

2004

# HYDRO HOTEL, EASTBOURNE, PLC



## Report and Accounts

Year ended 31 October 2006

# HYDRO HOTEL, EASTBOURNE, PLC

NOTICE IS HEREBY GIVEN that the ONE HUNDRED AND TWELFTH ANNUAL GENERAL MEETING of the Company will be held at the HYDRO HOTEL, EASTBOURNE, on WEDNESDAY the 18TH DAY OF APRIL 2007, at 11.30 am for the following purposes:

1. To receive the Accounts for the year ended 31 October 2006 and the Reports of the Directors and Auditors thereon.
2. To declare a dividend.
3. To vote Directors' remuneration for the year ending 31 October 2007.
4. To re-appoint the Auditors and to authorise the Directors to fix their remuneration.

Any member of the Company entitled to attend and vote at this meeting is also entitled to appoint a proxy to attend and vote in his stead. A proxy need not be a member of the Company

Registered Office  
Mount Road  
Eastbourne  
East Sussex  
BN20 7HZ  
26 March 2007

By Order of the Board

  
C P FREEMAN, FCA, CTA(Fellow),

Secretary

# HYDRO HOTEL, EASTBOURNE, PLC

## CHAIRMAN'S STATEMENT

*Results for year to October 31, 2006*

The Directors' report contains a Business Review.

*Developments since October 31, 2006*

We have installed a banqueting servery adjacent to the Wedgwood Room to improve the delivery of food to functions in that Room. We have refurbished 16 bedrooms and bathrooms (19% of the total) and 4 other bathrooms, and have re-carpeted bedroom corridors. We have continued with major renovations of the roof and exterior tiling, and are replacing the rear fire escape.

We are planning to improve facilities in the swimming pool area together with a new heating system and re-paving. An à la carte menu in the Crystal restaurant will be introduced alongside our popular table d'hôte menu. We are looking to use data from the new computer system to enhance our marketing strategy.

Following the receipt of the proceeds from the disposal of White Lodge we have continued to review whether there are any substantial capital projects which will benefit our hotel. The garage area and the lifts will require substantial sums for redevelopment, refurbishment or replacement in due course. Accordingly we are retaining substantial cash reserves on deposit for the time being.

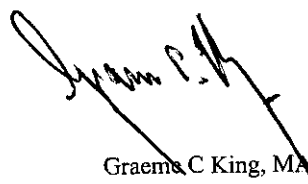
### *The Board*

Graham Bean, our former General Manager, will be standing down at the AGM after serving as a director for 16 years. Graham epitomises the Hydro style of quiet authoritative efficiency, and has been a wonderful role model for generations of Hydro staff. His deep knowledge of the Hydro and his wise counsel have been immensely valuable to the Board, and my colleagues and I wish Rita and Graham a long and happy retirement. We look forward to seeing them both here enjoying the Hydro Hotel in the future.

I am pleased to report that your Board have taken steps to continue the hotelier expertise that Graham brought to us, and I will be making an announcement to you on this in the summer.

### *Our Staff*

A year of stability in the management of the Hotel has started to show benefits in increasing customer satisfaction and new business levels. I thank our General Manager, Mr Ian Turnbull, for his leadership over the last year, and all our staff for their enthusiastic and efficient service to our customers.



Graeme C King, MA, CA,

Chairman of the Board

13 March 2007

# HYDRO HOTEL, EASTBOURNE, PLC

## REPORT OF THE DIRECTORS

The Directors submit their Report and the audited Accounts for the year ended 31 October 2006.

**PRINCIPAL ACTIVITY** - The Company carries on the business of hoteliers. It has no subsidiary companies.

**REVIEW OF THE BUSINESS** - The Company has been operating the 83 bedroom Hydro Hotel, Mount Road, Eastbourne, which it owns freehold, since 1895. The Directors have reviewed whether to expand the business to operate from additional locations, but for the time being have decided to focus on maximising the business at Hydro Hotel.

Hydro Hotel aims to be the pre-eminent traditional three star hotel in the Eastbourne area, offering a high quality product with excellent service, giving perceived value for money to our customers.

### Performance Measurement and Key Performance Indicators

In order to measure the success of the Company in meeting its objectives and to evaluate the performance of management, the Directors review the following key performance indicators at their regular monthly board meetings:

- REVPAR (Revenue achieved per available room).
- Food & Beverage sales volume and gross profit achieved.
- Staff costs and overheads, compared to sales.

