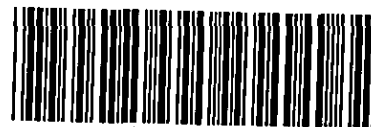


Venice Owl Limited

Report and Financial Statements

31 December 2008

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Venice Owl Limited

Report and financial statements 2008

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Venice Owl Limited

Report and financial statements 2008

Officers and professional advisers

Directors

A Troy
G S Hunter
P Nisbett
M Clarke
S Flanagan

Secretary

G J Gallagher

Registered office

The Inspire
Hornbeam Park
Harrogate
North Yorkshire
HG2 8PA

Auditors

Deloitte LLP
Chartered Accountants and Registered Auditors
Leeds

Venice Owl Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2008.

Principal activities

The company owns shares in Venice Hawkstone Bidco Limited, an intermediate holding company. The principal activity of its main subsidiary undertaking Hawkstone Park Limited is the operation of the Hawkstone Park hotel and golf course.

Principal Hayley Group Business Review

The company, together with the other subsidiaries of the ultimate parent company Venice Luxco SARL, form the Principal Hayley Group of Companies ("Principal Hayley").

Annual Review 2008

Principal Hayley grew its revenues to £139.4 million in 2008 and EBITDAR from operations was £54.8 million. 2008 included full year contributions from the Hayley Conference Centres, the St David's Hotel and the Hawkstone Park Hotel and Golf Course all of which were acquired during the first half of 2007.

On a full year like for like basis there was growth in both Average Room Rate (3.4%) and RevPAR (0.7%) across the Principal Hotels and Hayley Conference Centres divisions despite the difficult trading conditions experienced in the second half of 2008. The benefits of restructuring of the acquired businesses together with synergies created by the enlarged group meant that the EBITDA in those divisions increased by 4.5% to £54.1 million.

In Europe, Principal Hayley's first conference centre, the Chateau Saint-Just in Paris, opened during the Autumn of 2008 and has quickly developed a strong presence in its local marketplace.

Principal Hayley has a well maintained portfolio of properties which do not currently require improvement expenditure. However, during 2008 it continued to invest in its properties and infrastructure in order to enhance the customer experience, increase the number of bedrooms available and improve its IT systems. A total of £23.2 million of capital expenditure was incurred with key developments at the Beaumont House and Ettington Chase conference centres. The refurbishment of the Whitehouse at Beaumont House created an additional 84 bedrooms, state of the art meeting rooms and new dining facilities. At Ettington Chase a further 17 bedrooms were created to increase its bedroom capacity by 15%. The significant expenditure on IT systems during the year provided management with a platform for better revenue management and also brought operational efficiencies to the business.

Future Prospects

Trading during 2009 to date has been difficult due to the uncertain economic conditions currently effecting the UK and Europe. Principal Hayley is, however, well managed and funded and is ideally placed to take advantage of opportunities created by these conditions.

In June 2009 the acquisitions of the New Connaught Rooms Conference Centre in London and the Grand Central Hotel in Glasgow were completed from the administrators of the Real Hotel Group plc. The acquisitions were funded by shareholder debt without the need for additional bank funding. Both properties are excellent additions to Principal Hayley and increase the geographical coverage of its operations in the UK.

Principal Hayley now operates two properties under management contract agreements. In Europe, the La Mola conference centre near Barcelona was launched in January 2009 and has already held major events for a number of blue chip companies. In addition, in February 2009 Principal Hayley won the contract to manage the prestigious Oakley Court Hotel in Windsor.

Venice Owl Limited

Directors' report

Principal Hayley Group Business Review (*continued*)

Finance and Liquidity

Principal Hayley has long-term funding and additional development facilities in place with its bankers which, subject to compliance with normal banking covenants for interest cover and loan to value ratios, are not renewable until May 2012. In addition, shareholder funding is also in place and is not repayable until May 2012 at the earliest.

As noted above, the current economic conditions create uncertainty in the level of demand in the UK hotel and conference centre markets and hence for Principal Hayley's services. However, current forecasts and projections, taking account of reasonable variations in trading performance, show that Principal Hayley should be able to operate within its current facilities and meet its interest cover covenants.

The current economic conditions also create uncertainty over property valuations. The Principal Hayley property valuations have been reviewed taking into account the most recent formal valuations together with subsequent market movements, improvements made to certain properties and the value of the recent acquisitions. The loan to value covenant is not tested until the end of the first quarter of 2010. However, it is considered that the covenant would be met currently if tested and that it will continue to be satisfied for the foreseeable future.

Going Concern

After making enquiries, the directors have a reasonable expectation that Principal Hayley has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts for the company.

Financial risk management objectives and policies

Financial risk management objectives and policies are managed on a unified basis for Principal Hayley.

The company's activities expose it to a number of financial risks. The use of financial derivatives to manage risks is subject to Board approval and no financial derivatives are used for speculative purposes.

Cash flow risk

The company uses interest rate swaps, where appropriate, to manage its exposure to interest rate fluctuations on bank borrowings. The company has not entered into any interest rate swaps during the current or previous financial periods.

