297125

Paragon Hotels Limited

Report and Financial statements

30 March 2006

ERNST & YOUNG

Registered No: 02971215

Directors
C J Hemmings
J C Kay
S Stott

Secretary
J C Kay

Auditors
Ernst & Young LLP
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Directors' report

The directors present their report and the group financial statements for the period ended 30 March 2006.

Results and dividends

The group made a profit after tax of £1,682,000 (2005: profit £764,000) for the period ended 30 March 2006.

Principal activities and review of business developments

The group's principal activity is the ownership and operation of hotels.

Directors and their interests

The directors who served during the period are shown on page 2. Mr S Stott was appointed as a director on 24 May 2006. No director has an interest in the shares of the company.

Financial risk management policy

The group's principal financial instruments comprise cash, cash equivalents, bank loans and redeemable preference shares. Other financial assets and liabilities, such as trade creditors arise directly from the group's operating activities.

The main risks associated with the group's financial assets and liabilities are set out below.

Interest rate risk

The group manages its interest rate risks by using a mix of fixed and variable rate debt. Interest rates are monitored regularly and interest rate protection is taken out where appropriate. At the balance sheet date some £20 million of the group's borrowings were covered by an interest rate swap fixing interest rates until March 2010.

Price risk

There is no significant exposure to changes in the carrying value of financial liabilities.

Credit risk

The group aims to minimise credit risk by constant monitoring to ensure that credit terms are granted only to customers who demonstrate an appropriate payment history and satisfy credit check procedures.

Liquidity risk

The group aims to mitigate liquidity risk by forecasting requirements and managing cash generated by its operations.

The group aims to maintain a balance between continuity of funding and flexibility through the use of overdrafts, bank loans and preference shares. Capital expenditure is approved at group level. Any excess cash is retained in readily accessible bank accounts.

Foreign currency risk

The group has no foreign currency transactions. It is therefore not exposed to movements in foreign currency rates.

Directors' report

Directors' statement as to disclosure of information to auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 2. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that:

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware; and

- each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information

Auditors

A resolution to re-appoint Ernst & Young LLP as the Company's auditor will be put to the forthcoming Annual General Meeting.

On behalf of the Board

J C Kay
Secretary
27.07. 2006

Statement of directors' responsibilities in respect of the financial statements

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 of 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 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; 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 group 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 group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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Independent auditors' report

to the members of Paragon Hotels Limited

We have audited the group's financial statements for the period ended 30 March 2006 which comprise the Group Profit and Loss Account, Group Balance Sheet, Balance Sheet, Group Cash Flow Statement, and the related notes 1 to 20. These financial statements have been prepared on the basis of 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 are responsible for preparing the Annual Report and financial statements in accordance with applicable United Kingdom law and accounting standards (United Kingdom Generally Accepted Accounting Practice) as 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 Directors' Report is not consistent with the financial statements, if 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 transactions with the group 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 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.

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 30 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.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Edinburgh
27/7/2006

Group profit and loss account

for the period ended 30 March 2006

	Notes	2006	2005 (restated)
		£000	£000
Turnover		19,985	18,014
Cost of sales		(12,715)	(10,946)
Gross profit		7,270	7,068
Administrative expenses		(6,535)	(3,957)
Operating profit	2	735	3,111
Profit on sale of fixed assets		3,083	-
Investment income		1,081	1,055
Interest payable	4	(3,937)	(3,610)
Profit on ordinary activities before taxation		962	556
Tax on profit on ordinary activities	5	720	21
Profit for the financial year		1,682	577

All gains and losses arising during the period have been recognised in the profit and loss account and derive from continuing operations of the group.

