NPIL Hold Co Limited

Directors' report and financial statements

31 March 2006

Registered number 4659491

Contents

Directors' report

for the year ended 31 March 2006

The directors present their annual report and the audited financial statements for the year ended 31 March 2006.

Principal activities

The principal activity of NPIL Hold Co Limited ("the Company") is to act as the financial holding company of various Group undertakings whose principal activities include ports and engineering and financial services.

Business review

The Group made an after tax profit of £13,970,000 (restated 2005: profit of £15,096,000) for the year ended 31 March 2006. The Company holds the entire share capital of Nikko Principal Investments Limited ("NPIL"), a principal finance company that commits capital provided by Nikko Cordial Corporation ("Nikko") to purchase, or finance the acquisition of assets that generate cash flow. NPIL considers those investments in which it is able to control the day to day operations of the investee company to be subsidiaries and therefore the consolidated accounts of the Company include the results of a number of companies in the financial, hotel, catering and retail sectors.

In June 2005, NPIL acquired a 15.01% investment in European Directories SA ("EDSA") for €83 million through a wholly owned subsidiary Pall Mall Directories Limited incorporated in the UK, as a consortium member of the EDSA 100% bid for the YBR Group which has a portfolio of directory businesses in Europe. The other consortium members are the Macquarie Capital Alliance Group, Macquarie Bank Limited and Caisse de dépôt et placement du Québec. Subsequently, Pall Mall Directories Limited declined to take up its shareholders' rights on a further acquisition by EDSA, and the effective holding has fallen to 11.3%.

In September 2005, NPIL successfully sold its 9.7% investment in the share capital of Resolution Life Group ("RLG"). The investment was originally acquired in September 2004 and a year later RLG merged with Britannic Plc, and re-listed the combined group as Resolution Plc. This converted NPIL's investment to liquid shares in the publicly traded company and allowed NPIL to realise their value. The proceeds on sale were £89.5 million.

In September 2005, NPIL acquired a 40% investment in Catalina Holdings Limited, a holding company incorporated in Bermuda, through a wholly owned subsidiary, Pall Mall Bermuda Limited incorporated in the UK. Catalina Holdings Limited acquired 100% of the share capital of Overseas Partners Re ("Op Re") (renamed Catalina Re Insurance Limited) for USD 170.5 million funded through a consortium of equity and acquisition debt. NPIL intend to work with management to capture value from the runoff of liabilities of Catalina Re.

Financial risk management

The nature of the Group's operations expose it to a variety of financial risks that include the effects of changes in debt market prices, liquidity risk, credit risk and interest rate risk. Risk management is an inherent part of NPIL's investment activities. The Group's risk management and governance structure are designed to provide a controlled framework which facilitates continuing oversight and management of the Group's primary risks, seeking to limit the adverse effects of these risks on the financial performance of the company. The Group exercises management and oversight through the Board of Directors.

NPIL manages underlying investment performance risk by closely monitoring underlying investee company performance. Monitoring is undertaken in a number of ways including, but not limited to, implementation of recommendations identified in detailed pre investment due diligence and ongoing board representation.

An overview of the Group's financial risk management objectives and policies is provided below:

Directors' report

for the year ended 31 March 2006 (continued)

Market Risk

Market risk represents the potential loss in value caused by adverse movements in foreign exchange rates and interest rates. The Group seeks to minimise the effect of variability in debt funding rates by borrowing from its parent company at prevailing commercial interest rates at negotiated intervals, and by borrowing from third parties at fixed and floating rates.

To mitigate the effect of currency exposures on the Group's foreign borrowings, the Group swaps its foreign borrowings into sterling using currency swaps. The Group's significant currency of operations is sterling. An analysis of the Group's foreign monetary assets and foreign monetary liabilities can be found in Note 25. The Group has no significant foreign monetary liabilities after taking into account the effect of currency swaps.

Credit Risk

Credit risk for the Group arises from the exposure to the possibility that counterparties may default on their obligations to the company. The Group has implemented policies that require appropriate understanding of the expected returns on capital invested and that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit which is reassessed should additional funding be requested.

Liquidity Risk

Liquidity risk arises from the general funding needs of the Group's activities and planned investment, and in the management of its assets and liabilities. The Group actively maintains a mixture of long-term and short-term debt finance to ensure that the Group has access to sufficient funding to meet its objectives.

Interest rate cash flow risk

The Group has both interest bearing assets and interest bearing liabilities. Interest bearing assets include cash balances. The Group has raised borrowings at both fixed and floating rates, and has used interest rate swaps to generate the desired interest rate profile and to manage its exposure to interest rate fluctuations. The directors will revisit the appropriateness of this policy should the Group's operations change in size or nature.

Post balance sheet events

In April 2006, through a wholly owned subsidiary called Pall Mall Finance Limited incorporated in the UK, NPIL successfully acquired a 68.6% shareholding in Cabot Financial Holdings Group ("Cabot"), the leading debt purchasing business in the UK. NPIL has invested £164.9 million in the form of loan note financing. NPIL intend building on the successful growth of the business in the UK and Continental European markets.

In August 2006, NPIL acquired an 85% holding in Clarity Credit Management Solutions Limited, a debt collection agency, through a wholly owned subsidiary, Pall Mall Collections Limited incorporated in the UK. NPIL actively supports management by providing financing to enable the continued development and growth of the business infrastructure.

In September 2006, NPIL acquired a controlling stake in the LifeBond Group for €6 million with a commitment to provide further finance to grow the business to a total of €50 million. The LifeBond Group is a Munich-based specialist funds manager and originator of US and German secondary life policies.

In October 2006, NPIL successfully completed the sale of the Menzies Hotels business, the four star hotel chain, for proceeds of £180 million.

In November 2006, NPIL sold its 45.9% holding in the subordinated debt instruments of the Student Loans private purchasing vehicles for proceeds of £25 million.

Directors' report

for the year ended 31 March 2006 (continued)

Post balance sheet events (continued)

In February 2007, NPIL's share in a subsidiary, Consumer Finance Acquisitions Company Limited, the BCT group holding company, was diluted by 18% as a result of a management incentivisation scheme.

Future development of the business

It is expected that the future growth of the Group is to be derived from the growth of the investments held by NPIL.

Dividend

The directors do not recommend the payment of a dividend.

Political and charitable donations

The Group made no political contributions during the year (2005: £nil). Donations made to UK charities during the year totalled £4,000 (2005: £8,000).

Statement of disclosure of information to auditors

The directors confirm that:

(a) so far as each director is aware, there is no relevant audit information of which the Company's auditors are unaware; and

(b) the directors have taken all the steps they ought to have taken as directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This information is provided in accordance with the provisions of section 234 ZA of the Companies Act 1985.

Employees

The Group has a policy of ensuring employees are kept informed of its activities and events which have an impact on the Group. The Group operates a system of staff appraisal which encourages discussion between staff and management and a discretionary performance related bonus scheme, which will be dependent on both the Group's and individual employees' performance during a financial year.

It is the policy of the Group to consider fully, fairly and equally applications for staff vacancies from disabled (as defined in the Disability Discrimination Act 1995) and able-bodied persons alike, having regard to individuals' aptitudes and abilities.

