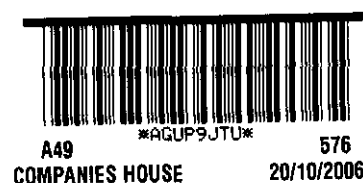


THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED
(Registered number 02256084)
DIRECTORS' REPORT AND CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED 29 MARCH 2006



PKF (UK) LLP

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

FINANCIAL STATEMENTS

PERIOD ENDED 29 MARCH 2006

Contents

Page

Company information	1
Directors' report	2
Statement of directors' responsibilities	5
Independent auditors' report	6
Consolidated profit and loss account	8
Consolidated statement of total recognised gains and losses	9
Consolidated balance sheet	10
Company balance sheet	11
Consolidated cash flow statement	12
Notes to the financial statements	13

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

COMPANY INFORMATION

Directors

G Pecorelli
D L E Pecorelli
Mrs P A Pecorelli
Mrs M-L Audet
G P Pecorelli
N L P Pecorelli

Secretary

N Tambayah

Registered Office

Executive Office
Pennyhill Park Hotel & Spa
London Road
Bagshot
Surrey
GU19 5EU

Auditors

PKF (UK) LLP
Pannell House
Park Street
Guildford
Surrey
GU1 4HN

Solicitors

Neale Turk
Bridge House
27-31 Reading Road South
Fleet
Hampshire
GU13 9QP

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

DIRECTORS' REPORT

FOR THE PERIOD ENDED 29 MARCH 2006

The directors present their report and financial statements for the period ended 29 March 2006.

Principal activities

The principal activity of the group during the period was that of hoteliers and golf club operators.

Business review and future developments

The group operates at the luxury end of the UK provincial hotel and leisure market, with a clear strategy to provide customer satisfaction and value for money.

The group has increased turnover by 7% to £30.4m and increased EBITDA by 2% to £6.1m. The increase in revenue has been achieved in most areas of our business.

The Spa, which is in its third year of operation has shown to be a great asset to Pennyhill Park and significant growth in membership and treatments has been achieved.

Operating profit has reduced by £1.2m to £2.1m however this is mainly due to the Board decision to increase the depreciation rate of fixtures and fittings from 12.5% reducing balance to 20% on cost, which caused the charge for the period to increase by £1.25m.

The group borrowings have increased, mainly due to the acquisition of Fanhams Hall Hotel which was in excess of £8m.

Financial instruments

The group is exposed to the usual credit risk and cash flow risk associated with selling on credit and manages this through credit control. Its policy is to finance working capital through retained earnings and through borrowings at prevailing market interest rates. Its policy is to finance fixed assets through long term fixed rate borrowings.

The group's exposure to the price risk of financial instruments is therefore minimal. As the counterparty to all financial instruments is its bankers, it is also exposed to minimal credit and liquidity risks in respect of these instruments. The directors do not consider any other risks attaching to the use of financial instruments to be material to an assessment of its financial position or profit.

Expansion programme

We are delighted to report that we finalised the acquisition of Fanhams Hall Hotel, which is a great addition to our group.

Outlook

The principal risks to the business arise from potential fluctuations in customer demand. Whilst the world is in turmoil, we are focusing our marketing efforts on encouraging repeat business, both in the corporate and leisure market. Our strategy is to focus on UK business first and foremost. We are also looking forward to further improve our market share of food and beverage business. Major efforts are also being made to retain and improve the number of weddings that we do in each location that we operate.

We are pleased to report that all the restaurants in the group have at least three AA Rosettes and our red star grading has been retained.

Expansion for the future

We are maintaining our investment in constantly upgrading and improving our existing bedroom stock which currently stands at 350. We are planning an additional 40 rooms at South Lodge (subject to cash generation from the business) and also a number of small extensions and improvements that will enhance return on investment.

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

DIRECTORS' REPORT

FOR THE PERIOD ENDED 29 MARCH 2006

Revaluation reserve

The directors have decided to report historical asset values in these accounts. The directors are confident that the current market value for the group's hotels and other fixed assets is in excess of £125m, bringing our bank borrowings to the ratio of below 30% of the asset value.

Environment

We, as a company, operate in beautiful locations and it is in our best interests to be committed to help and invest in the environment.