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Group balance sheet

at 30 March 2006

	Notes	30 March 2006 £000	31 March 2005 (restated) £000
Fixed assets			
Tangible assets	7	68,076	56,140
Investments	8	13,648	25,853
		81,724	81,993
Current assets			
Stocks	9	152	131
Debtors	10	3,459	1,522
Cash at bank and in hand		3,795	18
		7,406	1,671
Creditors: amounts falling due within one year	11	(3,847)	(5,944)
Net current assets/(liabilities)		3,559	(4,273)
Total assets less current liabilities		85,283	77,720
Creditors: amounts falling due after more than one year	12	(69,483)	(62,796)
Provisions for liabilities and charges	13	(2,413)	(3,219)
Total assets less liabilities		13,387	11,705
Capital and reserves			
Called up share capital	14	2,500	2,500
Share premium account	15	5,000	5,000
Capital redemption reserve	15	7,500	7,500
Profit and loss account	15	(1,613)	(3,295)
Shareholders' funds		13,387	11,705

J C Kay
Director
27.07. 2006

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Balance sheet
at 30 March 2006

	Notes	30 March 2006 £000	31 March 2005 (restated) £000
Fixed assets			
Tangible assets	7	58,675	51,311
Investments	8	13,648	25,853
		72,323	77,164
Current assets			
Stocks	9	79	106
Debtors	10	22,847	21,368
Cash in bank and in hand		2,816	15
		25,742	21,489
Creditors: amounts falling due within one year	11	(11,791)	(21,406)
Net current assets		13,951	83
Total assets less current liabilities		86,274	77,247
Creditors: amounts falling due after more than one year	12	(69,483)	(62,796)
Provisions for liabilities and charges	13	(1,747)	(3,084)
Total assets less liabilities		15,044	11,367
Capital and reserves			
Called up share capital	14	2,500	2,500
Share premium account	15	5,000	5,000
Capital redemption reserve	15	7,500	7,500
Profit and loss account	15	44	(3,633)
Shareholders' funds	15	15,044	11,367

J C Kay
Director
27-07. 2006

Group statement of cash flows

for the period ended 30 March 2006

	Notes	*2006*	*2005 (restated)*
		£000	*£000*
Net cash inflow from operating activities	2b	3,714	3,405
Returns on investments and servicing of finance	16	(2,669)	(2,368)
Taxation		-	(28)
Management of liquid resources	16	13,907	-
Capital expenditure and financial investments	16	(14,351)	(1,624)
Cash inflow/(outflow) before financing		601	(615)
Financing	16	6,500	-
Increase/(decrease) in cash		7,101	(615)

Reconciliation of net cash flow to movement in net debt

	Notes	*2006*	*2005*
		£000	*£000*
Increase/(decrease) in cash		7,101	(615)
Cash inflow from new loans		(6,500)	-
Accrued interest		(187)	(187)
Change in net debt		414	(802)
Net debt at 31 March 2005	16	(66,102)	(65,300)
Net debt at 30 March 2006	16	(65,688)	(66,102)

Notes to the financial statements

at 30 March 2006

1. Accounting policies

Basis of preparation

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

FRS 25 (Financial Instruments: Disclosure and Presentation) has been adopted in the current period. As a result of the adoption of FRS 25 prior year net assets have been reduced by £2,500,000 in the group and the company.

Basis of consolidation

The group financial statements consolidate the financial statements of Paragon Hotels Limited and all its subsidiary undertakings. No profit and loss account is presented for Paragon Hotels Limited as permitted by section 230 of the Companies Act 1985.

Goodwill

Purchased goodwill arising prior to 29 March 1998 is set off directly against reserves.

Fixed assets

Depreciation is provided to write down the assets to their estimated residual value by equal instalments over their estimated useful economic lives as follows:-

Land	- not depreciated
Freehold hotel properties	- 50 years
Fixtures, fittings and equipment	- 4 to 10 years
Motor vehicles	- 4 years

Depreciation is not provided, if on calculation it is found to be immaterial.

Government grants

Government grants in respect of capital expenditure are credited to a deferred income account and are released to profit over the expected useful lives of the relevant assets by equal annual instalments.

Revenue grants are released to profit over the life of the project to which they relate.

Assets under development

These assets are separately recorded under fixed assets then transferred to the appropriate classification within fixed assets once the project is complete.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Deferred tax

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.