If a member of staff should become disabled whilst employed by the Group, every reasonable effort would be made, consistent with the requirements of the Group's business, to ensure that his or her employment with the Group could continue.

The Group is also committed to ensuring that all disabled persons employed by it receive appropriate training, career development and promotion to enable them to compete fairly with other employees of the Group.

Liability insurance

The Group may take out liability insurance in respect of its directors and officers. In the normal course of business, members of staff may be requested to become directors, shadow directors or officers of companies in which the Group has invested. In return, certain companies in the Group may provide an indemnity to these individuals for any liabilities they may incur while properly acting in that capacity.

Directors' report

for the year ended 31 March 2006 (continued)

Directors and directors' interests

The directors who held office during the year were as follows:

Resident:
Brian Berry
Philip Busfield

Non-Resident:
Hirofumi Hirano (resigned 22 January 2007)

According to the Register of Directors' Interests maintained under Section 325 of the Companies Act 1985, none of the Directors had, at the end of the financial year, any interest pursuant to Section 324 of the Companies Act 1985 in the Company.

In addition, according to the Register maintained under Section 325 of the Companies Act 1985, none of the Directors or any member of their respective immediate family (as defined in paragraph 2(B) (3) of Schedule VII of the Companies Act 1985) was granted or exercised during the financial year any right to subscribe for shares in or debentures of the Company.

Company Secretary

The Secretary to the Company during the year was:

John Beck

Creditors payment policy

It is the Group's policy to agree the terms of payment to creditors at the start of business with that supplier, ensure that suppliers are aware of the terms of payment and to pay in accordance with its contractual and other legal obligations.

Auditors

Pursuant to Section 386 of the Companies Act 1985, the Company has passed an elective resolution to dispense with the obligation to appoint auditors annually. The auditors, PricewaterhouseCoopers LLP, will therefore continue in office.

By order of the board

J. Beck

John Beck
Secretary to NPIL Hold Co Limited
100 Pall Mall
London
SW1Y 5NN
27 February 2007

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period that 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 then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for maintaining 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

B Berry
Director
27 February 2007

Independent auditors' report to the members of NPIL Hold Co Limited

We have audited the Group and parent company financial statements (the "financial statements") of NPIL Hold Co Limited for the year ended 31 March 2006 which comprise the Group profit and loss account, the Group and Company balance sheets, the Group cash flow statement, the Group statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors
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). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion
In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Group's and of the Company's affairs as at 31 March 2006 and of the Group's profit and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
28 February 2007

Consolidated Profit and loss account

for the year ended 31 March 2006

	Note	2006 £000	2005 Restated £000
Turnover (including share of joint venture)			
Continuing operations		**283,467**	93,104
Discontinued operations		**-**	131,119
	1&2	**283,467**	224,223
Less: share of turnover of joint venture (continuing)		**(155,066)**	(10,284)
Turnover		**128,401**	213,939
Cost of sales		**(61,397)**	(142,866)
Gross profit		**67,004**	71,073
Net operating expenses		**(69,061)**	(76,325)
Other operating income	*3*	**41,670**	-
Group operating profit / (loss)			
Continuing operations		**39,613**	(19,302)
Discontinued operations		**-**	14,050
		39,613	(5,252)
Exceptional items			
Profit on sale of operations (discontinued)	*4*	**-**	27,930
Group operating profit after exceptional items		**39,613**	22,678
Share of operating profit of joint venture		**9,929**	241
Share of exceptional restructuring expenses – Joint venture	*4*	**(5,144)**	-
Income from fixed asset investments		**387**	397
Profit on ordinary activities before interest and taxation		**44,785**	23,316
Net interest payable			
- Group	*5*	**(14,192)**	(11,979)
- Joint venture	*5*	**(24,881)**	(1,764)
		(39,073)	(13,743)
Other finance income - Group	*6*	**5,700**	3,700
Other finance expense – Joint venture	*7*	**(93)**	(153)
Profit on ordinary activities before taxation	*2&8*	**11,319**	13,120
Taxation on profit on ordinary activities	*12*	**2,651**	1,976
Retained profit for the year	*28*	**13,970**	15,096

There is no difference between the profit on ordinary activities before taxation and the retained profit for the years stated above and their historical cost equivalents.

The notes on pages 14 to 47 form part of these financial statements

Auditors' report – page 7

Statement of group total recognised gains and losses
for the year ended 31 March 2006

	Note	**2006 £000**	2005 Restated £000
Profit for the year			
- Group		**34,159**	16,619
- Joint venture		**(20,189)**	(1,523)
		13,970	15,096
Actuarial gain / (loss) recognised in the pension scheme - Group	*11*	**19,700**	(5,700)
Actuarial gain recognised in the pension scheme – Joint venture		**-**	153
Unrealised holding losses on securities for sale – Joint venture	*28*	**(207)**	-
Exchange adjustment offset in reserves			
- Fixed assets	*28*	**-**	113
- Investments in subsidiaries	*28*	**1,045**	-
Total recognised gains for the year		**34,508**	9,662
Prior year adjustment	*28*	**(33,118)**	
Total profits recognised since last annual report		**1,390**	

NPIL Hold Co Limited
Consolidated Balance sheet
at 31 March 2006

	Note	2006	2005 Restated
Fixed assets		**£000**	£000
Intangible assets	*14*	**23,150**	15,556
Tangible assets	*15*	**157,290**	126,860
Investments	*16*	**17,887**	17,549
		198,327	159,965
Current assets			
Stock	*17*	**4,558**	5,471
Debtors: amounts falling due after one year	*18*	**134,687**	119,760
Debtors: amounts falling due within one year	*19*	**134,373**	95,840
Investments	*21*	**77,905**	122,672
Investments in joint ventures:			
Share of gross assets		**265,687**	183,032
Share of gross liabilities		**(257,810)**	(176,054)
		7,877	6,978
Investment in associates		**36**	-
Cash at bank and in hand	*22*	**43,273**	53,930
		402,709	404,651
Creditors: amounts falling due within one year	*23*	**(257,378)**	(248,721)
Net current assets		**145,331**	155,930
Total assets less current liabilities		**343,658**	315,895
Creditors: amounts falling due after more than one year	*24*	**(122,261)**	(99,761)
Provisions for liabilities and charges	*26*	**(8,463)**	(12,318)
Net assets excluding pension liability		**212,934**	203,816
Pension liability	*11*	**(4,110)**	(29,500)
Net assets including pension liability		**208,824**	174,316

NPIL Hold Co Limited
Consolidated Balance sheet (continued)
at 31 March 2006

	Note	2006 £000	2005 Restated £000
Capital and reserves – Equity			
Called up share capital	*27*	100,010	100,010
Share premium account		98,312	98,312
Profit and loss account	*28*	10,266	(24,242)
Total shareholders' funds	*29*	208,588	174,080
Equity minority interests	*30*	236	236
Capital employed		208,824	174,316

The financial statements on pages 8 to 47 were approved by the board of directors on 27 February 2007 and signed on its behalf by:

B Berry
Director

The notes on pages 14 to 47 form part of these financial statements. Auditors report – page 7

NPIL Hold Co Limited
Balance sheet
at 31 March 2006

	Note	2006 £000	2005 £000
Fixed assets			
Investments	*16*	**198,322**	198,322
Current assets			
Debtors: amounts falling due within 1 year	*19*	7	16
Current liabilities			
Creditors: amounts falling due within one year	*23*	**(243)**	(154)
Net current liabilities		**(236)**	(138)
Net assets		**198,086**	198,184
Capital and reserves – Equity			
Called up share capital	*27*	**100,010**	100,010
Share premium account		**98,312**	98,312
Profit and loss account	*28*	**(236)**	(138)
Total shareholders' funds	*29*	**198,086**	198,184

The financial statements on pages 8 to 47 were approved by the board of directors on 27 February 2007 and signed on its behalf by:

B Berry
Director

The notes on pages 14 to 47 form part of these financial statements

Auditors' report – page 7

Consolidated cash flow statement for the year ended 31 March 2006

	Note	2006 £000	2006 £000	2005 Restated £000	2005 Restated £000
Net cash outflow from operating activities	*31*		**(44,419)**		(303,839)
Returns on investments and servicing of finance					
Interest received		**1,953**		4,253	
Interest paid		**(15,562)**		(15,640)	
Other income received from investments		**387**		397	
Net cash outflow from returns on investments and servicing of finance			**(13,222)**		(11,387)
Taxation paid			**5,740**		(1,640)
Capital expenditure and financial investments					
Purchase of tangible fixed assets and investments		**(46,753)**		(3,012)	
Disposal of tangible fixed assets and investments		**6,581**		3,409	
Purchase of short-term investments		**(56,934)**		(102,701)	
Disposal of short-term investments		**145,820**		-	
Net cash outflow from capital expenditure and financial investments			**48,714**		(102,304)
Acquisitions and disposals					
Purchase of subsidiary undertakings		**-**		(80)	
Cash acquired with subsidiary undertakings		**-**		4,594	
Disposal of subsidiary undertakings		**-**		264,056	
Cash disposed of with subsidiary undertakings		**-**		(39,140)	
Purchase of shares in joint venture		**(26,359)**		-	
			(26,359)		229,430
Net cash outflow before management of liquid resources and financing			**(29,546)**		(189,343)
Financing					
Decrease in borrowing		**18,940**		(59,078)	
Issued share capital	*29*	**-**		100,000	
Net cash outflow from financing			**18,940**		40,922
Decrease in cash in the year			**(10,606)**		(148,421)
Reconciliation to net debt					
Net debt at 1 April	*32*		**(208,703)**		(897,760)
Decrease in net cash			**(10,606)**		(148,421)
Borrowings net of short term deposits acquired with subsidiaries			**-**		(170,064)
Borrowings disposed with subsidiaries			**-**		948,464
Movements on borrowings			**(18,940)**		59,078
Other non-cash charges			**(231)**		-
Net debt at 31 March	*32*		**(238,480)**		(208,703)

Notes to the financial statements

for the year ended 31 March 2006

1 Accounting policies

Basis of accounting

These accounts have been prepared under the historical cost convention and in accordance with the Companies Act 1985, applicable Accounting Standards issued by the Accounting Standards Board and the Statement of Recommended Accounting Practice (Accounting issues in the asset finance and leasing industry).

The directors have taken advantage of the exemption available under section 230 of the Companies Act 1985 and not presented a profit and loss account for the Company.

Changes in accounting policy

The Company has adopted FRS 17 "Retirement Benefits" which represents a change in accounting policy. The comparative figures have been restated accordingly. Details of the effect of the prior year adjustment are given in note 28 and in the pension costs note 11.

Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the Company and its subsidiary undertakings made up to 31 March 2006. Intra-group transactions are eliminated fully on consolidation.

The gross equity accounting method is used to consolidate investments in joint ventures.

Turnover

Financial services:

Turnover represents interest, commissions and fees receivable excluding value added tax. Similarly, any interest, commissions and fees paid in respect of trading activities are shown within cost of sales.

Charges made for instalment finance are brought into revenue using the sum of digits method.

Hotel, catering and retail services:

Turnover is defined as the amounts derived from the provision of goods and services falling within the Group's ordinary activity in the area of owning and operating hotels and motorway service stations.

Engineering services:

This is based on sales of goods and services at invoiced value less local sales taxes and excludes transactions between subsidiary undertakings.

Profit is recognised on long-term contracts, if the final outcome can be assessed with reasonable certainty, by including in the profit and loss account turnover and related costs as contract activity progresses. Turnover is calculated as that proportion of the total contract value which costs incurred to date bear to total expected costs for that contract.

Other operating income

Other operating income represents net profits from disposals of investments and income on debt and equity investments. In computing income in respect of equity investments, dividends on shares which carry an entitlement to a fixed amount or at a pre-determined rate are recognised in the period to which such income and dividends relate.

Notes to the financial statements

for the year ended 31 March 2006 (continued)

1 Accounting policies (continued)

Discontinued operations

Following the exit (sale) of Majestic Acquisitions Ltd and PD Ports Group Plc in the year ended March 2005, in accordance with FRS3 the group results arising from the related subsidiaries are included within discontinued operations in the profit and loss account in the year of sale.

Tangible fixed assets

Fixed assets are depreciated at rates considered reasonable to reduce the book value of the asset to its estimated future residual value over the expected useful life of the asset. Depreciation is provided at the following rates:

Office equipment	-	20% per annum on original cost
Furniture and fittings	-	10%- 33% per annum on original cost
Office improvements	-	20% per annum on original cost
Computer software	-	33% per annum on original cost
Leasehold improvements	-	20% per annum on original cost
Plant and machinery	-	6.66% - 20% per annum on original cost

No depreciation is charged on Construction in Progress.

No depreciation is provided for land or the freehold and long-leasehold property on the basis that the residual value is not expected to be materially different from the carrying value. An impairment review is carried out at the end of each year and expenses are charged to the profit and loss account when incurred.

Short leasehold land and buildings are depreciated over the unexpired term of the lease, where less than 50 years.

In respect of the hotels, expenditure on repairs and renewals is charged to the profit and loss account at the time of expenditure. Major refurbishment projects forming part of the planned programme of maintaining the properties in good repair are capitalised at cost under the appropriate asset category and depreciated in accordance with the accounting policy. Any net book value attributable to the asset being replaced is written off to the profit and loss account when the refurbishment takes place.

Financial instruments

Derivative instruments utilised by the Group are interest rate swaps and forward foreign currency exchange contracts. The Group does not enter into speculative derivative contracts. All such instruments are used for hedging purposes to alter the risk profile of an existing underlying exposure of the Group in line with the Group's risk management policies.

Derivatives used to hedge interest rate risk are taken to the profit and loss account in accordance with the accounting treatment of the underlying transaction that is being hedged. Hedge transactions, which cease to be effective or are terminated early, are measured at fair value and any profit and loss arising is recognised in full.

Notes to the financial statements

for the year ended 31 March 2006 (continued)

1 Accounting policies (continued)

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling monthly and recorded at the rate of exchange ruling at the date of translation.