We have been investing heavily in energy efficiency and conservation and we intend to continue this programme for the foreseeable future. We have already introduced combined heat and power energy efficiency, solar heating, a water bore hole and many other energy conservation projects.

Personnel

We, as a company, believe that the people we work with, our staff, are the most valuable asset in the company. In the past we have made major investment in training programmes, in skills development programmes and many more. We intend to continue our philosophy and invest in our staff as we do believe that they make a major difference to our business.

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 with that of other employees.

Employee consultation

The group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the group. Employees are consulted regularly on a wide range of matters affecting their current and future interests.

Results

The profit for the period, after taxation, amounted to £369,479 (2005 - £1,051,813). The directors have declared a dividend of 2p per share to be paid during 2006/07 which will distribute £300,000 of shareholders funds.

Directors

The directors who served during the period and their interests in the company's issued share capital were:

	Ordinary shares of £1 each	
	29/3/06	1/4/05
G Pecorelli	7,500,000	7,500,000
D L E Pecorelli	-	-
Mrs P A Pecorelli	7,500,000	7,500,000
Mrs M-L Audet	-	-
G P Pecorelli	-	-
N L P Pecorelli	-	-

Mr G Pecorelli and Mrs P A Pecorelli each hold 60% of their shares as trustees of a family trust.

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

DIRECTORS' REPORT

FOR THE PERIOD ENDED 29 MARCH 2006

Provision of information to auditors

So far as each of the directors is aware at the time the report is approved:

- There is no relevant audit information of which the company's auditors are unaware, and
- The directors have taken all steps that they ought to have taken to make themselves aware of any relevant information and to establish that the auditors are aware of that information.

This report was approved by the board on *26 September 2006* and signed on its behalf.


G Pecorelli
Director

26/09/06

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE PERIOD ENDED 29 MARCH 2006

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 period which give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing those financial statements the directors are required to

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

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

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

We have audited the group and parent company financial statements ('the financial statements') of The Manor House Hotel (Castle Combe) Limited for the period ended 29 March 2006 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated and company balance sheets, the consolidated 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 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 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.

We report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

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 and the Group'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.

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE MANOR
HOUSE HOTEL (CASTLE COMBE) LIMITED**

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 29 March 2006 and of the group's profit for the period 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.

PKF(UK) LLP

PKF (UK) LLP
Registered Auditors
Guildford, UK

29 September 2006

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

FOR THE PERIOD ENDED 29 MARCH 2006

	<u>Notes</u>	Period ended 29 March 2006 £	Year ended 31 March 2005 As restated £
Turnover			
Continuing operations		29,544,280	28,407,614
Acquisitions		829,784	-
Group and share of joint venture's turnover		30,374,064	28,407,614
Less: share of joint venture's turnover		(942,712)	(1,028,856)
Group turnover	2	29,431,352	27,378,758
Cost of sales		(5,001,103)	(4,634,292)
Gross profit		24,430,249	22,744,466
Administrative expenses		(22,346,059)	(19,485,846)
Other operating income	3	40,040	45,266
Continuing operations		2,296,384	3,303,886
Acquisitions		(172,154)	-
Operating profit	4	2,124,230	3,303,886
Share of operating profit/(loss) in joint venture	11	35,555	(142,578)
Profit on ordinary activities before interest		2,159,785	3,161,308
Interest payable	7	(1,937,295)	(1,817,704)
Profit on ordinary activities before taxation		222,490	1,343,604
Tax on profit on ordinary activities	8	146,989	(291,791)
Profit on ordinary activities after taxation	18	369,479	1,051,813

The notes on pages 13 to 26 form part of these statements.

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

FOR THE PERIOD ENDED 29 MARCH 2006

	Period ended 29 March <u>2006</u> £	Year ended 31 March <u>2005</u> As restated £
Profit for the financial period	<u>369,479</u>	<u>1,051,813</u>
Total recognised gains and losses relating to the period	<u>369,479</u>	<u>1,051,813</u>
Prior year adjustments		
Change of policy re revaluation of land and buildings (note 1.6)	57,470,380	
Change of policy re revaluation of property by joint venture (note 11)	2,465,241	
Change of policy re deferred tax (note 16)	5,209,077	
	<u>(65,144,698)</u>	
Total gains and losses recognised since last annual report	<u>(64,775,219)</u>	

The notes on pages 13 to 26 form part of these financial statements.