The Directors also review marketing activities undertaken and planned, future bookings, feedback from customers on service provided, employee changes, capital and refurbishment plans, budgets and expenditure, and cash management.

### Business Development

Turnover from the Hydro Hotel operation increased during the year by 2.8%. Revpar increased by 2.4%, and Food & Beverage gross profit increased by 1.7%. Staff costs and general overheads were well contained, falling as a percentage of sales by 0.8%. Gas and electricity costs increased by 25.8% compared to the previous year, the repair expenditure, as planned, increased by 20.6%, and depreciation resulting from the capital expenditure in the last few years increased by 37%. Interest received net of interest paid helped to mitigate the overhead increases. The adjusted net profit for the year after excluding exceptional items was £246,992 compared to £219,582 in the previous year (which included the last period of trading at White Lodge Hotel). Adjusted earnings per share were 41.16p compared to 36.60p for the previous year.

The Company generated cash from ongoing operations of £337,585 and invested £326,062 in new fixed assets. The Company completely refurbished two of the three main function rooms, the Garden Suite and the Wedgwood Room, and 13% of the bedrooms and bathrooms. Modern computer systems were installed to manage room sales, enable direct bookings over the internet, and electronic point of sale.

During the year the Company paid ordinary dividends of £150,000 and a special dividend of £264,000. At the year end the Company had a satisfactory net current asset position of £1,156,511.

# HYDRO HOTEL, EASTBOURNE, PLC

## REPORT OF THE DIRECTORS (CONTINUED)

### Risk Factors

Risks regularly reviewed by the Directors which could materially affect the Company's business are:

Reputational risk - The Company must consistently ensure that its offering to customers and the delivery of service meets their requirements, and adjusts to changes in market trends over time.

Staffing risk - The Company must recruit, train, and retain sufficient high quality staff to enable it to deliver its service to customers.

Hotel facility deterioration - The Company must continually invest to refresh its facilities, and if necessary change its offering, to meet the requirements of the market.

Fire, Health & Safety, & Environmental Health - The Company must ensure that its premises and practices provide a safe environment for guests and staff, and comply with regulations

### Future Developments

The Chairman's statement on page 3 covers future developments.

TRADING RESULTS - The profit for the financial year after taxation of £283,150 (2005 £582,632) is stated after crediting an exceptional item - profit on disposal of the operation at White Lodge Country House Hotel of £41,460 (2005 £605,077 ) less taxation thereon. The Balance Sheet at 31 October 2005 has been restated to reflect the change in accounting for dividends as required by FRS 21 and detailed in note 12.

DIVIDENDS - An interim dividend at the rate of 6.5p per share was paid on 25 January 2007 amounting to £39,000 - and the Directors recommend the payment of a final dividend at the rate of 19.5p per share amounting to £117,000. Subject to approval at the Annual General Meeting, the final dividend will be paid on 10 May 2007 to shareholders on the register on 10 April 2007.

DIRECTORS - Mr G Bean retires by rotation and is not seeking re-election.

Those persons who held office during the year ended 31 October 2006 and their interest in the shares of the Company at the beginning of the year or date of appointment and end of the year were as follows:

		1 November 2005	31 October 2006
G Bean, MHCIMA	beneficial	1,402 shares	1,402 shares
C P Freeman, FCA, CTA(Fellow)	beneficial	500 shares	500 shares
G C King, MA, CA	beneficial	1,500 shares	1,500 shares
Mrs M R Peck, MA(Oxon)	beneficial	2,541 shares	2,541 shares
	non-beneficial	5,000 shares	5,000 shares
J M S Piper, ARICS	beneficial	31,830 shares	31,830 shares

There were no changes in the Directors' registered interests in the shares of the Company during the period 1 November 2006 to 13 March 2007.

# HYDRO HOTEL, EASTBOURNE, PLC

## REPORT OF THE DIRECTORS (CONTINUED)

**SUBSTANTIAL SHAREHOLDINGS** - The following shareholders have reported an interest of 3 per cent or more in the ordinary shares of the Company at 13 March 2007.