Assets and liabilities at the balance sheet date denominated in foreign currencies have been translated into sterling at the market rates of exchange at that date and the exchange differences are recognised in the profit and loss account.

Exchange gains and losses arising on the translation of foreign currency borrowings used to finance foreign currency equity investments at the balance sheet date are taken to reserves and offset against the corresponding exchange gains and losses arising on the equity investments.

Leases

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis over the term of the lease.

Financing fees

Financing fees incurred in relation to borrowings are capitalised and amortised to the profit and loss over the term to maturity of the related debt. Debt is shown in the balance sheet at the amount of the net proceeds received after deduction of the capitalised financing fees.

Goodwill and intangible assets

Goodwill arising on consolidation as a result of the acquisition of a subsidiary undertaking is capitalised as an intangible fixed asset. The excess of the fair value of the consideration paid over the fair value of net assets acquired which is not otherwise allocated to individual assets and liabilities is determined to be goodwill and is amortised on a straight line basis over a period not exceeding 20 years.

The unamortised goodwill is subject to impairment review in accordance with FRS 11 "Impairment of fixed assets and goodwill".

Where goodwill has an indefinite useful life it is carried at fair value and as such is not amortised but is subject to an annual impairment review. This accounting treatment is a departure from the requirements of the Companies Act 1985 which would normally require amortisation and has been adopted as, in the opinion of the directors, it is necessary in order to present a true and fair view of the Group's results.

Fixed asset investments

Debt securities, equity shares and other similar interests intended to be held for the long term or to maturity are treated as fixed asset investments, and are valued at cost less provision for permanent diminution in value. The intention of holding each asset is regularly reviewed and if appropriate, the investment classification altered accordingly.

Current asset investments

All other debt securities, equity shares and other similar interests are treated as current asset investments and are valued at the lower of cost or net realisable value. The intention of holding each asset is regularly reviewed and if appropriate, the investment classification altered accordingly.

Notes to the financial statements
for the year ended 31 March 2006 (continued)

1 Accounting policies (continued)

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised to the extent that it is more likely than not there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured at the tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the accounts. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Pension costs

The Group operates a variety of schemes. The defined contribution schemes are accounted for by charging contributions payable for the year to the profit and loss account.

For defined benefit schemes, the operating cost of providing pensions, as calculated periodically by independent actuaries, is charged to the company's operating profit and loss in the period that those benefits are earned by the employees. The financial return expected on the schemes' assets is recognised in the period in which it arises as part of the finance income and the effect of unwinding the discounted value of the schemes' liabilities is treated as part of finance costs. The changes in the value of the schemes' assets and liabilities are reported as actuarial gains or losses as they arise in the statement of recognised gains and losses. The pension schemes' surplus or deficit is recognised in full and presented on the balance sheet net of any related deferred tax to the extent that any of these amounts are considered recoverable.

The above reflects a change in accounting policy. A prior year adjustment has therefore been made to reflect the change.

Stocks and work in progress

These are valued on bases which are consistent from one year to another, and which are specifically related to the individual operating activities. In general, stocks of raw materials, components, manufactured goods, purchases for resale and consumable stores are valued at the lower of cost and net realisable value. Work in progress on long-term contracts is valued to include a prudent portion of expected profit where this can be reliably foreseen. Where any contracts are expected to be unprofitable, full provision is made for anticipated losses.

Notes to the financial statements
for the year ended 31 March 2006 (continued)

2 Segmental reporting

A geographical analysis is not considered meaningful as all material business is conducted in the United Kingdom.

Net assets by class	2006 £000	2005 Restated £000
Engineering services	**17,557**	(11,030)
Financial services	**147,327**	152,413
Hotel, catering and retail - Group	**36,063**	25,955
	200,947	167,338
Hotel, catering and retail - Joint venture	**(13,779)**	6,978
Reinsurance - Joint venture	**20,656**	-
Property development - Joint venture	**1,000**	-
Net assets	**208,824**	174,316

Turnover and Profit and Loss by class	2006 Turnover £000	2005 Turnover £000	2006 Profit/(loss) before tax after goodwill £000	2005 Profit/(loss) before tax after goodwill Restated £000	2006 Profit/(loss) before tax before goodwill £000	2005 Profit/(loss) before tax before goodwill Restated £000
Engineering services	**46,105**	130,215	**5,523**	12,419	**5,523**	12,816
Financial services	**39,931**	76,172	**23,707**	(24,273)	**25,207**	(22,025)
Hotel, catering & retail - Group	**42,365**	7,552	**2,278**	(1,280)	**2,495**	(1,280)
	128,401	213,939	**31,508**	(13,134)	**33,225**	(10,489)
Hotel, catering & retail - Joint Venture	**154,127**	10,284	**(15,615)**	(1,676)	**(15,615)**	(1,676)
Reinsurance - Joint venture	**939**	-	**570**	-	**570**	-
Exceptional item	-		-	27,930	-	27,930
Exceptional expenses – Joint venture	-	-	**(5,144)**	-	**(5,144)**	-
	283,467	224,223	**11,319**	13,120	**13,036**	15,765

The exceptional expenses arising in the Joint venture relate to restructuring costs.

The exceptional item in 2005 relates to profit on the sale of operations. This profit is stated after a write-off of unamortised goodwill of £53,916,000.

Notes to the financial statements
for the year ended 31 March 2006 (continued)

3 Other operating income

	2006 £000	2005 £000
Profit on sale of investment	40,098	-
Dividends received	1,572	-
Net interest payable and similar items	41,670	-

On 12 September 2005 a subsidiary of the Company, Pall Mall Life Limited, sold its entire interest in the investment in Resolution Life Group, which had recently merged with the Britannic Group Plc involving a share for share exchange. The proceeds of this sale were £89,414,428 and this gave rise to a profit for the Group of £40,098,000.

4 Exceptional items

	2006 £000	2005 £000
Profit on sale of operations	-	27,930

During 2005, a profit was recognised on the sale of Majestic Acquisitions Ltd and on the sale of PD Ports plc.

There are no related tax charges included in the taxation charge within the profit and loss account because of losses available from Group relief.

	2006 £000	2005 £000
Restructuring expenses – Joint venture	(5,144)	-

During the year one of the joint venture companies, MSA Acquisitions Limited, embarked on a major outsourcing project and the Group share of the costs involved is stated above.

