note of Historical Cost Profits and Losses, the Consolidated Cash Flow Statement, the Statement of Total Recognised Gains and Losses, the reconciliation of net cash flow to movement in net funds and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 6 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the group's and company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 January 2010 and of the group's loss and cash flows for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

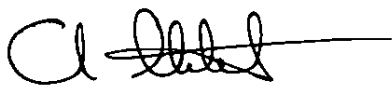
Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

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 31 December 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.



Christopher Hibbs (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Donington Court
23 December 2010

MENZIES HOTELS HOLDINGS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT Year ended 31 January 2010

	Notes	2010 £	2009 £
TURNOVER	1,2	45,027,472	51,254,539
Cost of sales		<u>-18,232,893</u>	<u>-22,100,891</u>
GROSS PROFIT		26,794,579	29,153,648
Administrative expenses	excluding amortisation of goodwill and impairment amortisation of goodwill impairment loss	-22,273,468 -173,750 <u>-27,383,107</u>	-23,475,022 -173,748 <u>-18,562,775</u>
Total administrative expenses		-49,830,325	-42,211,545
Exceptional item Costs of Travelodge transaction	21	-45,006	-474,732
OPERATING LOSS	2	<u>-23,080,752</u>	<u>-13,532,629</u>
Loss on disposal of tangible fixed assets	21	<u>-4,070</u>	<u>-56,126</u>
LOSS ON ORDINARY ACTIVITIES BEFORE INTEREST AND TAXATION		-23,084,822	-13,588,755
Net interest payable and similar charges	3	<u>-15,785,390</u>	<u>-18,644,284</u>
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		-38,870,212	-32,233,039
Taxation on loss on ordinary activities	4	<u>-</u>	<u>-697,163</u>
LOSS FOR THE FINANCIAL YEAR	14	<u>-38,870,212</u>	<u>-32,930,202</u>

All of the Group's operations are continuing

The notes on pages 13 to 22 form part of these financial statements

MENZIES HOTELS HOLDINGS LIMITED

NOTE OF HISTORICAL COST PROFITS AND LOSSES

Year ended 31 January 2010

	Notes	2010 £	2009 £
Reported loss on ordinary activities before taxation		-38,870,212	-32,233,039
Difference between historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	14	1,124,539	2,710,194
Historical cost loss on ordinary activities before taxation		-37,745,673	-29,522,845
Historical cost loss on ordinary activities after taxation		-37,745,673	-30,220,008

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 January 2010

	Notes	2010 £	2009 £
Loss for the financial year		-38,870,212	-32,930,202
Impairment of properties	15	-20,633,045	-8,465,294
Total recognised gains and losses relating to the year		-59,503,257	-41,395,496

The notes on pages 13 to 22 form part of these financial statements

MENZIES HOTELS HOLDINGS LIMITED
Company number 5302710

CONSOLIDATED BALANCE SHEET
At 31 January 2010

		2010		2009	
	Notes	£	£	£	£
FIXED ASSETS					
Intangible assets - purchased goodwill	6		-		2,432,504
Tangible assets	7		185,157,295		237,298,070
Investments	8		<u>4</u>		<u>4</u>
			185,157,299		239,730,578
CURRENT ASSETS					
Stocks	9	318,183		324,708	
Debtors	10	2,454,634		2,839,448	
Cash at bank and in hand		<u>13,653,631</u>		<u>687,059</u>	
		16,426,448		3,851,215	
CREDITORS - amounts falling due within one year	11	<u>-264,285,645</u>		<u>-246,780,434</u>	
NET CURRENT LIABILITIES			<u>-247,859,197</u>		<u>-242,929,219</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			-62,701,898		-3,198,641
PROVISIONS FOR LIABILITIES AND CHARGES	12		-		-
NET LIABILITIES			<u>-62,701,898</u>		<u>-3,198,641</u>
CAPITAL AND RESERVES					
Called up share capital	13		99,950		99,950
Revaluation reserve	14		13,508,959		35,266,543
Profit and loss account	14		-76,310,808		-38,565,134
TOTAL SHAREHOLDERS' DEFICIT	15		<u>-62,701,898</u>		<u>-3,198,641</u>