Credit risk

The company's principal financial assets are receivables with members of Principal Hayley. The company has no other significant concentration of credit risk.

Liquidity Risk

In order to maintain liquidity to ensure that sufficient funds are available for ongoing operations and future development, Principal Hayley uses a mixture of long-term bank and shareholder loan finance together with short-term bank finance. The banking facilities and shareholder loans are not due for renewal until May 2012.

Price Risk

The company is not exposed to commodity price risk.

Venice Owl Limited

Directors' report

Company results and dividends

There has been no change in the company's investments during the year. The directors expect the company's levels of activity to remain unchanged during the year to 31 December 2009.

The company made a profit of £18,000 for the year (10 months to Dec 2007: loss of £84,000). No dividends were paid during the financial year (10 months to Dec 2007: £nil). The directors do not propose to pay a final dividend (10 months to Dec 2007: £nil).

Directors

The directors who held office during the period and subsequently were:

A Troy	
G S Hunter	
P Nisbett	(appointed 8 August 2008)
M Day	(resigned 30 June 2008)
J Burrell	(resigned 30 April 2008)
M Clarke	
S Flanagan	(appointed 30 April 2008)

The company has made qualifying third party indemnity provisions for the benefit of its directors which were made during the period and remain in force at the date of this report.

Disclosure of relevant information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Auditors

A resolution to re-appoint Deloitte LLP as the company's auditors will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



P Nisbett
Director
23 June 2009

Venice Owl Limited

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements. The directors have chosen to prepare the accounts for the company in accordance with United Kingdom Generally Accepted Accounting Practice ("UK GAAP").

Company law requires the directors to prepare such financial statements for each financial year which give a true and fair view in accordance with UK GAAP of the state of affairs of the company and of the profit or loss of the company for that period, and which comply with UK GAAP and the Companies Act 1985. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Independent auditors' report to the members of Venice Owl Limited

We have audited the financial statements of Venice Owl Limited for the year ended 31 December 2008 which comprise the profit and loss account, the balance sheet and the related notes 1 to 15. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the 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).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 company's affairs as at 31 December 2008 and of the company's profit 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.

Deloitte LLP

Deloitte LLP

Chartered Accountant and Registered Auditors

Leeds

23 June 2009

Venice Owl Limited

Profit and loss account Year ended 31 December 2008

		Year ended 31 Dec 2008 £'000	10 months to 31 Dec 2007 £'000
	Notes		
Finance charges (net)	2	<u>18</u>	<u>(84)</u>
Profit / (loss) on ordinary activities before taxation	3	18	(84)
Tax on profit / (loss) on ordinary activities	5	<u>-</u>	<u>-</u>
Retained profit / (loss) for the financial period	11	<u>18</u>	<u>(84)</u>

There are no recognised gains or losses other than the results shown in the profit and loss account above. Accordingly, no statement of total recognised gains and losses is given.

All amounts relate to continuing activities.

Venice Owl Limited

Balance sheet 31 December 2008

	Note	2008 £'000	2007 £'000
Fixed assets			
Investments	6	-	-
Current assets			
Debtors	7	11,989	10,990
		11,989	10,990
Creditors: amounts falling due within one year	8	(937)	(364)
Net current assets / (liabilities)		11,052	10,626
Total assets less current liabilities		11,052	10,626
Creditors: amounts falling due after more than one year	9	(11,118)	(10,710)
Net assets / (liabilities)		(66)	(84)
Capital and reserves			
Called up share capital	10	-	-
Profit and loss account	11	(66)	(84)
Equity shareholders' deficit	12	(66)	(84)

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 23 June 2009.



P Nisbett

Director

Venice Owl Limited

Notes to the accounts

Year ended 31 December 2008

1. ACCOUNTING POLICIES

The principal accounting policies are summarised below. They have all been applied consistently throughout the period and the prior period.

Basis of accounting

The accounts have been prepared under the historical cost convention, and in accordance with applicable United Kingdom accounting standards and law.

Going Concern

The accounts have been prepared on a going concern basis. Further details regarding the adoption of the going concern basis can be found in the Directors Report.

Investments

Fixed asset investments are stated at cost less any necessary provision for impairment.

Taxation

Corporation tax payable is provided on taxable profits at the current rate.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profit and its results stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they recognised in the financial statements. Deferred tax is measured on a non-discounted basis.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Cash flow statement

Under the provisions of FRS 1 (revised): Cash Flow Statements, the company has not prepared a cash flow statement because its ultimate parent company prepares consolidated accounts which include the cash flows of the company.

2. FINANCE CHARGES (NET)

	Year ended 31 Dec 2008 £'000	10 months to 31 Dec 2007 £'000
Interest payable and similar charges		
Bank loans and overdrafts	573	388
Bank loan facility fees	-	130
Loans from group companies	408	271
	<hr/> 981	<hr/> 789
Interest receivable and similar income		
Loans to group companies	(999)	(705)
	<hr/> (18)	<hr/> 84

Venice Owl Limited

Notes to the accounts

Year ended 31 December 2008

3. PROFIT / (LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION

	Year ended 31 Dec 2008 £'000	10 months to 31 Dec 2007 £'000
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Profit /(loss) on ordinary activities before taxation is stated after charging/ (crediting):

Auditors remuneration - audit services	-	-
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Auditors remuneration of £1,000 (11 months to Dec 2007: £1,000) is borne by a fellow group company.