Notes to the financial statements
for the year ended 31 March 2006 (continued)

5 Interest and similar items

	2006 £000	2005 £000
Interest payable on bank loans and overdrafts	**(13,189)**	(6,910)
Amortisation of issue costs of bank loan	**(229)**	(736)
Interest payable on other loans	**(2,268)**	(7,088)
Interest payable to parent company	**(459)**	(1,497)
Group interest and similar charges	**(16,145)**	(16,231)
Share of joint venture interest payable	**(24,881)**	(1,764)
Total interest and similar charges payable	**(41,026)**	(17,995)
Group interest receivable	**1,953**	4,252
Net interest payable and similar items	**(39,073)**	(13,743)

6 Other finance income

	2006 £000	2005 Restated £000
Other finance income (see note 11)	**5,700**	3,700

7 Other finance costs

	2006 £000	2005 Restated £000
Other finance costs (see note 11)	**(93)**	(153)

8 Profit on ordinary activities before taxation

	2006 £000	2005 £000
Profit on ordinary activities before tax is stated after charging:		
Staff costs (note 10)	**42,206**	50,452
Depreciation of tangible fixed assets – owned assets	**4,670**	4,912
Amortisation of goodwill	**1,717**	2,645
Profit on disposal of current asset investments	**4,021**	-
Hire of machinery and equipment	**124**	289
Other operating lease rentals	**499**	122
Property lease rentals	**1,413**	
Audit services provided by firms other than Group auditor	**37**	175
Non-audit services provided by firms other than Group auditor	**69**	-

Notes to the financial statements

for the year ended 31 March 2006 (continued)

8 Profit on ordinary activities before taxation (continued)

Services provided by the Group's auditor and network firms

During the year the Group obtained the following services from the Group's auditor at costs as detailed below:

	2006	2005
	£000	£000
Group audit fees and expenses of which the parent Company's was £75,000 (2005: £55,000)	**374**	315
Tax services	**319**	144
Other services	**227**	43

9 Directors' emoluments

No directors received any emoluments as a result of the services provided to the Company. Three of the directors of the Company were directors of a subsidiary company (Nikko Principal Investments Limited) for the years ended 31 March 2006 and 31 March 2005 and of these, two received emoluments which are disclosed in that subsidiary's financial statements.

10 Employee Information

Staff costs for the Group during the year were as follows:

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Wages and salaries	**36,722**	44,182	-	-
Social security costs	**4,371**	3,961	-	-
Other pension costs (note 11)	**1,113**	2,309	-	-
	42,206	50,452	-	-

The average monthly number of people employed was as follows:

	Group		Company	
	2006	2005	**2006**	2005
Engineering services	**426**	946	-	-
Financial services	**129**	266	-	-
Hotel and catering	**1,260**	1,142	-	-
	1,815	2,354	-	-

Notes to the financial statements
for the year ended 31 March 2006 (continued)

11 Pensions

The group has established a number of pension schemes covering many of its employees. The principal funds are the PD Pension Plan and the Nikko Europe Plc Retirement and Death Benefit Plan (Nikko). In the financial statements for the year ended 31 March 2005, the figures for these funds were aggregated, and in the current year the comparative figures are shown separately because the deficit for the Nikko Plan has not been disclosed in accordance with FRS17 as explained below.

PD Pension Plan

Hewitt Bacon and Woodrow Limited and Watson Wyatt Worldwide valued the PD Pension Plan at 31 March 2003 using the projected unit method. This valuation has been rolled forward each year to 31 March 2006.

The principal assumptions made by the actuaries were:

	Assumption 2006 % p.a.	Assumption 2005 % p.a.
Rate of increase in salaries	**4.5**	4.4
Rate of increase in pension payments (Limited Price Indexation)	**2.0 -2.9**	2.0 – 2.8
Discount rate	**4.9**	5.4
Inflation	**3**	2.9

The assets and estimated liabilities of the pension schemes are shown below:

	2006 £000	2005 £000
Total fair value of assets	**487,090**	418,900
Present value of Plans' liabilities	**(491,200)**	(448,400)
Net pension liability	**(4,110)**	(29,500)

There is a potential deferred tax asset of £1,200,000 (2005: £8,900,000) which has not been recognised above as it is unlikely to be recoverable. This represents 30% of the deficit in the PD scheme.

The following table sets out the expected rates of return in different classes of assets together with the value of assets at the start and end of the accounting year.

	Long term expected rate of return at 31 March 2006	**Fair value at 31 March 2006 £000**	Long term expected rate of return at 31 March 2005	Fair value at 31 March 2005 £000
Equity	**7.25%**	**246,200**	7.75%	317,500
Property	**6.25%**	**-**	6.75%	15,400
Government bonds (gilts)	**4.25%**	**96,400**	4.75%	46,300
Corporate bonds	**4.65%**	**58,000**	5.15%	29,600
Other	**4.55%**	**86,490**	4.9%	10,100
Total		**487,090**		418,900

Notes to the financial statements
for the year ended 31 March 2006 (continued)

11 Pensions (continued)

The change in the financial position of the schemes can be broken down into the following areas:

	2006 £000	2005 £000
Deficit of scheme at beginning of the year	**(29,500)**	(27,100)
Current service cost (net of employee contributions)	**(10)**	(400)
Other finance income	**5,700**	3,700
Actuarial gain / (loss) (see below)	**19,700**	(5,700)
Deficit at the end of the year	**(4,110)**	(29,500)

Amounts that have been charged to the profit and loss account under FRS17 in respect of defined benefit scheme are as follows:

Operating profit	2006 £000	2005 £000
Current service cost	**(50)**	(1,800)
Employee contributions	**70**	2,100
Past service costs	**(30)**	(700)
Total operating charge	**(10)**	(400)

Credit to finance income	2006 £000	2005 £000
Expected return on pension scheme assets	**29,100**	27,000
Interest on pension scheme liabilities	**(23,400)**	(23,300)
Net return	**5,700**	3,700

The amounts that have been recognised in the Statement of total recognised gains and losses under FRS17 in the year are:

	2006 £000	2005 £000
Actual return less expected return on scheme assets	**60,600**	14,400
Experience gains and losses arising on the scheme liabilities	**(3,300)**	(3,600)
Changes in assumptions underlying the present value of the scheme liabilities	**(37,600)**	(16,500)
Actuarial gain / (loss)	**19,700**	(5,700)

Notes to the financial statements
for the year ended 31 March 2006 (continued)

11 Pensions (continued)

History of experience gains and losses	**2006** **£000**	2005 £000
Difference between the actual and expected return on scheme assets:		
Amount (£'000)	**60,600**	14,400
Percentage of scheme assets	**12.4%**	3.4%
Experience gains and losses on scheme liabilities:		
Amount (£'000)	**(3,300)**	(3,600)
Percentage of scheme liabilities	**(0.7%)**	(0.8%)
Total amount to be recognised in Statement of total recognised gains and losses:		
Amount (£'000)	**19,700**	(5,700)
Percentage of scheme liabilities	**4.0%**	(1.3%)

Nikko Europe Retirement and Death Benefits Plan

The Company is the Principal Employer in the Nikko Europe plc Retirement and Death Benefits Plan ("the Plan"), which is a funded defined benefit scheme. There are no active employees remaining in the Plan which is in the process of being wound up. The assets are held in a separate fund administered by Independent Pension Trustees Limited. The defined benefit scheme is closed to new recruits. Employees are not required to contribute to either scheme. The Directors of the Company have reviewed the funding position of the Plan and the assets expected to be realised from the other group companies that are participating employers in the Plan. On this basis, no liability for the Company is expected to arise. The disclosures given below in accordance with FRS17 are therefore provided in the context of the Company having a contingent liability only in the event that the assets of the other participating employers realised on liquidation are insufficient to cover the deficit required to be covered by the participating employers. The Company has therefore not booked the FRS17 amounts described below in the financial statements, but has disclosed them in the context of a contingent liability.