Approved by the board on 23 December 2010 and signed on its behalf by



Timothy J Penter
Director

The notes on pages 13 to 22 form part of these financial statements

MENZIES HOTELS HOLDINGS LIMITED
Company number 5302710

COMPANY BALANCE SHEET
At 31 January 2010

	Notes	£	2010 £	£	2009 £
FIXED ASSETS					
Investments	8		-		-
CURRENT ASSETS					
Debtors	10	11,044		10,875	
CREDITORS - amounts falling due within one year	11	<u>-101,584</u>		<u>-100,039</u>	
NET CURRENT LIABILITIES			<u>-90,540</u>		<u>-89,164</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>-90,540</u>		<u>-89,164</u>
NET LIABILITIES			<u>-90,540</u>		<u>-89,164</u>
CAPITAL AND RESERVES					
Called up share capital	13		99,950		99,950
Profit and loss account	14		-190,490		-189,114
TOTAL SHAREHOLDERS' DEFICIT	15		<u>-90,540</u>		<u>-89,164</u>

Approved by the board on 23 December 2010 and signed on its behalf by



Timothy J Penter
Director

The notes on pages 13 to 22 form part of these financial statements

MENZIES HOTELS HOLDINGS LIMITED

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 January 2010

	Notes	£	2010 £	£	2009 £
NET CASH INFLOW FROM OPERATING ACTIVITIES	18 a)		30,289,450		34,449,743
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE					
Interest paid		-15,979,643		-18,718,834	
Interest received		194,253		74,550	
			<u>-15,785,390</u>		<u>-18,644,284</u>
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT					
Payments to acquire tangible fixed assets		-1,542,243		-19,894,522	
Sale of tangible fixed assets and termination of certain hotel operations		4,755		77,200	
			<u>-1,537,488</u>		<u>-19,817,322</u>
CASH INFLOW / (OUTFLOW) BEFORE USE OF LIQUID RESOURCES AND FINANCING			<u>12,966,572</u>		<u>-4,011,863</u>
Increase / (Decrease) in cash in the year			<u>12,966,572</u>		<u>-4,011,863</u>
RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS					
Increase / (Decrease) in cash in the year			12,966,572		-4,011,863
Change in net funds resulting from cash flows			<u>12,966,572</u>		<u>-4,011,863</u>
NET FUNDS AT 31 JANUARY 2009			<u>687,059</u>		<u>4,698,922</u>
NET FUNDS AT 31 JANUARY 2010	18 b)		<u>13,653,631</u>		<u>687,059</u>

The notes on pages 13 to 22 form part of these financial statements

1 ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared for the year to 31 January 2010 under the historical cost convention as modified by the revaluation of tangible fixed assets 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 2010 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 31 December 2010

The director has prepared cash flow projections for the PH2 Group up until 31 January 2015. The projections were presented to the bank and have subsequently been reviewed and reported on by professional advisors. The director therefore anticipates that the 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 31 December 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. Turnover from the sale of goods is recognised when the goods are provided to the customer. Turnover from the supply of services represents the provision of hotel rooms and other hotel services to guests. Where a guest's stay has only been partially completed at the balance sheet date, turnover represents the value of the service provided to date. Where payments are received in advance of services provided, the amounts are recorded as deferred income and included as part of creditors due within one year

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. Provision is made for any impairment

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 tangible fixed assets continue to be held at cost

1 ACCOUNTING POLICIES (continued)

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 rates of between 6.67% and 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.

Lessee accounting

Rentals paid under operating leases are accounted for on a straight line basis in the period to which they relate.