Mrs N Priestley	49,137 shares	8.19per cent
Mrs E M Foster	45,923 shares	7.65per cent
Mrs P A Gray	41,513 shares	6.92per cent
Mr R C James	28,534 shares	4.76per cent
Mr J W and Mrs M M Cheesbrough	24,855 shares	4.14per cent
Mr J S and Mrs B Halifax	18,141 shares	3.02per cent

**GOING CONCERN** - The Directors are confident, on the basis of current financial projections and facilities available, that the Company has adequate resources to continue in operation for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the Financial Statements.

**PAYMENT TO CREDITORS** - The Company agrees terms and conditions for business transactions with its suppliers. Payment is then made in accordance with these terms, subject to the terms and conditions being met by the supplier. Suppliers' accounts are settled on average within 20 days of invoice.

**INSURANCE** - To preclude the possibility of the Company incurring expenses which might arise from the need to indemnify a Director from claims made against him or her or the cost associated with their defence, the Company has effected Directors' liability insurance as permitted by the Companies Act 1985.

### FINANCIAL RISK MANAGEMENT

Details of financial risk management activities are given in note 16 to the accounts.

**DIRECTORS' RESPONSIBILITIES** - The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice. Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. 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, 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

# HYDRO HOTEL, EASTBOURNE, PLC

## REPORT OF THE DIRECTORS (CONTINUED)

AUDITORS - A resolution for the reappointment of PKF (UK) LLP will be proposed at the forthcoming Annual General Meeting.

This report was approved by the board of directors on 13 March 2007 and signed on behalf of the Board by

Mount Road  
Eastbourne  
East Sussex  
BN20 7HZ

  
C P FREEMAN, FCA, CTA(Fellow),

Secretary

# HYDRO HOTEL, EASTBOURNE, PLC

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HYDRO HOTEL, EASTBOURNE, PLC

We have audited the financial statements of Hydro Hotel, Eastbourne, plc for the year ended 31 October 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. The 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 Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards ('United Kingdom Generally Accepted Accounting Practice') are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been 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. The other information comprises only the Report of the Directors and the Chairman's Statement. 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 judgements 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 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 October 2006 and of its 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.

London, UK

Dated 14 March 2007

PKF (UK) LLP  
Registered Auditors

PKF (UK) LLP



# HYDRO HOTEL, EASTBOURNE, PLC

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 OCTOBER 2006

	Notes	2006 £	2005 £
TURNOVER			
Continuing operations		3,482,134	3,388,069
Discontinued operations		-	470,565
	2	3,482,134	3,858,634
Cost of sales		3,063,372	3,429,823
		<hr/>	<hr/>
GROSS PROFIT		418,762	428,811
Administrative expenses		177,071	179,140
		<hr/>	<hr/>
OPERATING PROFIT			
Continuing operations		241,691	315,571
Discontinued operations		-	(65,900)
	3	241,691	249,671
EXCEPTIONAL ITEM			
Profit on sale of discontinued operation - White Lodge	4	41,460	605,077
INTEREST RECEIVED	5	67,602	12,371
INTEREST PAID	5	(4,368)	(6,731)
		<hr/>	<hr/>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		346,385	860,388
TAXATION ON PROFIT ON ORDINARY ACTIVITIES	7	63,235	277,756
		<hr/>	<hr/>
PROFIT FOR THE FINANCIAL YEAR AFTER TAXATION	12	£283,150	£582,632
		<hr/>	<hr/>
Earnings per share - continuing operations	15	41.16p	36.60p

TOTAL RECOGNISED GAINS AND LOSSES - there are no recognised gains or losses other than the profit for the year as stated above.

Movements in Reserves are set out in Note 12.

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS can be found on page 9.

# HYDRO HOTEL, EASTBOURNE, PLC

## NOTE OF HISTORICAL COST PROFITS AND LOSSES

	2006 £	2005 £
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	346,385	860,388
Difference between the historical cost depreciation charge on furniture and equipment and freehold land and buildings and the actual depreciation charge for the year calculated on revalued amounts	5,927	7,829
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION USING HISTORICAL COST DEPRECIATION CHARGE FOR YEAR	<u>£352,312</u>	<u>£868,217</u>
RETAINED PROFIT FOR YEAR ON HISTORICAL COST BASIS (The 2005 figure has been restated)	<u>£289,077</u>	<u>£590,461</u>

## RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2006 £	2005 £ <i>As restated</i>
PROFIT FOR THE FINANCIAL YEAR AFTER TAXATION	283,150	582,632
Dividends paid (Note 6)	(414,000)	(144,000)
NET (REDUCTION FROM)/ADDITION TO SHAREHOLDERS' FUNDS	(130,850)	438,632
SHAREHOLDERS' FUNDS AT 1 NOVEMBER	3,658,886	3,220,254
SHAREHOLDERS' FUNDS AT 31 OCTOBER	<u>£3,528,036</u>	<u>£3,658,886</u>

# HYDRO HOTEL, EASTBOURNE, PLC

## BALANCE SHEET AT 31 OCTOBER 2006

	Notes	2006 £	2005 £ <i>As restated</i>
<b>FIXED ASSETS</b>			
Tangible Assets			
Freehold land and buildings	1 & 8	1,698,489	1,846,202
Furniture and equipment	1 & 8	716,758	534,773
		<u>2,415,247</u>	<u>2,380,975</u>
<b>CURRENT ASSETS</b>			
Stocks	1	31,398	36,788
Debtors	9	124,241	1,622,428
Cash at bank and in hand		1,622,254	682,647
		<u>1,777,893</u>	<u>2,341,863</u>
<b>CREDITORS</b>			
Amounts falling due within one year	10	(621,382)	(1,008,807)
<b>NET CURRENT ASSETS</b>		<u>1,156,511</u>	<u>1,333,056</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>3,571,758</u>	<u>3,714,031</u>
<b>CREDITORS</b>			
Amounts falling due after one year	10	(13,282)	(40,511)
<b>PROVISION FOR LIABILITIES AND CHARGES 11</b>		<u>(30,440)</u>	<u>(14,634)</u>
<b>TOTAL ASSETS LESS LIABILITIES</b>		<u><u>£3,528,036</u></u>	<u><u>£3,658,886</u></u>
<b>CAPITAL AND RESERVES</b>			
Ordinary Shares - Authorised and Issued:			
600,000 Shares of £1 each fully paid		600,000	600,000
Revaluation Reserve	12	449,594	455,521
Profit and Loss Account	12	2,478,442	2,603,365
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<u><u>£3,528,036</u></u>	<u><u>£3,658,886</u></u>

The financial statements were approved and authorised for issue by the board of directors and were signed on its behalf on 13 March 2007.

G C King

*Directors*

J M S Piper

# HYDRO HOTEL, EASTBOURNE, PLC

## CASH FLOW STATEMENT FOR THE YEAR ENDED 31 OCTOBER 2006

		2006		2005	
	Notes	£	£	£	£
NET CASH INFLOW FROM OPERATING ACTIVITIES	1		337,585		397,628
RETURNS ON INVESTMENT AND SERVICING OF FINANCE					
Interest received		67,602		12,371	
Interest paid		(21)		(49)	
Interest element of finance lease rental payments		(4,347)		(6,682)	
NET CASH INFLOW FROM RETURNS ON INVESTMENTS AND FROM SERVICING OF FINANCE			63,234		5,640
TAXATION					
Corporation tax paid			(281,344)		(52,351)
CAPITAL EXPENDITURE					
Payments to acquire tangible fixed assets		(326,062)		(205,552)	
Receipts from sales of tangible fixed assets on sale of operation		1,721,704		172,469	
Payments arising from sale of operation		(94,798)		(54,042)	
			1,300,844		(87,125)
			1,420,319		263,792
EQUITY DIVIDENDS PAID			(414,000)		(144,000)
			1,006,319		119,792
FINANCING					
Capital element of finance lease rental payments			(24,845)		(22,561)
INCREASE IN CASH	3		<u>£981,474</u>		<u>£97,231</u>

# HYDRO HOTEL, EASTBOURNE, PLC

## NOTES TO THE CASH FLOW STATEMENT

	2006 £	2005 £
1. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES		
Operating profit	241,691	249,671
Depreciation	149,396	114,781
Loss on disposal of fixed assets	-	940
Decrease in Stocks	5,390	11,143
(Increase)/Decrease in Debtors	(30,591)	19,159
(Decrease)/Increase in Creditors	(28,301)	1,934
Net cash inflow from operating activities	<u>£337,585</u>	<u>£397,628</u>