Notes to the financial statements

at 30 March 2006

1. Accounting policies (continued)

***Deferred tax** (continued)*

- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred taxation is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Turnover

Turnover comprises the value of sales of goods and services supplied in the normal course of operation of an hotel business (excluding Value Added Tax).

Investments

Income from listed investments is recognised on a cash basis.

Leasing and hire purchase commitments

Assets held under finance leases and hire purchase contracts, which are those where substantially all the risks and rewards of ownership of the asset have passed to the group, are capitalised in the balance sheet and are depreciated over their useful lives. The interest element of the rental obligations is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding.

Rentals paid under operating leases are charged to income on a straight line basis over the term of the lease.

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2. Operating profit

(a) This is stated after charging:

		2006	*2005*
		£000	*£000*
Auditors' remuneration -	audit services	30	28
-	non-audit services	33	21
Depreciation of owned assets		1,321	1,052
Impairment Provision against fixed assets		1,100	-

(b) Reconciliation of operating profit to net cash inflow from operating activities

	2006	*2005*
	£000	*£000*
Operating profit	735	3,111
Depreciation and impairment of tangible fixed assets	2,421	1,052
(Increase)/decrease in stocks	(21)	12
(Increase)/decrease in operating debtors and prepayments	(562)	397
Increase/(decrease) in operating creditors and accruals	1,141	(1,167)
Net cash inflow from operating activities	3,714	3,405

Notes to the financial statements

at 30 March 2006

3. Directors' remuneration and staff costs

	2006	*2005*
	£000	*£000*
Fees	-	-
Emoluments (including pension contributions):	-	-
	-	-

The company has no employees. Gross profit is stated after charging £4,404,874 *(2005: £5,890,400)* paid to the hotel staff who are employed by a hotel management company and by a company supplying payroll services.

4. Interest payable

	2006	*2005*
	£000	*£000*
Other interest	-	5
Net bank loan and overdraft interest payable	3,750	3,418
Dividend on preference shares	187	187
	3,937	3,610

5. Tax on profit on ordinary activities

a) The taxation credit is made up as follows:

	2006	*2005*
	£000	*£000*
Current tax:		
Based on the profit for the period:		
Corporation tax	-	-
Adjustments in respect of prior periods	(86)	-
Total current tax	(86)	-
Deferred tax:		
Origination and reversal of timing differences	806	21
	720	21

Notes to the financial statements

at 30 March 2006

5. Tax on profit on ordinary activities (continued)

b) Factors affecting the tax credit for the period

The tax assessed on the profit on ordinary activities for the period is different from the standard rate of corporation tax in the UK. The differences are explained below:

	2006	*2005*
	£000	*£000*
Profit on ordinary activities before tax	962	556
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2005: 30.00%)	288	167
Effect of:		
Disallowed expenses and non-taxable income	(1,012)	(211)
Capital allowances in excess of depreciation	10	60
Short term timing differences	9	(44)
Adjustments in respect of previous periods	86	-
Unrelieved tax losses carried forward	739	28
Other adjustments	(34)	-
Current tax for the period	86	-

c) Factors that could affect future tax charges

In the company no provision has been made for deferred tax on gains recognised on revaluing property. Such tax would become payable only if the properties were sold without it being possible to set off capital losses/claim rollover relief. The total amount unprovided in respect of the revalued properties in the company is £9,308,000 (2005: £2,676,000), however, at present it is not envisaged that any tax will become payable in the foreseeable future.

The deferred tax asset of approximately £612,000 (2005: £94,000) which would arise if the properties were sold for their revalued amounts in Classic Lodges Limited has not been recognised in the financial statements. When the properties are sold, the asset would only be recoverable against capital gains of that period or future periods. The asset is not expected to crystallise in the foreseeable future.

No deferred tax liability has been recognised on potential capital gains which would arise if the listed and unlisted investments were disposed of at their market value. The total amount unprovided in respect of the listed and unlisted investments is £Nil (2005: £350,000). At present it is not envisaged that any gains will crystallise. However losses would be available for offset against any gains.

