

Bovey Castle Limited
Annual Report
Year Ended 31 December 2005

Company Registration Number 4448428



Bovey Castle Limited

Financial Statements

Year Ended 31 December 2005

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Bovey Castle Limited

Directors' Report

Year Ended 31 December 2005

The directors present their report and the financial statements of the company for the year ended 31 December 2005.

Principal Activities and Business Review

The principal activities of the company during the year were to operate own and trade in the hospitality, leisure and recreational field by establishing a diversified portfolio of activities.

Gross profit increased to £4,662,340 (2004: £528,712). With an increase in administrative expenses the company made a net loss of £992,082 compared to a net loss of £3,774,922 in 2004.

Results and Dividends

The trading results for the year and the company's financial position at the end of the year are shown in the attached financial statements.

The directors have not recommended a dividend.

Financial Risk Management Objectives and Policies

There are a number of risks and uncertainties which could impact the company's long-term performance. The company is largely dependent on the health of the worldwide economy generally. The directors monitor any changes in this regard regularly and if necessary would take steps to control the company's costs in the event that a long-term deterioration in the worldwide economy was foreseen.

The Directors and their Interests in the Shares of the Company

The directors who served the company during the year together with their beneficial interests in the shares of the company were as follows:

	Ordinary Shares of £1 each	
	At 31 December 2005	At 1 January 2005
Mr P De Savary	325	325
Mrs L De Savary	325	325
Mrs M A Lutyens	-	-

Donations

During the year the company made the following contributions:

	2005 £	2004 £
Charitable	-	18,500

Bovey Castle Limited

Directors' Report

Year Ended 31 December 2005

Directors' Responsibilities

The directors are responsible for preparing 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 year. In preparing those financial statements, the directors are required to:


- select suitable accounting policies, as described on pages 10 to 12, and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that 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. The directors 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.

Auditor

A resolution to re-appoint Francis Clark as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

Signed by order of the directors



Company Secretary

Bovey Castle Limited

Independent Auditor's Report to the Shareholders of Bovey Castle Limited

Year Ended 31 December 2005

We have audited the financial statements of Bovey Castle Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, Balance Sheet, Cash Flow Statement and the related notes. 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 auditor's 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 Auditor

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 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. This other information comprises only the Directors' Report. 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 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 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.

Bovey Castle Limited

Independent Auditor's Report to the Shareholders of Bovey Castle Limited *(continued)*

Year Ended 31 December 2005

Opinion

In our opinion the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.

Francis Clark
Chartered Accountants
36 Southernhay East
Exeter
Devon
EX1 1NX

Francis Clark

4 September 2006

Registered Auditors

Bovey Castle Limited

Profit and Loss Account

Year Ended 31 December 2005

	Note	2005 £	2004 £
Turnover	2	12,712,279	3,569,569
Cost of sales		(8,049,939)	(3,040,857)
Gross Profit		4,662,340	528,712
Administrative expenses		(5,274,372)	(4,058,578)
Other operating income		81,415	35,131
Operating Loss	3	(530,617)	(3,494,735)
Interest receivable		56,166	5,311
Interest payable and similar charges	5	(517,631)	(285,498)
Loss on Ordinary Activities Before Taxation		(992,082)	(3,774,922)
Tax on loss on ordinary activities		—	—
Loss for the Financial Year		(992,082)	(3,774,922)

All of the activities of the company are classed as continuing.

The company has no recognised gains or losses other than the results for the year as set out above.