## 2. ANALYSIS OF CHANGES IN NET FUNDS

	1 November 2005	Cash Flows	31 October 2006
Cash in hand	4,285	(1,000)	3,285
Cash at bank	678,362	940,607	1,618,969
Bank overdraft	(57,812)	41,867	(15,945)
	<u>624,835</u>	<u>981,474</u>	<u>1,606,309</u>
Debt due within one year	(24,895)	(2,384)	(27,279)
Debt due after one year	(40,511)	27,229	(13,282)
	<u>£559,429</u>	<u>£1,006,319</u>	<u>£1,565,748</u>

	2006 £	2005 £
3. RECONCILIATION OF MOVEMENT IN CASH TO MOVEMENT IN NET FUNDS		
Increase in cash for the year	981,474	97,231
Change in net debt	24,845	22,561
	<u>1,006,319</u>	<u>119,792</u>
Net funds at 1 November	559,429	439,637
Net funds at 31 October	<u>£1,565,748</u>	<u>£559,429</u>

# HYDRO HOTEL, EASTBOURNE, PLC

## NOTES TO THE ACCOUNTS

### 1. ACCOUNTING POLICIES

#### *Accounting Convention*

The Accounts have been prepared under the historical cost convention with the exception of certain freehold buildings, furniture and equipment that had been revalued. The accounting policies comply in all material respects with all applicable U.K. Accounting Standards.

#### *Turnover*

The turnover represents the amount net of VAT charged for services rendered in the period.

#### *Dividends*

The Directors adopted Financial Reporting Standard 21 - Events after the Balance Sheet date for the year ended 31 October 2006. This standard states that dividends declared after the Balance Sheet date shall not be recognised at the Balance Sheet date. The change in accounting policy has resulted in a restatement of the Balance Sheet as at 1 November 2004 and 2005 and a prior year adjustment to Reserves - see note 12.

#### *Depreciation*

##### (i) Freehold land and buildings

The Directors adopted Financial Reporting Standard 15 on fixed assets for the Company's Accounts for the year ended 31 October 2000. The Directors took advantage of the transitional arrangements available to retain the book amounts of the freehold properties which were revalued on 31 October 1990 by a firm of Chartered Surveyors on the open market value basis. This revaluation has not been updated.

Depreciation has been provided from 1 November 1999 at rates calculated to write off the cost or valuation on a straight line basis over the following expected useful lives:

Land	- not depreciated
Buildings	- 100 years

Impairment of Buildings is considered and assets are written down to their recoverable amounts when required.

##### (ii) Furniture and equipment

Depreciation is provided on furniture and equipment at rates calculated to write off the cost or revaluation of the fixed assets over their useful lives. The depreciation rates are determined in accordance with commercial practice for the hotel industry and vary between 6.67 per cent and 20 per cent on a straight line basis.

#### *Stocks*

Stocks comprise provisions and stores valued at the lower of cost or net realisable value.

#### *Hire of Equipment*

Rentals payable under operating leases are charged to Profit and Loss Account as incurred.

Assets held under finance leases and hire purchase contracts are capitalised and depreciated over their useful lives. The corresponding lease and hire purchase obligations are treated in the balance sheet as liabilities. The interest element of rental obligations is charged to the profit and loss account so as to produce a constant periodic rate of charge on the remaining balance of the obligation for each accounting period.

#### *Pensions*

##### Defined contribution pension schemes

Defined contribution schemes are set up for employees at the Directors' discretion and the assets of these schemes are held separately being invested with an insurance company. The charge for the year is the amount of contributions payable by the company.

# HYDRO HOTEL, EASTBOURNE, PLC

## NOTES TO THE ACCOUNTS (CONTINUED)

### 1. ACCOUNTING POLICIES (CONTINUED)

#### *Deferred taxation*

In accordance with Financial Reporting Standard (FRS 19) "Deferred tax" the Company provides deferred tax in full on timing differences which result in an obligation at the Balance Sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law.

Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax balances are not discounted.

### 2. TURNOVER

The turnover and operating profit are wholly attributable to the Company's sole activity as hoteliers.