No contributions were made to the defined benefit scheme (2005: nil). The latest full update to the last actuarial valuation of the scheme was performed by firstactuarial at 31 March 2006 by performing an accurate calculation of the Plan's liabilities and comparing them to the Plan assets.

The valuation indicated that the Plan is in deficit to the extent of £3,213,000 in accordance with the requirements of FRS 17. The Company has elected not to book the FRS17 deficit as the scheme is in wind up and it is anticipated that the wind up will be completed in the forthcoming financial year. It is not anticipated that the Company will be required to make any contribution to the Plan prior to wind up.

Notes to the financial statements

for the year ended 31 March 2006 (continued)

11 Pensions (continued)

	Assumption 2006	Assumption 2005
Rate of increase in pension payments (Limited Price Indexation)	**3.0%**	3.0%
Rate of increase of pensions in deferment	**3.0%**	3.0%
Discount rate	**4.9%**	5.4%
Inflation	**3.0%**	3.0%

The assets and estimated liabilities of the pension scheme are shown below:

	2006 £000	2005 £000
Total market value of assets	**26,409**	22,449
Present value of Plan liabilities	**(29,622)**	(25,310)
Deficit in Plan	**(3,213)**	(2,861)
Related deferred tax asset	**-**	-
Net pension liabilities	**(3,213)**	(2,861)

The following table sets out the expected rates of return in different classes of assets together with the value of assets at the start and end of the accounting period:

	Long term expected rate of return 31/3/2006	**Value at 31/3/2006 £000**	Long term expected rate of return at 31/3/2005	Value at 31/3/2005 £000
Gilts	**4.3%**	**24,622**	4.7%	22,449
Cash	**4.5%**	**1,787**	4.7%	-
Total	**4.31%**	**26,409**		22,449

Notes to the financial statements
for the year ended 31 March 2006 (continued)

11 Pensions (continued)

The change in the financial position of the scheme can be broken down into the following areas:

	2006	2005
	£000	£000
Deficit at the beginning of the year	**(2,861)**	(1,281)
Current service cost (net of employee contributions)	**(320)**	(490)
Contributions by other Group member companies	**1,500**	-
Past service costs	**-**	-
Other finance income (see below)	**(318)**	(256)
Actuarial loss (see below)	**(1,214)**	(834)
Deficit at the end of the year	**(3,213)**	(2,861)

The cost of benefits accruing over the accounting year has been taken as zero as the Plan is currently in the process of winding up, and no further benefits are accruing in the Plan. The projected actuarial valuation at 31 March 2006 showed an increase in the deficit from £2,861,000 to £3,213,000. This was primarily due to a reduction in corporate bond yields over the year, together with expenses associated with the wind-up of the Plan being met from the Plan assets, offset by allowance for £1.5 million being a once off contribution to be made by a previous employer to the Plan to meet past and future wind-up expenses.

Analysis of amounts which would have been charged to operating profit	**2006**	2005
	£000	£000
Current service cost (net of employee contributions)	**320**	490
Past service costs	**-**	-
Total operating charge	**320**	490

Analysis of amounts which would have been charged to other finance income	**2006**	2005
	£000	£000
Expected return on pension scheme assets	**1,041**	1,011
Interest on pension scheme liabilities	**(1,359)**	(1,267)
Net return	**(318)**	(256)

Notes to the financial statements
for the year ended 31 March 2006 (continued)

11 Pensions (continued)

The amounts that would have been recognised in the statement of total recognised gains and losses ("STRGL") had FRS17 been applied in full for the accounting year are estimated to be:

	2006	2005
	£000	£000
Actual return less expected return on pension scheme assets	**2,027**	316
Experience gains and losses arising on the scheme liabilities	**(2)**	63
Changes in assumptions underlying the present value of the scheme liabilities	**(3,239)**	(1,213)
Actuarial loss	**(1,214)**	(834)

History of experience gains and losses

	2006	2005	2004
	£000	£000	£000
Difference between the actual and expected return on scheme assets:			
Amount (£'000)	**2,027**	316	925
Percentage of scheme assets	**7.7%**	1.4%	4.2%
Experience gains and losses on scheme liabilities:			
Amount (£'000)	**(2)**	63	(639)
Percentage of scheme liabilities	**0.0%**	0.2%	(2.8%)
Total amount which would be recognised in Statement of total recognised gains and losses had the deficit been booked:			
Amount (£'000)	**(1,214)**	(834)	(247)
Percentage of scheme liabilities	**(4.1%)**	(3.3%)	(1.1%)

Defined contribution schemes

In addition to the above schemes, the Group operates a number of defined contribution schemes in the UK. The assets and liabilities are not material to the Group accounts and have been excluded from any disclosures. Contributions paid to these schemes totalled £551,000 for the year (2005: £620,000).

Notes to the financial statements

for the year ended 31 March 2006 (continued)

12 Tax on profit on ordinary activities

	Group	
Analysis of credit during the year	**2006**	2005
	£000	£000
United Kingdom		
Corporation tax at 30%	**1,500**	(529)
Adjustment in respect of prior periods	**(2,277)**	(660)
	(777)	(1,189)
Foreign tax		
Corporation tax	**25**	1,226
Adjustments in respect of prior periods	**(469)**	-
	(444)	1,226
Total Current Tax	**(1,221)**	37
Deferred tax		
Origination and reversal of timing differences:		
- Arising on deferred tax asset – note 20	**(1,393)**	(2,611)
- (Reversing from)/arising on deferred tax liability – note 26	**(37)**	598
Tax credit on profit on ordinary activities	**(2,651)**	(1,976)

The tax for the year is different from the standard rate of corporation tax in the UK (30%) as explained below:

	2006	2005 Restated
	£000	£000
Profit on ordinary activities before tax	**11,319**	13,120
Profit on ordinary activities multiplied by the standard tax rate of corporation tax in the UK	**3,395**	3,936
Effects of:		
Adjustment in respect of previous periods	**(2,746)**	(660)
Expenses not deductible for tax purposes	**5,897**	1,763
Adjustment in respect of foreign taxes	**-**	303
Pension cost charge in excess of pension relief	**(1,710)**	-
Profit on sale of current asset investments	**(11,882)**	(14,017)
Depreciation for the period in excess of capital allowances	**(681)**	253
Non-taxable income	**(1,902)**	(1,557)
Other timing differences	**-**	2,844
Deferred tax asset not recognised on losses	**-**	2,580
Losses not available for utilisation or group relief	**9,407**	4,592
Tax life expired	**(450)**	-
Other	**(549)**	-
Current tax on profit on ordinary activities	**(1,221)**	37

Notes to the financial statements
for the year ended 31 March 2006 (continued)

13 Profit of the holding company

As permitted by Section 230 of the Companies Act 1985, the profit and loss account for the parent Company has not been included in these accounts. The loss after tax for the year to 31 March 2006 was £97,625 (2005: loss of £110,689).