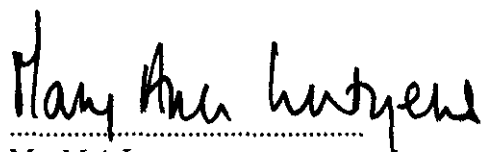
Bovey Castle Limited

Balance Sheet

31 December 2005

	Note	2005 £	2004 £
Fixed Assets			
Intangible assets	6	-	340,805
Tangible assets	7	17,036,802	17,110,093
Investments	8	342,132	342,132
		<u>17,378,934</u>	<u>17,793,030</u>
Current Assets			
Stocks	9	6,808,524	3,141,163
Debtors	10	612,128	1,074,344
Cash at bank and in hand		108,558	3,081,862
		<u>7,529,210</u>	<u>7,297,369</u>
Creditors: Amounts falling due within one year	11	<u>(2,088,753)</u>	<u>(5,919,873)</u>
Net Current Assets		<u>5,440,457</u>	<u>1,377,496</u>
Total Assets Less Current Liabilities		<u>22,819,391</u>	<u>19,170,526</u>
Creditors: Amounts falling due after more than one year	12	28,635,087	23,994,140
Capital and Reserves			
Called-up equity share capital	16	1,000	1,000
Profit and loss account	17	(5,816,696)	(4,824,614)
Closing shareholders' equity - deficit	18	<u>(5,815,696)</u>	<u>(4,823,614)</u>
		<u>22,819,391</u>	<u>19,170,526</u>

These financial statements have been approved for issue by the Board of Directors on *4 September 2006*



Mrs M A Lutyens

Bovey Castle Limited

Cash Flow Statement

Year Ended 31 December 2005

	Note	2005 £	2004 £
Net Cash Outflow From Operating Activities	19	(6,158,115)	(1,096,361)
Returns on Investments and Servicing of Finance			
Interest received		56,166	5,311
Interest paid		(510,761)	(275,540)
Interest element of hire purchase		(6,870)	(9,958)
Net Cash Outflow From Returns on Investments and Servicing of Finance		(461,465)	(280,187)
Capital Expenditure and Financial Investment			
Payments to acquire intangible fixed assets		—	(1,000)
Payments to acquire tangible fixed assets		(727,789)	(9,640,868)
Receipts from sale of fixed assets		1,452	110,000
Acquisition of investments		—	(22,110)
Net Cash Outflow for Capital Expenditure and Financial Investment		(726,337)	(9,553,978)
Cash Outflow Before Financing		(7,345,917)	(10,930,526)
Financing			
(Repayment of)/increase in bank loans		(1,415,501)	4,745,089
Capital element of hire purchase		(26,585)	(33,415)
Net inflow from other long-term creditors		6,095,454	9,246,919
Net Cash Inflow From Financing		4,653,368	13,958,593
(Decrease)/Increase in Cash	20	(2,692,549)	3,028,067

Bovey Castle Limited

Notes and Accounting Policies

Year Ended 31 December 2005

1. Accounting Policies

(a) Basis of accounting

The financial statements have been prepared under the historical cost convention.

At 31 December 2005 the company had net liabilities of £5,815,696. The deficit is in line with the business plan and forecasts. Long term funding is in place to cover the cost of future working capital demands

The directors consider that in preparing the financial statements they have taken into account all information that could reasonably be expected to be available. On this basis, they consider that it is appropriate to prepare the financial statements on the going concern basis.

(b) Changes in accounting policies

In preparing the financial statements for the current year, the company has adopted the following Financial Reporting Standards:

FRS 25 'Financial Instruments: Disclosure and Presentation (IAS 32)'

During the year the company adopted Financial Reporting Standard 25 'Financial Instruments: Disclosure and Presentation'. There have been no changes to the accounts as a consequence of the adoption.

(c) Turnover

Hotel and Ancillary Income

The turnover shown in the Profit & Loss Account represents goods and services sold during the year exclusive of Value Added Tax.

Lodge Sales

The turnover shown in the Profit and Loss Account represents income from the sale of lodge developments during the year. Income is recognised on legal completion of the sale of a freehold interest or where a major interest is disposed and work in progress derecognised in accordance with Financial Reporting Standard 5 ('Substance Of Transactions'), Application Note B.

(d) Goodwill

Goodwill arising on the acquisition of assets, being the excess of the acquisition costs over the aggregate fair value of the assets acquired, is capitalised and amortised over the estimated useful economic life

(e) Other intangible fixed assets

Other intangible fixed assets are intellectual property rights and proprietorial rights acquired by the company. The amount expended has been capitalised and will be amortised over the period during which the company is expected to benefit from the assets.

Bovey Castle Limited

Notes and Accounting Policies

Year Ended 31 December 2005

1. Accounting Policies *(continued)*

(f) Amortisation

Amortisation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Goodwill	-	over 3 years
Other Intangibles	-	over 3 years

(g) Fixed assets

All fixed assets are initially recorded at cost.