### 3. OPERATING PROFIT

The operating profit has been arrived at after charging:

	Continuing operations	Discontinued operation	2006	Continuing operations	Discontinued operation	2005
	£	£	£	£	£	£
Cost of sales	<b>£3,063,372</b>	-	<b>£3,063,372</b>	<b>£2,912,977</b>	<b>£516,846</b>	<b>£3,429,823</b>
Administrative expenses:						
Normal	<b>£177,071</b>	-	<b>£177,071</b>	<b>£159,521</b>	<b>£19,619</b>	<b>£179,140</b>
					2006	2005
					£	£
Auditors' remuneration:						
Hydro Hotel, Eastbourne, plc						
Audit fees					11,873	11,358
Other services relating to taxation					1,450	2,135
Services relating to information technology					-	1,365
All other services					5,275	5,230
					<b>£18,598</b>	<b>£20,088</b>
Fees in respect of the Hydro Hotel, Eastbourne, plc Retirement Benefit Scheme						
Audit fees					-	2,250
					-	2,250

# HYDRO HOTEL, EASTBOURNE, PLC

## NOTES TO THE ACCOUNTS (CONTINUED)

### 3. OPERATING PROFIT (CONTINUED)

	2006 £	2005 £
Depreciation:		
Freehold buildings	9,964	10,430
Furniture and equipment	139,432	104,351
	<u>£149,396</u>	<u>£114,781</u>
Directors' emoluments:		
Directors' fees	36,000	33,000
	<u>£36,000</u>	<u>£33,000</u>
Aggregate emoluments		
Employee information		
Staff costs:		
Wages and salaries	1,287,148	1,509,981
Employer's social security costs	96,091	127,520
Employer's pension costs	2,770	4,326
	<u>£1,386,009</u>	<u>£1,641,827</u>

In addition, staff costs of £nil (2005 £26,390) are included within the 2005 Exceptional item.

The average number of employees during the year was:	Number	Number
Full-time	71	84
Part-time	32	37
	<u>103</u>	<u>121</u>

### 4. EXCEPTIONAL ITEM: Profit on sale of discontinued operation - White Lodge

The profit of £41,460 represents the pre-tax profit on the sale of a property in Alfriston, the related corporation tax charge in the year ended 31 October 2006 was £5,302.

The profit of £605,077 arising in year ended 31 October 2005 represented the pre-tax profit on the sale of White Lodge Hotel freehold property for £1.7m, calculated after deduction of direct costs of acquisition and sale and staff redundancy and transfer expenses. The effect of the profit on sale of the discontinued operation was to increase the corporation tax charge for the year ended 31 October 2005 by £242,027.



# HYDRO HOTEL, EASTBOURNE, PLC

## NOTES TO THE ACCOUNTS (CONTINUED)

5. INTEREST RECEIVED AND INTEREST PAID		2006	2005
		£	£
Received on bank accounts		<b>£67,602</b>	<b>£12,371</b>
Paid on bank overdraft		21	49
Finance lease charges		4,347	6,682
		<b>£4,368</b>	<b>£6,731</b>
			<i>As restated</i>
6. DIVIDENDS			
Paid during the year:-			
Interim dividend 6.5p (2005 6.5p)		39,000	39,000
Special dividend 44p (2005 - Nil)		264,000	-
Final dividend 18.5p (2005 - 17.5p)		111,000	105,000
		<b>£414,000</b>	<b>£144,000</b>
An interim dividend of £39,000 (2005: £39,000) was paid on 25 January 2007. The directors will propose a final dividend of £117,000 (2005: £111,000) at the Annual General Meeting, payable on 10 May 2007.			
7. TAXATION			
U.K. corporation tax charge at the rate of 19% (2005 rate: 28.57%)			
For the year		48,220	282,135
(Recovered)/payable in respect of previous periods		(791)	143
Current tax charge		47,429	282,278
Deferred taxation on origination and reversal of timing differences		15,806	(4,522)
Taxation on profit on ordinary activities		<b>£63,235</b>	<b>£277,756</b>
Factors affecting tax charge for period:			
Profit on ordinary activities before taxation		346,385	860,388
Profit on ordinary activities multiplied by the rate of corporation tax in the U.K. for the year of 19.00% (2005 rate: 28.572%)		65,813	245,830
Rollover relief clawback		-	49,061
Chargeable gains (less than)/in excess of profit on sale of chargeable items		(2,588)	8,408
Expenses not deductible for tax purposes		459	1,080
Capital allowances for year in excess of depreciation		(15,464)	(22,244)
Adjustment to tax charge in respect of previous period		(791)	143
Current tax charge for period		<b>£47,429</b>	<b>£282,278</b>