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

		2010	2009
		£	£
Turnover and operating loss are wholly attributable to the principal activities of the Group and arise solely in the United Kingdom.			
Turnover	Operation of hotels	40,338,083	48,760,120
	Leasing of hotels	4,689,389	2,494,419
Operating loss is stated after charging			
Amortisation of purchased goodwill		173,750	173,748
Depreciation of owned fixed assets		7,916,795	7,901,130
Impairment of tangible and intangible fixed assets		27,383,107	18,562,775
Auditors' remuneration	audit services for Menzies Hotels Holdings Limited	3,000	3,000
	auditing of accounts of subsidiaries of the Company	55,000	55,000
	services relating to taxation	23,700	23,700
Operating leases	plant and machinery	436,675	458,509
	other	1,484,790	1,542,570

MENZIES HOTELS HOLDINGS LIMITED
NOTES TO FINANCIAL STATEMENTS
Year ended 31 January 2010

3 NET INTEREST PAYABLE AND SIMILAR CHARGES

	2010 £	2009 £
INTEREST PAYABLE AND SIMILAR CHARGES		
Interest payable to group holding companies	15,979,643	18,718,834
	<u>15,979,643</u>	<u>18,718,834</u>
INTEREST RECEIVABLE AND SIMILAR INCOME		
Bank interest received	-193,946	-62,165
Other interest received	-307	-12,385
	<u>-194,253</u>	<u>-74,550</u>
Net interest payable	<u>15,785,390</u>	<u>18,644,284</u>

4 TAXATION ON LOSS ON ORDINARY ACTIVITIES

	2010 £	2009 £
4 a) Analysis of charge for the year		
Total current tax	-	-
Deferred tax origination and reversal of timing differences	-	697,163
	<u>-</u>	<u>697,163</u>
4 b) Factors affecting the current tax charge for the year		
The tax assessed for the year is higher (2009 - higher) than the standard rate applying in the UK (28%) The differences are explained below		
Loss on ordinary activities before taxation	<u>-38,870,212</u>	<u>-32,233,039</u>
Loss on ordinary activities at the UK tax rate of 28% (2009 - 28 33%)	-10,883,660	-9,130,934
Effects of		
Expenses not deductible for tax purposes (including IBAs)	5,389,323	4,700,027
Accelerated capital allowances	3,405,149	2,313,376
Group relief surrendered at nil value	-145,547	1,291,244
Other timing differences	2,234,735	826,287
Current tax charge for the year	<u>-</u>	<u>-</u>

4 c) 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
- A number of changes to the UK Corporation tax system were announced in the June 2010 Budget Statement The Finance Act (No 2) 2010, which was substantively enacted on 20 July 2010, includes legislation to reduce the main rate of corporation tax from 28% to 27% from 1 April 2011 Further reductions to the main rate are proposed to reduce the rate by 1% per annum to 24% by 1 April 2014 These changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements As the net deferred tax assets have not been recognised these changes are not expected to have any impact on the resultant balance sheet of the Group

MENZIES HOTELS HOLDINGS LIMITED
NOTES TO FINANCIAL STATEMENTS
Year ended 31 January 2010

5 DIRECTORS AND EMPLOYEES

		2010	2009
		Number	Number
The monthly average number of persons employed during the year	- head office	30	33
	- operations	<u>1,235</u>	<u>1,501</u>
		1,265	1,534
		Group	Group
		£	£
Staff costs include			
Wages and salaries		13,649,674	16,015,912
Social security costs		1,011,367	1,217,357
Pension costs		123,306	123,091
		<u>14,784,347</u>	<u>17,356,360</u>
Directors' remuneration			
Directors' emoluments		173,341	235,427
Company contributions to money purchase schemes		12,000	17,963
Number of directors accruing benefits under money purchase schemes		<u>1</u>	<u>2</u>
Highest paid director			
Aggregate emoluments		173,341	173,011
Company contributions to money purchase schemes		<u>12,000</u>	<u>12,421</u>

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

6 INTANGIBLE FIXED ASSETS

Purchased goodwill - Group

Cost

At 1 February 2009 and 31 January 2010 **3,141,977**

Amortisation

At 1 February 2009 -709,473
Charged in the year -173,750
Impairment loss -2,258,754

At 31 January 2010 **-3,141,977**

Net book amount

At 31 January 2010 **-**

At 31 January 2009 **2,432,504**

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 remaining balance has been impaired as part of the impairment review performed by the director and explained in note 7 below.