No deferred tax is recognised in respect of the capital losses carried forward at 31 March 2005. The amount of deferred tax not recognised on capital losses is £214,000 (2005: £270,000) in Paragon Hotels Limited and £4,789,000 (2005: £5,576,000) in the subsidiary undertakings. The capital losses may be offset against future capital gains of the companies within the group.

Notes to the financial statements

at 30 March 2006

5. Tax on profit on ordinary activities (continued)

d) Deferred taxation included in the balance sheet is as follows:

Group	*2006*	*2005*
	£000	*£000*
Capital allowances in advance of depreciation	3,401	3,432
Other timing differences	(988)	(213)
Provision for deferred tax	2,413	3,219

Company	*2006*	*2005*
	£000	*£000*
Capital allowances in advance of depreciation	2,724	3,288
Other timing differences	(977)	(204)
Provision for deferred tax	1,747	3,084

6. Profit attributable to members of the parent company

The profit dealt with in the financial statements of the parent company was £3,677,000 (2005: £609,000).

7. Tangible fixed assets

Group	*Assets under development*	*Freehold land and buildings*	*Fixtures, fittings and equipment*	*Total*
	£000	*£000*	*£000*	*£000*
Cost:				
At 31 March 2005	2,367	49,671	10,161	62,199
Additions	11,912	1,226	1,222	14,360
Disposals			(5)	(5)
Reallocation	(14,279)	4,957	9,322	-
At 30 March 2006	-	55,854	20,700	76,554
Depreciation:				
At 31 March 2005	-	303	5,756	6,059
Provided during the period	52	114	1,155	1,321
Impairment provision during the period		1,024	76	1,100
Reallocation	(52)	18	34	-
On disposals	-	-	(2)	(2)
At 30 March 2006	-	1,459	7,019	8,478
Net book value				
At 30 March 2006	-	54,395	13,681	68,076
At 31 March 2005	2,367	49,368	4,405	56,140

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Notes to the financial statements

at 30 March 2006

7. Tangible fixed assets (continued)

Company

	Assets under development	*Freehold land and buildings*	*Fixtures fittings and equipment*	*Total*
	£000	*£000*	*£000*	*£000*
Cost:				
At 31 March 2005	2,367	45,261	9,143	56,771
Additions	11,912	407	941	13,260
On disposals	-	-	-	-
Transferred to subsidiary undertaking	-	(4,335)	(1,107)	(5,442)
Reallocation	(14,279)	4,957	9,322	-
At 30 March 2006	-	46,290	18,299	64,589
Depreciation:				
At 31 March 2005	-	264	5,196	5,460
Provided during the period	52	89	931	1,072
On disposals	-	-	-	-
Transferred to subsidiary undertaking	-	(39)	(579)	(618)
Reallocation	(52)	18	34	-
At 30 March 2006	-	332	5,582	5,914
Net book value				
At 30 March 2006	-	45,958	12,717	58,675
At 31 March 2005	2,367	44,997	3,947	51,311

8. Investments

Group

	Listed investments	*Unlisted investments*	*Total*
	£000	*£000*	*£000*
Cost at 31 March 2005	23,657	2,196	25,853
Cost at 30 March 2006	13,648	-	13,648

The market value of the listed investments at 30 March 2006 is £15,825,000 (2005: £23,946,000).

Company

	Listed investments	*Unlisted investments*	*Total*
	£000	*£000*	*£000*
Cost at 31 March 2005	23,657	2,196	25,853
Cost at 30 March 2006	13,648	-	13,648

The market value of the listed investments at 30 March 2006 is £15,825,000(2005: £23,946,000).

The Group and Company sold their shareholdings in Holyrood Hotels Limited and Cardrona Hotel, Golf & Country Club Limited during the period.