# HYDRO HOTEL, EASTBOURNE, PLC

## NOTES TO THE ACCOUNTS (CONTINUED)

### 8. TANGIBLE FIXED ASSETS

	Freehold Land and Buildings £	Furniture and Equipment £	Total £
<i>Revaluation/Cost</i>			
Brought forward at 1 November 2005	1,904,792	1,526,001	3,430,793
Additions in the year	4,645	321,417	326,062
Disposals in the year	(144,458)	(85,385)	(229,843)
Carried forward at 31 October 2006	<b>£1,764,979</b>	<b>£1,762,033</b>	<b>£3,527,012</b>
<i>Valuation at 31 October 1990</i>	1,440,000	317,860	1,757,860
Additions at cost to 31 October 2006	469,437	1,529,558	1,998,995
Disposals in the year	(144,458)	(85,385)	(229,843)
Carried forward at 31 October 2006	<b>£1,764,979</b>	<b>£1,762,033</b>	<b>£3,527,012</b>
<i>Depreciation</i>			
Brought forward at 1 November 2005	58,590	991,228	1,049,818
Charge for the year	9,964	139,432	149,396
Disposals in the year	(2,064)	(85,385)	(87,449)
Carried forward at 31 October 2006	<b>£66,490</b>	<b>£1,045,275</b>	<b>£1,111,765</b>
Book Value at 31 October 2006	<b>£1,698,489</b>	<b>£716,758</b>	<b>£2,415,247</b>
Book Value at 1 November 2005	<b>£1,846,202</b>	<b>£534,773</b>	<b>£2,380,975</b>

The transitional provisions of FRS15 have been adopted and accordingly the Book Value at 1 November 2005 and 31 October 2006 is stated on the basis of an open market valuation made by a specialist firm of chartered surveyors at 31 October 1990 and additions at cost thereafter less depreciation charged. The valuation as at 31 October 1990 has not been updated.

The Book Value of Furniture and Equipment includes £73,845 (2005 £86,153) in respect of assets held under finance leases. The amount of depreciation in respect of such assets is £49,232 (2005 £36,924).

Included within the Book Value of Freehold Land and Buildings at 31 October 2006 is £771,773 of non depreciated land.

The Book Value at 31 October 2006 of the Company's fixed assets on a historic cost basis is:-

	Freehold Land and Buildings £	Furniture and Equipment £	Total £
Cost	487,659	1,579,915	2,067,574
Accumulated depreciation	(25,003)	(863,157)	(888,160)
Net historic book value	<b>£462,656</b>	<b>£716,758</b>	<b>£1,179,414</b>

# HYDRO HOTEL, EASTBOURNE, PLC

## NOTES TO THE ACCOUNTS (CONTINUED)

	2006 £	2005 £
9. DEBTORS		
Recoverable within one year:		
Trade debtors	96,902	69,934
Other debtors	2,164	-
Amounts due on sale of White Lodge	-	1,528,778
Prepayments and accrued income	25,175	23,716
	<b>£124,241</b>	<b>£1,622,428</b>
10. CREDITORS		<i>As restated</i>
Amounts falling due within one year:		
Bank overdraft	15,945	57,812
Trade creditors	261,823	340,356
Obligations under hire purchase contracts	27,279	24,895
Corporation tax	48,220	282,135
Taxation and social security	178,828	186,779
Accruals	89,287	116,830
	<b>£621,382</b>	<b>£1,008,807</b>
Amounts falling due after one year:		
Obligations under hire purchase contracts	13,282	40,511
	<b>£13,282</b>	<b>£40,511</b>
Net obligations under hire purchase contracts are payable:-		
Within one year	27,279	24,895
In two to five years	13,282	40,511
	<b>£40,561</b>	<b>£65,406</b>

Amounts due under the hire purchase contracts are secured on the underlying assets.

## 11. PROVISION FOR LIABILITIES AND CHARGES

Deferred tax		
Balance brought forward	14,634	19,156
Movement in the year	15,806	(4,522)
	<b>£30,440</b>	<b>£14,634</b>
Balance carried forward		

The deferred taxation liability of £30,440 relates to the effects of accelerated capital allowances claimed.