MENZIES HOTELS HOLDINGS LIMITED
NOTES TO FINANCIAL STATEMENTS
Year ended 31 January 2010

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 2009	170,064,883	37,897,519	11,183,622	62,762,396	281,908,420
Additions	3,488	-	582,880	955,875	1,542,243
Disposals	-	-	-	-57,894	-57,894
At 31 January 2010	170,068,371	37,897,519	11,766,502	63,660,377	283,392,769
Accumulated depreciation					
At 1 February 2009	-15,097,237	-11,558,592	-124,651	-17,829,870	-44,610,350
Charge for the year	-	-	-70,987	-7,845,808	-7,916,795
Disposals	-	-	-	49,069	49,069
Impairment loss	-31,888,874	-9,311,848	-	-4,556,676	-45,757,398
At 31 January 2010	-46,986,111	-20,870,440	-195,638	-30,183,285	-98,235,474
Net book value					
At 31 January 2010	123,082,260	17,027,079	11,570,864	33,477,092	185,157,295
At 31 January 2009	154,967,646	26,338,927	11,058,971	44,932,526	237,298,070

Company

The Company had no tangible fixed assets during the year or the prior year

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 £69,660,394 (2009 - £70,274,519) and accumulated depreciation of £7,445,803 (2009 - £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 (2009 - £35,841,221) lower and the accumulated depreciation would have been £1,699,217 (2009 - £574,678) lower than the amount stated above at 31 January 2010. If the valuation had not taken place, the net book value of the Group's tangible fixed assets excluding the effects of the impairments in the year and the prior year would have been £196,772,689 (2009 - £202,031,527) as at 31 January 2010.

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 forecasts to 31 January 2015. A long term growth rate beyond the five year period of 2.5% was applied. A pre-tax discount rate of 12% was applied for the majority of the hotels. A discount rate of between 6% and 15% was applied for certain hotels reflecting different geographical and risk profiles.

As a result of this review an impairment provision of £48.0m has been established of which £27.4m has been charged to the profit and loss account and £20.6m 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 £9.4m.

MENZIES HOTELS HOLDINGS LIMITED
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8 INVESTMENTS

		£
Group	At 31 January 2009 and 31 January 2010	4
Company	Cost at 31 January 2009 and 31 January 2010	80,377
	Impairment	-80,377
	Net Book Value at 31 January 2009 and 31 January 2010	-

Subsidiary undertakings

The following subsidiary undertakings are included in the consolidated financial statements for the year ended 31 January 2010,

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
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 are not included in the consolidated financial statements for the year ended 31 January 2010 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 2010 £	Group 2009 £
Food and liquor	<u>318,183</u>	<u>324,708</u>

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

MENZIES HOTELS HOLDINGS LIMITED
NOTES TO FINANCIAL STATEMENTS
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10 DEBTORS

	Group 2010 £	Company 2010 £	Group 2009 £	Company 2009 £
Trade debtors	1,434,947	-	1,876,628	-
Amounts owed by group companies	-	11,044	-	10,875
Other debtors	221,350	-	427,986	-
Prepayments and accrued income	798,337	-	534,834	-
Amounts falling due within one year	2,454,634	11,044	2,839,448	10,875

11 CREDITORS - amounts falling due within one year

	Group 2010 £	Company 2010 £	Group 2009 £	Company 2009 £
Trade creditors	2,510,356	-	2,932,794	-
Amounts owed to group holding companies	258,749,699	-	239,863,835	-
Amounts owed to group companies	-	101,409	-	99,864
Other taxation and social security	770,471	-	485,407	-
Other creditors	581,267	-	461,716	-
Accruals and deferred income	1,673,852	175	3,036,682	175
	264,285,645	101,584	246,780,434	100,039

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 (including debtors shown in note 10) 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

	2010 £	2009 £
Group deferred taxation		
At 1 February 2009	-	-697,163
Charge for the year	-	697,163
At 31 January 2010	-	-

No deferred tax asset has been recognised relating to accelerated capital allowances of £3,831,222 (2009 - £1,459,384), tax losses of £3,384,877 (2009 - £1,702,457) and pension provision of £4,704 (2009 - £9,285) given the uncertainty regarding their recoverability.

The Company has no recognised deferred tax (2009 - £nil). No deferred tax asset has been recognised relating to tax losses of £4,204 (2009 - £4,204) given the uncertainty regarding their recoverability.