Notes to the financial statements

at 30 March 2006

8. Investments (continued)

Company	*Subsidiary undertakings*	
	2006	*2005*
	£000	*£000*
Cost:		
At 30 March 2006	8,021	8,021
Provision against cost of investment	(8,021)	(8,021)
Net book value	-	-
Net book value of total investments	13,648	25,853

Subsidiary undertakings

All held by the company

Name of company	*Holding*	*Proportion of voting rights and shares held*	*Nature of business*
Classic Lodges Limited	Ordinary shares	100%	Hotels
Grovefield Hotel Limited	Ordinary shares	100%	Non-trading
Balmoral Hotel Harrogate Limited	Ordinary shares	100%	Non-trading
Roxburghe Hotel Limited	Ordinary shares	100%	Non-trading
Roxburghe Hotel Limited	Preference shares	100%	Non-trading

The company also had four other subsidiary undertakings at the period end which have been struck off the register subsequent to 30 March 2006.

9. Stocks

	Group		*Company*	
	2006	*2005*	*2006*	*2005*
	£000	*£000*	*£000*	*£000*
Food and liquor	151	131	79	106

The difference between purchase price or production cost of stocks and their replacement cost is not material.

Notes to the financial statements

at 30 March 2006

10. Debtors

	Group		Company	
	2006	*2005*	*2006*	*2005*
	£000	*£000*	*£000*	*£000*
Trade debtors	1,380	742	887	663
Other debtors and prepayments	2,079	780	2,000	745
Amounts owed by subsidiary undertakings	-	-	19,960	19,960
	3,459	1,522	22,847	21,368

Amounts falling due after more than one period included above are:

	Company	
	2006	*2005*
	£000	*£000*
Amounts owed by subsidiary undertakings	19,960	19,960

11. Creditors: amounts falling due within one year

	Group		Company	
	2006	*2005*	*2006*	*2005*
	£000	*£000*	*£000*	*£000*
Amounts due to subsidiary undertakings	-	-	8,947	14,175
Trade creditors	816	936	615	732
Corporation tax	-	-	-	-
Other taxation and social security	137	74	86	74
Other creditors	464	297	226	260
Accruals	2,430	1,313	1,917	1,243
Bank overdraft	-	3,324	-	4,922
	3,847	5,944	11,791	21,406

12. Creditors: amounts falling due after more than one year

	Group		Company	
	2006	*2005*	*2006*	*2005*
	£000	*£000*	*£000*	*£000*
Bank loans - wholly repayable within two and five years	66,500	60,000	66,500	60,000
7.5% redeemable preference shares of £1 each plus accumulated dividends	2,983	2,796	2,983	2,796
	69,483	62,796	69,483	62,796

The bank loans and overdrafts are secured by bond and floating charge and standard securities over all of the group's properties.

Notes to the financial statements

at 30 March 2006

12. Creditors: amounts falling due after more than one year (continued)

The 7.5% redeemable preference shares, which were issued at par on 30 August 2001, are redeemable at any time up to 31 August 2011 or, if earlier on a sale or listing, the appointment of a receiver or on the appointment of a liquidator over the Company. The preference shares carry a dividend of 7.5% per annum, payable annually in arrears on 1 March and 1 September. The dividend rights are cumulative.

The holders of the preference shares have no votes.

13. Provisions for liabilities and charges

Deferred tax

	Group *£000*	*Company* *£000*
Provision at 31 March 2005	3,219	3,084
Deferred tax in profit and loss account for the period	(806)	(1,371)
Provision at 30 March 2006	2,413	1,747

14. Share capital

Authorised	*2006* *£*	*2005* *£*
Ordinary shares of £1 each	7,000,000	7,000,000

Allotted, called up and fully paid	*Group*		*Company*	
	2006 *No*	*2005* *No*	*2006* *£000*	*2005* *£000*
Ordinary shares of £1 each	2,500,000	2,500,000	2,500,000	2,500,000

On a return of assets or liquidation or otherwise, the assets available for distribution are as follows:

a) in paying to the holders of the preference shares (in proportion to the number of such shares held by them) and in priority to all other shareholders an amount equal to the amount paid up or credited as paid together with a sum equal to all arrears of the Preference Dividend calculated down to the date of return of assets;

b) in paying to the holders of ordinary shares pro rata in proportion to the number of such shares held by them respectively any surplus assets of the company.