4. DIRECTORS' EMOLUMENTS AND STAFF COSTS

The directors received no remuneration in respect of services to the company during the period. The directors are the only employees of the company.

5. TAX ON PROFIT / (LOSS) ON ORDINARY ACTIVITIES

	Year ended 31 Dec 2008 £'000	10 months to 31 Dec 2007 £'000
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The tax charge for the period comprises:

Current tax

UK corporation tax on the profit / (loss) for the period	-	-
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At 31 December 2008 there is an unprovided deferred tax asset in relation to tax losses of £14,000 (2007:£nil). This has not been recognised due to the uncertainty around the recoverability of the asset.

The difference between the total current tax shown and the amount calculated by applying the standard rate of UK corporation tax to the result before tax is as follows:

	Year ended 31 Dec 2008 £'000	10 months to 31 Dec 2007 £'000
Profit / (loss) on ordinary activities before taxation	18	(84)
Tax at standard UK rate of 28.5% (2007: 30%)	5	(25)
Effects of:		
Utilisation of tax losses and tax losses carried forward	(5)	-
Group relief surrendered for nil consideration	-	25
Current tax charge / (credit) for the period	-	-

Venice Owl Limited

Notes to the accounts

Year ended 31 December 2008

6. INVESTMENTS

	£
Cost	
At the beginning and end of the year	<u>1</u>
Provision for impairment	
At the beginning and end of the year	<u>-</u>
Net book value	
At the beginning and end of the year	<u><u>1</u></u>

The company owns the whole of the share capital of Venice Hawkstone Bidco Limited, an intermediate holding company which is registered in England and Wales. The principal subsidiary of Venice Hawkstone Bidco Limited is Hawkstone Park Limited, a company registered in England and Wales whose principal activity is the operation of the Hawkstone Park hotel and golf course.

Group accounts have not been prepared as the company is itself a wholly owned subsidiary of Venice Antler 1 Limited, a company registered in England and Wales which prepares group accounts.

7. DEBTORS

	2008 £'000	2007 £'000
Amounts owed by group undertakings	<u>11,989</u>	<u>10,990</u>
	<u><u>11,989</u></u>	<u><u>10,990</u></u>

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2008 £'000	2007 £'000
Amounts due to group undertakings	791	216
Accruals and deferred income	<u>146</u>	<u>148</u>
	<u><u>937</u></u>	<u><u>364</u></u>

Venice Owl Limited

Notes to the accounts

Year ended 31 December 2008

9. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2008 £'000	2007 £'000
Bank loan repayable 2012	8,014	8,014
Amounts due to group undertakings	3,104	2,696
	<u>11,118</u>	<u>10,710</u>

Interest is charged quarterly on the bank loan at rates based on the prevailing 3 month LIBOR rate. The bank loan is secured by charges on the properties owned by certain fellow group companies.

Amounts owed to group undertakings have no fixed repayment date but are subordinated such that repayment cannot occur until the group's bank loans are repaid in May 2012. Therefore they have been shown as falling due after more than one year. The comparative figures at December 2007 have been adjusted to consistently reflect this presentation.

10. CALLED UP SHARE CAPITAL

	2008 £'000	2007 £'000
Authorised:		
100 ordinary shares of £1 each	<u>100</u>	<u>100</u>
Allotted, called up and fully paid:		
1 ordinary share of £1 each	<u>1</u>	<u>1</u>

11. PROFIT AND LOSS ACCOUNT

	£'000
At the beginning of the year	(84)
Retained profit / (loss) for the year	<u>18</u>
At the end of the year	<u>(66)</u>

Venice Owl Limited

Notes to the accounts

Year ended 31 December 2008

12. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS / (DEFICIT)

	Year ended 31 Dec 2008 £'000	10 months to 31 Dec 2007 £'000
Profit / (loss) for the financial period	18	(84)
Issue of share capital	-	-
Net increase / (reduction) to equity shareholders' funds	18	(84)
Opening equity shareholders' funds	(84)	-
Closing equity shareholders' deficit	(66)	(84)

13. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption in FRS 8: "Related Party Disclosures" not to disclose transactions with other group companies.

14. CONTINGENT LIABILITIES

The company, together with other group companies, has given guarantees to a maximum of £394 million over the borrowings of certain fellow UK subsidiaries of the Ultimate Parent Company. At the balance sheet date the borrowings outstanding covered by these guarantees totalled £369 million.

15. ULTIMATE PARENT COMPANY AND CONTROLLING PARTY

The company's ultimate parent company and controlling party is Venice Luxco Sarl, a company incorporated in Luxembourg. Venice Luxco Sarl does not prepare consolidated accounts.

The largest and smallest group in which the company is consolidated is that headed by Venice Antler 1 Limited, a company registered in England and Wales. Copies of the consolidated financial statements of Venice Antler 1 Limited can be obtained from Companies House, Crown Way, Maindy, Cardiff, CF14 3UZ.