# HYDRO HOTEL, EASTBOURNE, PLC

## NOTES TO THE ACCOUNTS (CONTINUED)

### 12. RESERVES

	Revaluation Reserve	Profit and Loss	2006 Total	2005 Total <i>As restated</i>
	£	£	£	£
Balance at 1 November - as previously stated	455,521	2,189,365	2,644,886	2,476,254
Prior year adjustment	-	414,000	414,000	144,000
As restated	455,521	2,603,365	3,058,886	2,620,254
Retained profit for the year	-	283,150	283,150	582,632
Transfer of depreciation on revaluation of assets	(5,927)	5,927	-	-
Dividends paid in the year (Note 6)	-	(414,000)	(414,000)	(144,000)
Balance at 31 October	<b>£449,594</b>	<b>£2,478,442</b>	<b>£2,928,036</b>	<b>£3,058,886</b>

The prior year adjustment relates to a change in accounting policy. The treatment of dividends has been changed to accord with the requirements of Financial Reporting Standard 21. The interim, special and final dividend proposed at 31 October 2005 are therefore shown as paid and deducted from reserves in the year ended 31 October 2006. Reserves and creditors at 1 November 2005 and 2004 have been restated.

### 13. PENSIONS

Defined contribution pension schemes

Contributions paid during the year ended 31 October 2006 amounted to £2,770 (2005 £4,326).

### 14. DIRECTORS' AND OFFICERS' INTERESTS AND RELATED PARTY MATTERS

Mr C P Freeman the Company Secretary and Director is a partner in Perkins Copeland, Chartered Accountants. This firm provided accountancy, taxation, secretarial and registration services to the Company costing £63,050 during the year ended 31 October 2006 (2005 £92,232). The amount outstanding and due to Perkins Copeland at 31 October 2006 was £17,700 (2005 £39,832) and is included in Trade Creditors (Note 10).

No other Director was materially interested, either at the year end or during the year, in any contract of significance in relation to the business of the Company.

# HYDRO HOTEL, EASTBOURNE, PLC

## NOTES TO THE ACCOUNTS (CONTINUED)

### 15. EARNINGS PER SHARE

	2006	2005
	£	£
Profit for the financial year after taxation	283,150	582,632
Adjusting earnings to exclude the effect of discontinued operations:-		
2006 - Profit on sale of discontinued operation (£41,460), net of taxation (£5,302)	(36,158)	-
2005- Profit on sale of discontinued operation (£605,077), net of taxation (£242,027)	-	(363,050)
Earnings from continuing operations	246,992	219,582
Earnings per share (basic and diluted) - continuing operations	41.16 p	36.60 p
Earnings per share (basic and diluted) - discontinued operations	6.03 p	60.51 p
Earnings per share (basic and diluted) - continuing and discontinued operations	47.19 p	97.11 p

All earnings per share have been calculated using 600,000 shares, being the weighted average number of shares for both years.

The earnings per share information for 2005 is restated, reflecting the adoption of FRS 22 - Earnings per share.

### 16. FINANCIAL RISK MANAGEMENT

Treasury activities take place under procedures and policies approved and monitored by the Board. They are designed to minimise the financial risks faced by the Company. Liquidity, interest and currency risks are not currently considered to be significant. Cash at bank and in hand earns interest at floating rates, based principally on short term inter bank rates. Appropriate bank overdraft facilities are in place for the foreseeable working capital requirements and secured lending is arranged for significant capital projects.

# HYDRO HOTEL, EASTBOURNE, PLC

## GENERAL INFORMATION

Registered office:        Hydro Hotel  
                                 Mount Road  
                                 Eastbourne  
                                 East Sussex  
                                 BN20 7HZ

Company Registration No.:    44514

Share transfer and  
Registration Department:    15 Gildredge Road  
                                 Eastbourne  
                                 East Sussex  
                                 BN21 4RA

Auditors:                    PKF (UK) LLP  
                                 Farringdon Place  
                                 20 Farringdon Road  
                                 London  
                                 EC1M 3AP

Bankers:                    Barclays Bank plc  
                                 63-67 Terminus Road  
                                 Eastbourne  
                                 East Sussex  
                                 BN21 3PQ