The holders of ordinary shares are entitled to one vote for each share held.

The holders of ordinary shares are entitled to such dividend as may be determined by the directors.

Notes to the financial statements

at 30 March 2006

15. Reconciliation of shareholders' funds and movement on reserves

Group

	Capital Redemption Reserve £000	*Share capital £000*	*Share premium £000*	*Profit and loss account £000*	*Total £000*
At 25 March 2004 (as previously reported)	7,500	5,000	5,000	(3,872)	13,628
Prior year adjustment	-	(2,500)	-	-	(2,500)
Profit for the period	-	-	-	577	577
At 31 March 2005	7,500	2,500	5,000	(3,295)	11,705
Profit for the period	-	-	-	1,682	1,682
At 31 March 2006	7,500	2,500	5,000	(1,613)	13,387

The cumulative amount of goodwill written off at 30 March 2006 is £2,338,000 (2005: £2,338,000).

Company

	Capital Redemption Reserve £000	*Share capital £000*	*Share premium account £000*	*Profit and loss account £000*	*Total £000*
At 25 March 2004 (as previously reported)	7,500	5,000	5,000	(4,242)	13,258
Prior year adjustment	-	(2,500)	-	-	(2,500)
Profit for the period	-	-	-	609	609
At 31 March 2005	7,500	2,500	5,000	(3,633)	11,367
Profit for the period	-	-	-	3,677	3,677
At 30 March 2006	7,500	2,500	5,000	44	15,044

Notes to the financial statements

at 30 March 2006

16. Notes to the cash flow statement

	2006 £000	2005 £000
Returns on investments and servicing of finance		
Interest paid	(3,750)	(3,423)
Investment income	1,081	1,055
Net cash outflow from returns on investments and servicing of finance	(2,669)	(2,368)
Management of liquid resources		
Sale of investments	13,907	-
Capital expenditure and financial investments		
Proceeds of sale of tangible fixed assets	9	1,059
Purchase of tangible fixed assets	(14,360)	(2,683)
Net cash outflow for capital expenditure	(14,351)	(1,624)
Financing		
New long term loans	6,500	-

	At 31 March 2005 £000	*Accrued interest £000*	*Cash flows £000*	*At 30 March 2006 £000*
Analysis of changes in net debt:				
Cash at bank and in hand	18	-	3,777	3,795
Bank overdraft	(3,324)	-	3,324	-
Bank loans	(60,000)	-	(6,500)	(66,500)
7.5% redeemable preference shares of £1 each	(2,796)	(187)	-	(2,983)
	(66,102)	(187)	601	(65,688)

17. Other financial commitments

Annual commitments under non-cancellable operating leases are as follows:

Group	*Land and buildings*		*Fixtures and fittings*	
	2006 £000	*2005 £000*	*2006 £000*	*2005 £000*
Operating leases which expire:				
Within one period	-	-	-	-
between two and five years	300	-	-	-
	300	-	-	-

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Notes to the financial statements

at 30 March 2006

18. Related party transactions

The company paid a management fee of £101,000 (2005: £190,000) to Hemway Ltd for goods and services provided. Hemway Limited is a related party since the directors of this company are directors of that company and its parent company. £nil (2005: £1,706,000) of the hotel staff costs referred to in Note 3 were paid to Cairn Hotels Limited. Mr Kay is a director of that company and its parent company.

19. Contingent liabilities

The company is party to an agreement with its bankers whereby the bank is entitled to hold all sums at credit of any accounts in the company's name in security of all sums due to the bank by the company's subsidiary undertakings. The overdraft is secured by bond and floating charge and standard security over all of the group's properties.

20. Ultimate parent company

The company's ultimate parent company and controlling party is Calgarth Limited, which is incorporated in the Isle of Man.