14 Intangible fixed assets

	2006
	£000
Group	
Cost	
At 1 April 2005	17,690
Goodwill from acquisitions	9,311
At 31 March 2006	**27,001**
Aggregate amortisation	
At 1 April 2005	2,134
Charge for the year	1,717
At 31 March 2006	**3,851**
Net book amount at 31 March 2006	**23,150**
Net book amount at 31 March 2005	15,556

Goodwill of £ 4,244,000 has arisen in the year as a result of the revaluation of assets purchased with the Menzies Hotel Group in 2005 as detailed in note 15.

A further £5,067,000 of goodwill arose when a 40% interest in Catalina Holdings Inc was purchased in September 2005 which comprised the following:

	£000
Group share of fair value of net assets	20,293
Goodwill	5,067
Consideration paid	25,360

Notes to the financial statements

for the year ended 31 March 2006 (continued)

15 Tangible fixed assets

Group

	Freehold land & buildings	Leasehold land & buildings	Plant & machinery	Fixtures & fittings	Assets under Construction	Total
	£000	£000	£000	£000	£000	£000
Cost						
At 1 April 2005	79,749	22,903	7,684	34,518	-	144,854
Additions at cost	28,441	427	3,734	9,384	31	42,017
Disposals	(2,281)	-	(140)	(9,225)	-	(11,646)
Revaluations	(3,315)	(929)	-	-	-	(4,244)
At 31 March 2006	102,594	22,401	11,278	34,677	31	170,981
Accumulated depreciation						
At 1 April 2005	-	691	1,677	15,626	-	17,994
Charge for the year	-	306	813	3,551	-	4,670
Disposals	-	-	(76)	(8,897)	-	(8,973)
At 31 March 2006	-	997	2,414	10,280	-	13,691
Net book value						
At 31 March 2006	**102,594**	**21,404**	**8,864**	**24,397**	**31**	**157,290**
At 31 March 2005	79,749	22,212	6,007	18,892	-	126,860

The Company holds no tangible fixed assets.

The revaluation relates to hotel assets of the Menzies Hotel Group which were purchased in 2005, and found to have been overvalued at the date of purchase. Therefore, the goodwill on acquisition has been adjusted to reflect this, as stated in note 14.

Group:	**2006**	2005
Analysis of net book value of leasehold land and buildings	**£000**	£000
Long leasehold: at least 50 years unexpired	**17,930**	19,489
Short leasehold: less than 50 years unexpired	**3,474**	2,723
At 31 March	**21,404**	22,212

Notes to the financial statements

for the year ended 31 March 2006 (continued)

15 Tangible fixed assets (continued)

Net book value of furniture and fittings held under finance leases is £nil (2005: £nil). The related depreciation charged during the year amounts to £nil (2005: £nil) and the accumulated depreciation at the end of the year is £55,894 (2005: £59,714).

16 Fixed Asset Investments

	2006	2005
	£000	£000
Group		
Cost:		
At 1 April	**17,549**	14,719
Additions	**4,736**	4,317
Disposals	**(3,908)**	(1,446)
Revaluation	**(490)**	(41)
At 31 March	**17,887**	17,549

The investments held at 31 March 2006 comprise listed and unlisted investments. The listed investments with a cost of £2,151,560 (2005: £2,151,560) are listed on the Alternative Investment Market and had a market value of £5,162,584 (2005: £1,903,826) at 31 March 2006. The unlisted investments with a cost of £15,351,110 (2005: £15,397,146) are valued by the directors at £15,351,110 (2005:£18,091,603) at 31 March 2006.

The Group's principal operating subsidiaries are:

Subsidiary	**Activity**	**Ownership %**	**Country of Incorporation**
Nikko Principal Investments Limited	Investment company	100	UK
Pall Mall Healthcare Limited	Holding company	100	UK
Prestige Acquisitions Limited	Holding company	100	UK
Hamworthy Combustion Engineering Limited	Engineering	100	UK
Powell Duffryn Limited	Holding company	100	UK
British Credit Trust Limited	Finance provider	100	UK
Menzies Hotels Group Limited	Hotel Group	80.4	UK
NPI Ventures Limited	Investment company	100	UK

Foreign exchange exposure on foreign currency equity investments and debt are managed using currency swaps hedging future foreign currency flows into sterling as detailed in note 25.

Notes to the financial statements

for the year ended 31 March 2006 (continued)

16 Fixed Asset Investments (continued)

Company	2006 £000	2005 £000
Cost:		
At 1 April	**198,322**	98,322
Additions – shares in Group undertakings	-	100,000
At 31 March	**198,322**	198,322

Investments in Group undertakings are stated at cost. All the investments held at 31 March 2006 are unlisted with a directors' valuation of £198,321,606 (2005: £198,321,606).

The Company increased its investment in its subsidiary, Nikko Principal Investments Ltd, in the 2005 financial year by way of subscribing for an additional 100,000,000 ordinary £1 shares at par to provide additional investment capital.

17 Stock

	Group	
	2006 £000	2005 £000
Raw materials	**1,959**	2,684
Work in progress	**1,624**	2,422
Finished products	**1,008**	368
	4,591	5,474
Less: payments on account	**(33)**	(3)
	4,558	5,471

The replacement cost of stocks and work-in-progress does not differ materially from the actual cost shown above.

The company held no stock at 31 March 2006 (2005: £Nil).

18 Debtors

	Group		Company	
Amounts falling due after one year	**2006 £000**	2005 £000	**2006 £000**	2005 £000
Trade debtors	**84,009**	74,994	-	-
Amounts due from group companies – note 36	**43,495**	39,758	-	-
Deferred financing costs	**6,970**	4,877	-	-
Other debtors	**213**	131	-	-
Prepayments and accrued income		-	-	-
	134,687	119,760	-	-

Notes to the financial statements
for the year ended 31 March 2006 (continued)

19 Debtors

	Group		Company	
	2006	2005	**2006**	2005
Amounts falling due within one year	**£000**	£000	**£000**	£000
Trade debtors	**83,682**	45,749	-	-
Amounts due from group companies – note 36	**121**	80	-	-
Amounts due from joint ventures	**38,400**	38,398	-	-
Deferred financing costs	**2,835**	2,436	-	-
Other debtors	**3,255**	4,059	-	-
Prepayments and accrued income	**1,950**	2,381	7	16
Deferred tax asset - note 20	**4,130**	2,737	-	-
	134,373	95,840	7	16

20 Deferred tax asset

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Deferred tax asset comprises:				
Accelerated capital allowance	**140**	104	-	-
Short-term timing differences	**3,990**	2,633	-	-
	4,130	2,737	-	-
At 1 April	**2,737**	126	-	-
Tax credit for the year – note 12	**1,393**	2,611	-	-
At 31 March	**4,130**	2,737	-	-

21 Current asset investments

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Valuation:				
At 1 April	**122,672**	557	-	-
Additions	**56,934**	102,701	-	-
Acquired with subsidiary company	-	19,573	-	-
Revaluations	-	(159)	-	-
Disposals	**(101,701)**	-	-	-
At 31 March	**77,905**	122,672	-	-

Notes to the financial statements
for the year ended 31 March 2006 (continued)

21 Current asset investments (continued)

Current asset investments comprise unlisted investments (2005: listed and unlisted investments). The unlisted investments, with a cost of £78,904,689 (2005: £70,287,138) are valued by the directors at £78,904,689 (2005: £70,287,138) at 31 March 2006. In 2005 the listed investments with a cost of £52,385,000 were listed on the London Stock Exchange and had a market value of £56,575,800) at 31 March 2005.