The tax losses carried forward have been updated to reflect the agreed tax computations for 2009.

MENZIES HOTELS HOLDINGS LIMITED
NOTES TO FINANCIAL STATEMENTS
Year ended 31 January 2010

13 SHARE CAPITAL

	2010	2009
	£	£
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
	<u>100,000</u>	<u>100,000</u>
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
	<u>99,950</u>	<u>99,950</u>

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 2009	35,266,543	-38,565,134	-189,114
Loss for the financial year	-	-38,870,212	-1,376
Transfer of depreciation on revalued amounts during the year	-1,124,539	1,124,539	-
Property impairment	-20,633,045	-	-
At 31 January 2010	<u>13,508,959</u>	<u>-76,310,808</u>	<u>-190,490</u>

The parent company has not presented its own profit and loss account. The loss for the financial year of the parent company amounted to £1,376 (2009 - £87,289).

15 RECONCILIATION OF MOVEMENTS IN TOTAL SHAREHOLDERS' DEFICIT

	Group 2010 £	Company 2010 £	Group 2009 £	Company 2009 £
Loss for the financial year	-38,870,212	-1,376	-32,930,202	-87,289
Property impairment	-20,633,045	-	-8,465,294	-
Net movement in shareholders' (deficit) / funds	<u>-59,503,257</u>	<u>-1,376</u>	<u>-41,395,496</u>	<u>-87,289</u>
Opening shareholders' (deficit) / funds	-3,198,641	-89,164	38,196,855	-1,875
Closing shareholders' deficit	<u>-62,701,898</u>	<u>-90,540</u>	<u>-3,198,641</u>	<u>-89,164</u>

MENZIES HOTELS HOLDINGS LIMITED
NOTES TO FINANCIAL STATEMENTS
Year ended 31 January 2010

16 COMMITMENTS UNDER OPERATING LEASES

	2010	2010	2009	2009
	Land and buildings	Other	Land and buildings	Other
	£	£	£	£
The Group had annual commitments under operating leases as set out below				
Operating leases expiring				
Within one year	-	16,266	-	49,028
In two to five years	-	74,888	-	63,252
In more than five years	1,523,510	24,791	1,484,790	52,094
	1,523,510	115,945	1,484,790	164,374

The Company had no annual commitments under operating leases (2009 - £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 £123,306 (2009 - £123,091) represents contributions payable by the Group. The balance owed to the pension scheme at 31 January 2010 was £16,799 (2009 - £33,161).

18 RECONCILIATION OF OPERATING LOSS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

18 a)	2010	2009
	£	£
Operating loss	-23,080,752	-13,532,629
Depreciation charge	7,916,795	7,901,130
Amortisation of purchased goodwill	173,750	173,748
Impairment loss	27,383,107	18,562,775
Decrease in stocks	6,525	173,456
Decrease in debtors	384,814	1,498,150
Increase in creditors	17,505,211	19,673,113
	30,289,450	34,449,743

18 b) ANALYSIS OF NET FUNDS

	2009	Cash flow	Other non-cash changes	2010
	£	£	£	£
Cash at bank and in hand	687,059	12,966,572	-	13,653,631
Total	687,059	12,966,572	-	13,653,631

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

19 CAPITAL COMMITMENTS

	Group	Company	Group	Company
	2010	2010	2009	2009
	£	£	£	£
Contracted but not provided for	345,904	-	659,833	-

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.

MENZIES HOTELS HOLDINGS LIMITED
NOTES TO FINANCIAL STATEMENTS
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21 LOSS ON DISPOSAL OF TANGIBLE FIXED ASSETS AND TERMINATION OF CERTAIN HOTEL OPERATIONS

	Group 2010 £	Group 2009 £
Loss on disposal of tangible fixed assets	-4,070	-56,126
Exceptional item Costs of Travelodge transaction	-45,006	-474,732
	<hr/> -49,076 <hr/>	<hr/> -530,858 <hr/>

The exceptional item in the current and prior year relates 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 net indebtedness of Piccadilly Hotels 2 Limited to the bank at 31 January 2010 and therefore the contingent liability of the Company amounted to £231,546,311 (2009 - £227,268,217)

23 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.