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

CONSOLIDATED BALANCE SHEET

AS AT 29 MARCH 2006

		<u>29 March 2006</u>		<u>31 March 2005</u> As restated	
	<u>Note</u>	£	£	£	£
FIXED ASSETS					
Intangible assets	9		3,141,856		90
Tangible assets	10		63,420,114		60,229,911
Investments in joint ventures					
- Share of gross assets		1,860,410		1,940,910	
- Share of gross liabilities		(2,194,383)		(2,348,015)	
Share of net liabilities	11		(333,973)		(407,105)
			<u>66,227,997</u>		<u>59,822,896</u>
CURRENT ASSETS					
Stocks	12	370,316		338,857	
Debtors					
- amounts falling due within one year	13	2,374,607		2,424,629	
- amounts falling due after one year	13	1,369,513		1,412,019	
Cash at bank and in hand		1,392,378		1,593,573	
		<u>5,506,814</u>		<u>5,769,078</u>	
CREDITORS: amounts falling due within one year	14	(13,698,679)		(14,965,994)	
NET CURRENT LIABILITIES			<u>(8,191,865)</u>		<u>(9,196,916)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>58,036,132</u>		<u>50,625,980</u>
CREDITORS: amounts falling due after more than one year	15	(36,127,023)		(29,128,789)	
PROVISION FOR LIABILITIES					
Deferred taxation	16	(5,472,670)		(5,430,231)	
NET ASSETS			<u>16,436,439</u>		<u>16,066,960</u>
CAPITAL AND RESERVES					
Share capital	17	15,000,000		15,000,000	
Profit and loss account	18	1,436,439		1,066,960	
SHAREHOLDERS' FUNDS	19		<u>16,436,439</u>		<u>16,066,960</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 26 September 2006.

G Percorelli Director

The notes on pages 13 to 26 form part of these financial statements.

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

COMPANY BALANCE SHEET

AS AT 29 MARCH 2006

		<u>29 March 2006</u>		<u>31 March 2005</u> As restated	
	<u>Note</u>	£	£	£	£
FIXED ASSETS					
Tangible assets	10	11,969,509		12,202,598	
Investments	11	18,069,114		18,069,114	
		30,038,623		30,271,712	
CURRENT ASSETS					
Stocks	12	121,236		125,347	
Debtors:					
- amounts falling due within one year	13	226,508		474,266	
- amounts falling due after one year	13	8,353,740		9,111,327	
Cash at bank and in hand		90,319		418,533	
		8,791,803		10,129,473	
CREDITORS: amounts falling due within one year	14	(1,203,714)		(1,264,654)	
NET CURRENT ASSETS		7,588,089		8,864,819	
TOTAL ASSETS LESS CURRENT LIABILITIES		37,626,712		39,136,531	
CREDITORS: amounts falling due after more than one year	15	(21,783,899)		(22,644,375)	
PROVISION FOR LIABILITIES					
Deferred taxation	16	(709,831)		(752,264)	
NET ASSETS		15,132,982		15,739,892	
CAPITAL AND RESERVES					
Share capital	17	15,000,000		15,000,000	
Profit and loss account	18	132,982		739,892	
SHAREHOLDERS' FUNDS	19	15,132,982		15,739,892	

The financial statements were approved and authorised for issue by the board and were signed on its behalf on
26 September 2006

G Pecorelli Director

The notes on pages 13 to 26 form part of these financial statements.

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

GROUP CASHFLOW STATEMENT

FOR THE PERIOD ENDED 29 MARCH 2006

		Period ended 29 March 2006 £	Year ended 31 March 2005 As restated £
	<u>Notes</u>		
Net cash inflow from operating activities	20	7,171,102	4,391,074
Returns on investments and servicing of finance	21	(1,908,200)	(1,784,948)
Taxation		(285,835)	(397,007)
Capital expenditure and financial investment	21	(10,162,554)	(2,303,819)
Cash outflow before financing		(5,185,487)	(94,700)
Financing	21	5,941,565	2,180,236
Increase in cash in the period		756,078	2,085,536

Reconciliation of net cash flow to movement in net debt for the period ended 29 March 2006

Increase in cash in the period	756,078	2,085,536
Cash (outflow)/inflow from financing	(5,941,565)	650,584
Movement in net debt in the period	(5,185,487)	2,736,120
Net debt at 1 April 2005	(36,380,380)	(39,116,500)
Net debt at 29 March 2006	(41,565,867)	(36,380,380)

The notes on pages 13 to 26 form part of these financial statements.