(h) Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Freehold Property	-	2%
Plant & Machinery	-	5% and 20%
Fixtures & Fittings	-	20%
Motor Vehicles	-	20%
Leasehold Improvements	-	Over the term of the lease

(i) Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

(j) Work in progress

Work in progress is valued on the basis of direct costs. Provision is made for any foreseeable losses where appropriate. No element of profit is included in the valuation of work in progress.

(k) Hire purchase agreements

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account as a constant percentage of the amount outstanding.

(l) Operating lease agreements

Rentals applicable to operating leases where substantially all of the benefits and risks of ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

Bovey Castle Limited

Notes and Accounting Policies

Year Ended 31 December 2005

1. Accounting Policies *(continued)*

(m) Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

2. Turnover

The turnover and loss before tax are attributable to the two principal activities of the company. An analysis of turnover is given below:

	2005 £	2004 £
Hotel and ancillary income	6,712,279	3,569,569
Lodge sales	6,000,000	—
	<u>12,712,279</u>	<u>3,569,569</u>

3. Operating Loss

Operating loss is stated after charging/(crediting):

	2005 £	2004 £
Directors' emoluments	—	—
Amortisation	340,805	340,195
Depreciation of owned fixed assets	754,110	766,832
Depreciation of assets held under hire purchase agreements	37,103	45,452
Loss on disposal of fixed assets	8,415	6,000
Auditor's remuneration		
- audit fees	13,280	9,738
Net loss/(profit) on foreign currency translation	400,441	(175,712)
Hire of plant and machinery	49,675	2,043
Other operating leases	<u>78,622</u>	<u>64,733</u>

Bovey Castle Limited

Notes and Accounting Policies

Year Ended 31 December 2005

4. Particulars of Employees

The average number of staff employed by the company during the financial year amounted to:

	2005 No	2004 No
Number of management staff	5	3
Number of administrative staff	13	19
Number of other hotel staff	156	91
	<u>174</u>	<u>113</u>

The aggregate payroll costs of the above were:

	2005 £	2004 £
Wages and salaries	3,150,426	1,827,247
Social security costs	257,249	140,194
	<u>3,407,675</u>	<u>1,967,441</u>

5. Interest Payable and Similar Charges

	2005 £	2004 £
Interest payable on bank borrowing	510,761	275,540
Finance charges	6,870	9,958
	<u>517,631</u>	<u>285,498</u>

6. Intangible Fixed Assets

	Goodwill £	Other £	Total £
Cost			
At 1 January 2005 and 31 December 2005	<u>926,000</u>	<u>95,000</u>	<u>1,021,000</u>
Amortisation			
At 1 January 2005	616,667	63,528	680,195
Charge for the year	309,333	31,472	340,805
At 31 December 2005	<u>926,000</u>	<u>95,000</u>	<u>1,021,000</u>
Net Book Value			
At 31 December 2005	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2004	<u>309,333</u>	<u>31,472</u>	<u>340,805</u>

Bovey Castle Limited

Notes and Accounting Policies

Year Ended 31 December 2005

7. Tangible Fixed Assets

	Freehold Property £	Plant & Machinery £	Furniture, Fixtures & Fittings £	Motor Vehicles £	Leasehold Improvements £	Total £
Cost						
At 1 Jan 2005	11,865,261	3,046,004	2,360,553	243,438	508,057	18,023,313
Additions	363,990	173,210	81,094	23,402	86,093	727,789
Disposals	—	(2,033)	—	(11,500)	—	(13,533)
At 31 Dec 2005	12,229,251	3,217,181	2,441,647	255,340	594,150	18,737,569
Depreciation						
At 1 Jan 2005	146,537	523,760	175,458	26,032	41,433	913,220
Charge for the year	217,763	222,505	248,402	49,164	53,379	791,213
On disposals	—	(33)	—	(3,633)	—	(3,666)
At 31 Dec 2005	364,300	746,232	423,860	71,563	94,812	1,700,767
Net Book Value						
At 31 Dec 2005	11,864,951	2,470,949	2,017,787	183,777	499,338	17,036,802
At 31 Dec 2004	11,718,724	2,522,244	2,185,095	217,406	466,624	17,110,093

Hire purchase agreements

Included within the net book value of £17,036,802 is £102,033 (2004 - £139,135) relating to assets held under hire purchase agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £37,103 (2004 - £45,452).