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 29 MARCH 2006

1 ACCOUNTING POLICIES

1.1 Basis of preparation of financial statements

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

The group reports net current liabilities of £8,191,865 (2005 £9,196,916). The group is dependent on the continuing support of its bankers and shareholders. The group is able to offer a strong covenant to lenders and the directors are confident that existing facilities will continue to be available for the foreseeable future and on this basis are satisfied that it is appropriate to prepare these financial statements on a going concern basis.

1.2 Basis of consolidation

The financial statements consolidate the accounts of The Manor House Hotel (Castle Combe) Limited and all of its subsidiary undertakings.

1.3 Turnover

Turnover represents amounts receivable for accommodation, food and beverage sales and ancillary hotel services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes. Spa and golf membership subscriptions paid in advance are held as deferred income and recognised over the period to which they relate. Turnover is recognised at the point at which goods and services are delivered to the customer.

1.4 Investments

Fixed asset investments are shown at cost less provision for impairment. Investments in joint ventures are accounted for using the gross equity method. The profit and loss account includes the Group's share of the joint venture's profit or loss, while the group's share of the assets and liabilities of the joint venture are shown in the consolidated balance sheet.

1.5 Intangible fixed assets and amortisation

Goodwill is the difference between amounts paid on the acquisition of a business and the fair value of the identifiable assets and liabilities. It is amortised to the profit and loss account over its estimated economic life.

1.6 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost or valuation of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Plant and machinery	12.5-25% reducing balance
Fixtures and fittings	20% straight line

In previous periods fixtures and fittings have been depreciated at 12.5% reducing balance.

Freehold land and assets in the course of construction are not depreciated.

Freehold buildings are maintained to ensure that their value does not diminish over time. In the directors' opinion, the nature of the properties and the level of maintenance will result in a very high residual value such that depreciation would be immaterial and consequently has not been charged. The buildings are reviewed for impairment at the end of each reporting period.

In previous periods land and buildings have been carried in the balance sheet at valuation. Given the unique nature of many of the properties in the portfolio it can be difficult to determine accurate market valuations and so the directors have decided to revert to the historical cost basis which will allow a more consistent presentation. This change has reduced the carrying value of group fixed assets as at 1 April 2004 by £57,470,380. As the properties are not depreciated there is no impact on the profit and loss account for the current or comparative period.

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 29 MARCH 2006

1.7 Stock

Stock is valued at the lower of cost and net realisable value after making due allowance for obsolete and slow-moving stocks.

1.8 Deferred taxation

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition on the tax computation.

A net deferred tax asset is recognised only if it can be regarded as more likely than not in that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse. Deferred tax assets and liabilities are not discounted.

1.9 Pensions

The company operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the period.

1.10 Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

2 TURNOVER

The whole of the turnover is attributable to the one principal activity of the group and arose within the United Kingdom.

3 OTHER OPERATING INCOME

	Period ended 29 March 2006 £	Year ended 31 March 2005 £
Rents received	40,040	45,266

4 OPERATING PROFIT

The operating profit is stated after charging:

	Period ended 29 March 2006 £	Year ended 31 March 2005 £
Amortisation of intangible fixed assets	108,333	-
Depreciation of tangible fixed assets	3,790,252	2,884,608
Auditors' remuneration	42,500	49,081
Auditors' remuneration – non-audit	8,500	-

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 29 MARCH 2006

5 STAFF COSTS

Staff costs, including directors' remuneration, were as follows:

	Period ended 29 March 2006 £	Year ended 31 March 2005 £
Wages and salaries	10,363,798	9,623,312
Social security costs	816,438	811,793
Other pension costs	264,038	9,025
	<u>11,444,274</u>	<u>10,444,130</u>

The average monthly number of employees, including directors during the period was as follows:

	Period ended 29 March 2006 No.	Year ended 31 March 2005 No.
Direct labour and operatives	478	434
Management and administration	56	53
	<u>534</u>	<u>487</u>

6 DIRECTORS REMUNERATION

	Period ended 29 March 2006 £	Year ended 31 March 2005 £
Emoluments	285,000	325,000
Pension contributions	228,888	-
	<u>513,888</u>	<u>325,000</u>

During the period retirement benefits were accruing to five directors (2005 four) in respect of money purchase pension schemes.

The highest paid director received remuneration of £110,000 (2005 £110,000) and pension contributions of £4,540 (2005 £nil).

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 29 MARCH 2006

7 INTEREST PAYABLE

	Period ended 29 March 2006 £	Year ended 31 March 2005 £
On bank loans and overdrafts	1,897,883	1,773,091
On other loans	10,316	-
Share of joint ventures' interest payable	29,096	32,756
Other interest payable	-	11,857
	<u>1,937,295</u>	<u>1,817,704</u>

8 TAXATION

	Period ended 29 March 2006 £	Year ended 31 March 2005 As restated £
Analysis of tax charge in the period		
Current tax (see note below)		
UK corporation tax charge on profit for the period	3,600	365,548
Adjustments in respect of prior periods	(126,355)	(183,166)
Share of joint venture current tax	-	1,029
Total current tax	<u>(122,755)</u>	<u>183,411</u>
Deferred tax (see note 16)		
Origination and reversal of timing differences	42,439	106,322
Share of joint venture deferred tax	(66,673)	2,058
Total deferred tax	<u>(24,234)</u>	<u>108,380</u>
Tax on profit on ordinary activities	<u>(146,989)</u>	<u>291,791</u>

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 29 MARCH 2006

8 TAXATION (continued)

Factors affecting tax charge for the period

The tax assessed for the period is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	Period ended 29 March 2006 £	Year ended 31 March 2005 £
Profit on ordinary activities before tax	222,490	1,343,604
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005-30%)	66,747	403,081
Effects of:		
Expenses not deductible for tax purposes	14,325	14,833
Capital allowances for period in excess of depreciation	(32,925)	(20,461)
Utilisation of tax losses	(43,592)	(26,861)
Adjustments to tax charge in respect of prior periods	(126,355)	(183,166)
Small company relief	(2,581)	(4,015)
Unrelieved tax losses	1,626	-
Current tax charge for the period	(122,755)	183,411

Factors that may affect future tax charges

There were no factors that may affect future tax charges.

9 INTANGIBLE FIXED ASSETS

	Formation expenses £	Intellectual property £	Goodwill £	Total £
Group Cost				
At 1 April 2005	90	-	-	90
Additions	-	99	3,250,000	3,250,099
At 29 March 2006	90	99	3,250,000	3,250,189
Amortisation				
At 1 April 2005	-	-	-	-
Charge for period	-	-	108,333	108,333
At 29 March 2006	-	-	108,333	108,333
Net book value				
At 29 March 2006	90	99	3,141,667	3,141,856
At 31 March 2005	90	-	-	90

The group acquired the property known as Fanhams Hall Hotel on 13 October 2005. The consideration was £7,825,000 paid in cash and the fair value of the property was £4,575,000 giving rise to goodwill of £3,250,000.

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 29 MARCH 2006

10 TANGIBLE FIXED ASSETS

Group	Land & buildings £	Plant & machinery £	Furniture fittings and equipment £	Assets under construction £	Total £ As restated
Cost					
At 1 April 2005	41,782,119	4,572,816	15,241,012	-	61,595,947
Additions	3,416,966	2,212,132	1,220,557	185,800	7,035,455
Disposals	(55,000)	-	-	-	(55,000)
At 29 March 2006	<u>45,144,085</u>	<u>6,784,948</u>	<u>16,461,569</u>	<u>185,800</u>	<u>68,576,402</u>
Depreciation					
At 1 April 2005	-	1,366,036	-	-	1,366,036
Charge for period	-	585,371	3,204,881	-	3,790,252
At 29 March 2006	<u>-</u>	<u>1,951,407</u>	<u>3,204,881</u>	<u>-</u>	<u>5,156,288</u>
Net book value					
At 29 March 2006	<u>45,144,085</u>	<u>4,833,541</u>	<u>13,256,688</u>	<u>185,800</u>	<u>63,420,114</u>
At 31 March 2005	<u>41,782,119</u>	<u>3,206,780</u>	<u>15,241,012</u>	<u>-</u>	<u>60,229,911</u>

Included in the value of land and buildings above is non-depreciated land of £3,500,000.