Capital commitments

	2005 £	2004 £
Contracted but not provided for in the financial statements	251,000	—

Bovey Castle Limited

Notes and Accounting Policies

Year Ended 31 December 2005

8. Investments

	Shares in Group Undertakings £	Shares in Participating Interests £	Total £
Cost			
At 1 January 2005 and 31 December 2005	<u>2</u>	<u>342,130</u>	<u>342,132</u>
Net Book Value			
At 31 December 2005	<u>2</u>	<u>342,130</u>	<u>342,132</u>
At 31 December 2004	<u>2</u>	<u>342,130</u>	<u>342,132</u>

The company owns 100% of the issued share capital of the companies listed below.

Aggregate capital and reserves	£
Bovey Golf Limited (dormant)	1
Bovey Club Limited (dormant)	1

Profit and (loss) for the year

Bovey Golf Limited (dormant)	Nil
Bovey Club Limited (dormant)	Nil

The company also owns 32.5% of the share capital of Machrie Holdings Limited a company incorporated in the Isle of Man.

Under the provision of section 248 of the Companies Act 1985 the company is exempt from preparing consolidated accounts and has not done so, therefore the accounts show information about the company as an individual entity.

9. Stocks

	2005 £	2004 £
Stocks	342,024	238,308
Work in progress	6,466,500	4,702,855
Payment on account	—	(1,800,000)
	<u>6,808,524</u>	<u>3,141,163</u>

Bovey Castle Limited

Notes and Accounting Policies

Year Ended 31 December 2005

10. Debtors

	2005 £	2004 £
Trade debtors	265,480	179,128
VAT recoverable	—	177,463
Other debtors	157,625	28,204
Director's current account	45,171	36,248
Prepayments and accrued income	143,852	653,301
	<u>612,128</u>	<u>1,074,344</u>

11. Creditors: Amounts falling due within one year

	2005 £	2004 £
Bank loans and overdrafts	-	280,755
Trade creditors	881,901	517,078
PAYE and social security	99,472	100,314
VAT	74,921	—
Hire purchase agreements	48,630	36,209
Other creditors	69,060	4,226,183
Accruals and deferred income	914,769	759,334
	<u>2,088,753</u>	<u>5,919,873</u>

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

	2005 £	2004 £
Bank loans and overdrafts	7,200,000	8,615,501
Hire purchase agreements	40,574	79,580
Other creditors	21,394,513	15,299,059
	<u>28,635,087</u>	<u>23,994,140</u>

Bovey Castle Limited

Notes and Accounting Policies

Year Ended 31 December 2005

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

The following liabilities disclosed under creditors falling due after more than one year are secured by the company:

	2005 £	2004 £
Bank loans and overdrafts	7,200,000	8,615,501
Other creditors	21,394,513	15,299,059
	<u>28,594,513</u>	<u>23,914,560</u>

The bank loans and overdrafts are secured by way of a preferential fixed and floating charge over the assets of the company.

Other creditors represent issues of Subordinated Participating Loan Notes 2009 ('the Loan Notes'), which are secured by way of a debenture instrument. The Loan Notes are held by the corporate shareholders and are payable on the earlier of the date of completion of a sale of 90% of the issued share capital of the company, two years after the sale of the freehold property known as Bovey Castle owned by the company ('the Property') and 23 December 2009. The Loan Notes are repayable at their principal amount plus a premium. All amounts payable to the Loan Note holders are secured by a second mortgage over the Property and fixed and floating charges over all other assets of the company.

Hire purchase liabilities are secured over the assets held under finance agreements as disclosed in note 7.

13. Commitments under Hire Purchase Agreements

Future commitments under hire purchase agreements are as follows:

	2005 £	2004 £
Amounts payable within 1 year	48,630	36,209
Amounts payable between 2 to 5 years	40,574	79,580
	<u>89,204</u>	<u>115,789</u>

Bovey Castle Limited

Notes and Accounting Policies

Year Ended 31 December 2005

14. Commitments under Operating Leases

At 31 December 2005 the company had annual commitments under non-cancellable operating leases as set out below.