The rate of depreciation on fixtures and fittings has been changed from 12.5% reducing balance to 20% on cost. The directors believe this more accurately reflects the useful economic life of the assets concerned. This has increased the depreciation charged in the period by £1,246,686.

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 29 MARCH 2006

10 TANGIBLE FIXED ASSETS (continued)

Company	Land & buildings £	Plant and machinery £	Furniture fittings and equipment £	Total £ As restated
Cost				
At 1 April 2005	9,045,420	309,521	2,892,769	12,247,710
Additions	147,023	167,399	176,831	491,253
Disposals	(55,000)	-	-	(55,000)
At 29 March 2006	<u>9,137,443</u>	<u>476,920</u>	<u>3,069,600</u>	<u>12,683,963</u>
Depreciation				
At 1 April 2005	-	45,112	-	45,112
Charge for period	-	55,422	613,920	669,342
At 29 March 2006	<u>-</u>	<u>100,534</u>	<u>613,920</u>	<u>714,454</u>
Net book value				
At 29 March 2006	<u>9,137,443</u>	<u>376,386</u>	<u>2,455,680</u>	<u>11,969,509</u>
At 31 March 2005	<u>9,045,420</u>	<u>264,409</u>	<u>2,892,769</u>	<u>12,202,598</u>

Included in the value of land and buildings above is non-depreciated land of £250,000.

The rate of depreciation on fixtures and fittings has been changed from 12.5% reducing balance to 20% on cost. The directors believe this more accurately reflects the useful economic life of the assets concerned. This has increased the depreciation charged in the period by £231,436.

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 29 MARCH 2006

11 INVESTMENTS

Group

	Investment in Joint Venture £
Share of net assets	
At 1 April 2005	(407,105)
Share of profit	73,132
	<hr/>
At 29 March 2006	(333,973)
	<hr/>

Company

	Shares in group undertakings £
Cost	
At 1 April 2005 and 29 March 2006	18,069,114
	<hr/>

Principal group investments

The Company and the Group have investments in the following subsidiary undertakings and joint venture undertakings at 29 March 2006.

Subsidiaries	Country of incorporation	Principal activity	Holding %
Pennyhill Park Limited	England	Hotel operation	100
Lainston House Limited	England	Hotel operation	100
South Lodge Limited	England	Hotel operation	100
Fanhams Hall Hotel Limited	England*	Hotel operation	100
Manor House Golf Club Limited	England	Dormant	100
Exclusive Hotels (London) Limited	England	Dormant	100

*Subsidiary of Pennyhill Park Limited

Joint venture

Mannings Heath Golf Club Limited	England	Golf club	50
----------------------------------	---------	-----------	----

All subsidiary undertakings are included in the consolidation.

	29 March 2006 £	31 March 2005 £
Share of operating loss in joint ventures		
Share of joint venture's turnover	942,712	1,028,857
Share of joint venture's cost of sales	(164,176)	(295,984)
	<hr/>	<hr/>
Gross profit	778,536	732,873
Share of joint venture's administrative expenses	(742,981)	(875,451)
	<hr/>	<hr/>
Share of operating profit/(loss) in joint ventures	35,555	(142,578)
	<hr/>	<hr/>

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 29 MARCH 2006

11 INVESTMENTS (continued)

	29 March 2006	31 March 2005
	£	£
Share of joint venture's net assets		
Share of assets		
Share of fixed assets	1,803,487	1,895,834
Share of current assets	56,923	45,076
	<u>1,860,410</u>	<u>1,940,910</u>
Share of liabilities		
Liabilities due within one year or less	(824,869)	(911,828)
Liabilities due after more than one year	(1,369,514)	(1,436,187)
	<u>(2,194,383)</u>	<u>(2,348,015)</u>
Share of net assets	<u>(333,973)</u>	<u>(407,105)</u>

In previous periods the joint venture carried land and buildings in the balance sheet at valuation. In accordance with the change of accounting policy described in note 1.6 this has changed to the historic cost basis. This has reduced the carrying value of the share of joint venture fixed assets as at 1 April 2004 by £2,465,241. As the properties are not depreciated there is no impact on the profit and loss account for the current or comparative period.