	2005		2004	
	Land & Buildings £	Other Items £	Land & Buildings £	Other Items £
Operating leases which expire:				
Within 1 year	-	15,741	-	2,043
Within 2 to 5 years	-	200,995	-	64,733
After more than 5 years	200,940	-	90,000	-
	<u>200,940</u>	<u>216,736</u>	<u>90,000</u>	<u>66,776</u>

15. Related Party Transactions

The company was under the control of Mr P De Savary and Mrs L De Savary throughout the current and previous year.

During the year the company received services from Carnegie International Asset Management Limited a company controlled by Mr P De Savary. The company was charged £250,000 (2004: £72,666) during the year for these services, at the year-end the company owed £95,176 (2004: £100,000) in respect of these transactions.

During the year, the director's loan account was overdrawn. The balance at the beginning of the year was £36,248. The balance at the year-end is £45,171 and the maximum overdrawn amount was £69,960. The loan is interest free.

Bovey Castle Limited

Notes and Accounting Policies

Year Ended 31 December 2005

16. Share Capital

Authorised share capital:

	2005 £	2004 £
Equity shares		
1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

Allotted, called up and fully paid:

	2005 No	£	2004 No	£
Equity shares				
Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
Equity shares				
Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>

17. Profit and Loss Account

	2005 £	2004 £
Balance brought forward	(4,824,614)	(1,049,692)
Loss for the financial year	<u>(992,082)</u>	<u>(3,774,922)</u>
Balance carried forward	<u>(5,816,696)</u>	<u>(4,824,614)</u>

18. Reconciliation of Movements in Shareholders' Funds

	2005 £	2004 £
Loss for the financial year	(992,082)	(3,774,922)
Opening shareholders' deficit	<u>(4,823,614)</u>	<u>(1,048,692)</u>
Closing shareholders' deficit	<u>(5,815,696)</u>	<u>(4,823,614)</u>

Bovey Castle Limited

Notes and Accounting Policies

Year Ended 31 December 2005

19. Reconciliation of Operating Loss to Net Cash Outflow From Operating Activities

	2005 £	2004 £
Operating loss	(530,617)	(3,494,735)
Amortisation	340,805	340,195
Depreciation	791,213	812,284
Loss on disposal of fixed assets	8,415	6,000
Increase in stocks	(3,667,361)	(2,416,646)
Decrease/(increase) in debtors	462,216	(521,056)
(Decrease)/increase in creditors	(3,562,786)	4,177,597
Net cash outflow from operating activities	<u>(6,158,115)</u>	<u>(1,096,361)</u>

20. Reconciliation of Net Cash Flow to Movement in Net Debt

	2005 £	2004 £
(Decrease)/increase in cash in the period	(2,692,549)	3,028,067
Net cash outflow from/(inflow) from bank loans	1,415,501	(4,745,089)
Cash outflow in respect of hire purchase	26,585	33,415
Net cash inflow from other long-term creditors	(6,095,454)	(9,246,919)
	<u>(7,345,917)</u>	<u>(10,930,526)</u>
Change in net debt	(7,345,917)	(10,930,526)
Net debt at 1 January 2005	(21,229,242)	(10,298,716)
Net debt at 31 December 2005	<u>(28,575,159)</u>	<u>(21,229,242)</u>

Bovey Castle Limited

Notes and Accounting Policies

Year Ended 31 December 2005

21. Analysis of Changes in Net Debt

	At 1 Jan 2005 £	Cash flows £	At 31 Dec 2005 £
Net cash:			
Cash in hand and at bank	3,081,862	(2,973,304)	108,558
Overdrafts	(280,755)	280,755	—
	<u>2,801,107</u>	<u>(2,692,549)</u>	<u>108,558</u>
Debt:			
Debt due after 1 year	(23,914,560)	(4,679,953)	(28,594,513)
Hire purchase agreements	(115,789)	26,585	(89,204)
	<u>(24,030,349)</u>	<u>(4,653,368)</u>	<u>(28,683,717)</u>
Net debt	<u>(21,229,242)</u>	<u>(7,345,917)</u>	<u>(28,575,159)</u>