12 STOCKS

	Group		Company	
	29 March 2006	31 March 2005	29 March 2006	31 March 2005
	£	£	£	£
Goods for use and resale	<u>370,317</u>	<u>338,857</u>	<u>121,236</u>	<u>125,347</u>

13 DEBTORS

	Group		Company	
	29 March 2006	31 March 2005	29 March 2006	31 March 2005
	£	£	£	£
Due within one year				
Trade debtors	1,621,096	1,620,848	135,816	193,170
Other debtors	318,711	444,080	81,871	16,629
Prepayments and accrued income	434,800	359,701	8,821	264,467
	<u>2,374,607</u>	<u>2,424,629</u>	<u>226,508</u>	<u>474,266</u>
Due after one year				
Amounts owed by group undertakings	-	-	6,984,227	7,699,308
Amounts owed by joint venture undertakings	1,369,513	1,369,514	1,369,513	1,369,514
Other debtors	-	42,505	-	42,505
	<u>1,369,513</u>	<u>1,412,019</u>	<u>8,353,740</u>	<u>9,111,327</u>
	<u>3,744,120</u>	<u>3,836,648</u>	<u>8,580,248</u>	<u>9,585,593</u>

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 29 MARCH 2006

14 CREDITORS

	Group		Company	
	29 March 2006	31 March 2005	29 March 2006	31 March 2005
Amounts falling due within one year				
Banks loans and overdrafts	6,831,221	8,845,164	-	-
Trade creditors	1,911,448	2,127,753	196,216	291,848
Corporation tax	13,065	421,655	9,465	9,465
Social security and other taxes	1,037,139	705,392	124,262	123,475
Other creditors	2,415,277	2,492,244	233,397	225,794
Accruals and deferred income	1,490,529	373,786	640,374	614,072
	<u>13,698,679</u>	<u>14,965,994</u>	<u>1,203,714</u>	<u>1,264,654</u>

Bank loans and overdrafts are secured by a mortgage debenture covering the freehold properties of Pennyhill Park Limited and Fanhams Hall Hotel Limited.

15 CREDITORS

	Group		Company	
	29 March 2006	31 March 2005	29 March 2006	31 March 2005
Amounts falling due after more than one year				
Bank loans	29,125,000	21,875,000	-	-
Amounts owed to group undertakings	-	-	14,781,876	15,390,586
Other creditors	7,002,023	7,253,789	7,002,023	7,253,789
	<u>36,127,023</u>	<u>29,128,789</u>	<u>21,783,899</u>	<u>22,644,375</u>

Creditors include amounts not wholly repayable within 5 years as follows:

	Group		Company	
	29 March 2006	31 March 2005	29 March 2006	31 March 2005
Amounts falling due after one year				
Repayable other than by instalments	<u>30,347,023</u>	<u>24,128,789</u>	<u>7,002,023</u>	<u>7,253,789</u>

The bank loans bear interest at rates of 1-1.25% per annum in excess of the ruling rate as quoted by the bank. The loans are repayable in semi-annual instalments with the final repayment no later than 30 September 2025.

Bank loans and overdrafts are secured by a mortgage debenture covering the freehold properties of Pennyhill Park Limited and Fanhams Hall Hotel Limited.

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 29 MARCH 2006

16 DEFERRED TAXATION

	Group		Company	
	29 March 2006	31 March 2005	29 March 2006	31 March 2005
At 1 April 2005	5,430,231	5,323,909	752,264	785,414
Charge for / (released during) the period	42,439	106,322	(42,433)	(33,150)
	<u>5,472,670</u>	<u>5,430,231</u>	<u>709,831</u>	<u>752,264</u>
At 29 March 2006	<u>5,472,670</u>	<u>5,430,231</u>	<u>709,831</u>	<u>752,264</u>

The provision for deferred taxation is made up as follows:

	Group		Company	
	29 March 2006	31 March 2005	29 March 2006	31 March 2005
Accelerated capital allowances	<u>5,472,670</u>	<u>5,430,231</u>	<u>709,831</u>	<u>752,264</u>

The group has reviewed its deferred tax position and has concluded that further provisions should have been made in prior periods. This has resulted in an increased deferred tax liability arising from accelerated capital allowances. It has reduced group reserves at 29 March 2006 by £5,424,470 (2005 £5,209,077) and reduced the profit for the period by £86,013 (2005 £758,852).

17 SHARE CAPITAL

	29 March 2006 £	31 March 2005 £
Authorised:		
20,000,000 ordinary shares of £1 each	<u>20,000,000</u>	<u>20,000,000</u>
Allotted, called-up and fully-paid:		
15,000,000 ordinary shares of £1 each	<u>15,000,000</u>	<u>15,000,000</u>

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 29 MARCH 2006

18 RESERVES

	Profit and loss account £
Group	
At 1 April 2005 as previously stated	6,276,037
Prior year adjustment (see note 16)	(5,209,077)
At 1 April 2005 as restated	1,066,960
Profit retained for the period	369,479
At 29 March 2006	<u>1,436,439</u>
Company	
At 1 April 2005 as previously stated	1,453,128
Prior year adjustment (see note 16)	(713,236)
At 1 April 2005 as restated	739,892
Profit retained for the period	(606,910)
At 29 March 2006	<u>132,982</u>

The company has taken advantage of the exemption contained within Section 230 of the Companies Act 1985 not to present its own profit and loss account. The loss for the period dealt with in the accounts of the company was £380,223 (2005 profit £1,065,118).

19 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	29 March 2006 £	31 March 2005 As restated £
Group		
Profit for the period	369,479	1,051,813
Opening shareholders funds (originally £81,211,658 before deducting prior year adjustments of £65,144,698)	16,066,960	15,015,147
Closing shareholders' funds	<u>16,436,439</u>	<u>16,066,960</u>
Company		
(Loss)/profit for the period	(606,910)	1,065,118
Opening shareholders funds (originally £25,310,208 before deducting prior year adjustments of £9,570,316)	15,739,892	14,674,774
Closing shareholders' funds	<u>15,132,982</u>	<u>15,739,892</u>

The directors have declared a dividend of 2p per share to be paid during 2006/07 which will distribute £300,000 of shareholders funds.

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 29 MARCH 2006

20 NET CASH FLOW FROM OPERATING ACTIVITIES

	Period ended 29 March 2006 £	Year ended 31 March 2005 £
Operating profit	2,124,230	3,303,886
Amortisation of intangible fixed assets	108,333	-
Depreciation of tangible fixed assets	3,790,252	2,929,403
Profit on disposal of fixed asset	(68,000)	-
Increase in stocks	(31,459)	(37,885)
Increase in debtors	92,528	(2,666,157)
Increase in creditors	1,155,218	861,827
Net cash inflow from operating activities	<u>7,171,102</u>	<u>4,391,074</u>

21 ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN CASH FLOW STATEMENT

	Period ended 29 March 2006 £	Year ended 31 March 2005 £
Returns on investments and servicing of finance		
Interest paid	<u>(1,908,200)</u>	<u>(1,784,948)</u>
Capital expenditure and financial investment		
Purchase of intangible fixed assets	(3,250,099)	-
Purchase of tangible fixed assets	(7,035,455)	(2,303,819)
Sale of tangible fixed assets	123,000	-
Net outflow for capital expenditure and financial investment	<u>(10,162,554)</u>	<u>(2,303,819)</u>
Financing		
Movement in bank loans	6,193,330	(550,000)
Other loans	(251,765)	2,730,236
Net cash inflow on financing	<u>5,941,565</u>	<u>2,180,236</u>

THE MANOR HOUSE HOTEL (CASTLE COMBE) LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE PERIOD ENDED 29 MARCH 2006

22 ANALYSIS OF CHANGES IN NET DEBT

	1 April 2005 £	Cash flow £	29 March 2006 £
Cash at bank and in hand	1,593,573	(201,195)	1,392,378
Overdrafts	(7,595,164)	957,273	(6,637,891)
	(6,001,591)	756,078	(5,245,513)
Debt due within 1 year	(1,250,000)	1,056,670	(193,330)
Debt due after 1 year	(29,128,789)	(6,998,235)	(36,127,024)
Net debt	(36,380,380)	(5,185,487)	(41,565,867)

23 RELATED PARTY TRANSACTIONS

At the period end there was a loan re payable from the joint venture entity, Mannings Heath Golf Club Limited, of £1,369,513.

A management charge of £44,040 (2005: £97,084) was paid during the period by Mannings Heath Golf Club Limited.

24 CONTROLLING PARTY

Mr G Pecorelli, a director of the company, and his family control 100% of the issued share capital.