The investment of £19,572,673 acquired in 2005 with the subsidiary comprises loan notes issued to a joint venture.

Joint ventures

Company and principal activity	Country of Incorporation	Details of Shares held	Sharehold'g of Group	Sharehold'g of Company
MSA Acquisitions Limited – Motorway service station operation	UK	£1 ordinary	0%	0%
Catalina Holdings Limited – property and casualty reinsurance	Bermuda	$0.001 Class A redeemable	40%	0%
Regeneration Capital Limited – property investment and management	UK	£0.01 Class B ordinary	50%	0%

MSA Acquisitions Limited is included in these accounts as the directors consider that the Group has significant influence over the entity.

The shares in Catalina Holdings Limited entitle the Group and other shareholders to priority of payment on liquidation, reduction of capital, redemption of shares, payment of dividends and on any sale.

22 Cash at bank and in hand

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Cash held for the benefit of employees	**32**	23	-	-
Cash at bank and in hand	**43,241**	53,907	-	-
	43,273	53,930	-	-

Cash held for the benefit of employees by the Nikko Principal Investments Limited Employee Benefit Trust is invested in a trust administered by The Royal Bank of Canada Trustees Limited. At 31 March 2006, the trust funds totalled £26,005 (2005: £17,305).

Cash held for the benefit of employees by the NPIL Employee Benefit Trust is administered by Ogier Employee Benefit Trustees Limited ("the Trustees"). At 31 March 2006, the trust funds totalled £5,886 (2005: £5,650).

Notes to the financial statements
for the year ended 31 March 2006 (continued)

23 Creditors: amounts falling due within one year

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Bank loans and other borrowings – see below	**147,619**	101,160	-	-
Amounts due to group undertakings – note 36	**33,671**	-	**168**	99
Amounts due to parent company – see below	**17,006**	67,144	-	-
Trade creditors	**13,498**	14,576	-	-
Corporation tax	**7,037**	2,518	-	-
Other tax and social security payable	**2,506**	1,628	-	-
Other creditors	**5,297**	43,760	-	-
Accruals and deferred income	**30,744**	17,935	**75**	55
	257,378	248,721	**243**	154

Bank loans do not include any amounts advanced from other Group undertakings. Amounts due to Group undertakings are unsecured and repayable on demand.

Analysis of debt	**2006** **£000**	2005 £000
Secured loans and overdrafts	**145,194**	98,379
Bank loans and overdrafts	**37**	87
Non-bank debentures and secured loans	**2,288**	2,694
Non bank unsecured loans	**100**	-
Short-term loans due to parent company	**17,006**	67,058
	164,625	168,218

Included in the amounts due within one year are the following:

(a) £143,395,000 of the loans from banks is secured by a fixed and floating charge over the assets of British Credit Trust Management Limited and by a charge over the shares of British Credit Trust Management Limited held by British Credit Trust Holdings Limited.

(b) £1,800,000 of the loans from banks is secured by legal charges on the hotel properties and interest is charged at LIBOR plus a margin based upon the ratio of borrowings to earnings.

(c) £2,288,000 of non-bank secured loans relate to loan notes which attract interest of 6 months LIBOR less 1% and are secured on cash collateral.

Notes to the financial statements
for the year ended 31 March 2006 (continued)

23 Creditors: amounts falling due within one year (continued)

Analysis of amount due to Group undertakings: 31 March 2006

Group

Maturity date			**Interest rate on loan advanced**	**Loan balance £000**
16 May 2006	JPY	3,495,200,000	0.8375%	**17,000**
Accrued interest				**6**
Amount due 31 March 2006				**17,006**

Company

Accrued expenses	**168**

Analysis of amount due to Group undertakings: 31 March 2005

Group

Maturity date			Interest rate on loan advanced	Loan balance £000
10 May 2005	JPY	13,118,600,000	0.80250%	67,000
Accrued expenses				86
Accrued interest				58
Amount due 31 March 2005				67,144

Company

Accrued expenses	99

Currency swaps are used to manage the interest and currency exposure on foreign borrowings.

24 Creditors: amounts falling due after one year

	Group		Company	
	2006 £000	2005 £000	**2006 £000**	2005 £000
Bank loans and other borrowings – see below	**117,128**	94,415	-	-
Amounts due to group undertakings – note 36	**5,133**	5,139	-	-
Other creditors	-	207	-	-
	122,261	99,761	-	-

Notes to the financial statements
for the year ended 31 March 2006 (continued)

24 Creditors: amounts falling due after one year (continued)

Analysis of debt:	Group 2006 £000	Group 2005 £000	Company 2006 £000	Company 2005 £000
Secured loans	**109,913**	88,650	**-**	-
Bank unsecured loans	**301**	-	**-**	-
Non-bank unsecured loans	**6,914**	5,765	**-**	-
	117,128	94,415	**-**	-

Included in the amounts falling due after one year are the following:

(a) £109,913,000 of the loans from banks is secured by legal charges on the hotel properties and interest is charged at LIBOR plus a margin based upon the ratio of borrowings to earnings.

(b) The non-bank unsecured loan attracts fixed-rate interest of 20% pa.

25 Derivatives and financial instruments

The main financial risks faced by the Group relate to interest rates. It has raised borrowings at both fixed and floating rates, and has used interest rate swaps to generate the desired interest rate profile and to manage its exposure to interest rate fluctuations. Its market risk comprises mainly interest rate exposures, but the directors consider that a rise or fall in interest rates would not have a material effect on its financial position. The Group's treasury activities principally relate to the investment of any surplus funds it may have, based on its forecast cash requirements and in accordance with its treasury policies. These policies prohibit the use of derivatives for speculation.

As permitted by FRS 13, the Group has excluded short-term debtors and creditors from its required disclosures.

Currency and interest rate profile of financial liabilities

A financial liability is defined as any liability that is a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial instruments with another financial entity.

The interest rate risk profile of the Group's financial liabilities at 31 March 2006, after taking account of the currency swaps used to manage the interest and currency profile was:

31 March 2006	**Total £000**	**Floating rate financial liabilities £000**	**Fixed rate financial liabilities £000**	**Financial liabilities on which no interest is paid £000**
Other loans	**281,753**	**257,395**	**23,920**	**438**
31 March 2005				
Other loans	262,633	189,810	72,823	-

Notes to the financial statements

for the year ended 31 March 2006 (continued)

25 Derivatives and financial instruments (continued)

All of the Group's financial liabilities were denominated in sterling. The weighted average period for which the fixed rate financial liabilities' rates are fixed is less than 1 year (2005: less than 1 year). The weighted average interest rate of the floating rate financial liabilities is 6.02% (2005: 6.08%).

Currency and interest rate risk profile of financial assets

A financial asset is defined as any asset that is to be received in cash, including cash at bank and short term deposits.

Currency	Total £000	Floating rate financial assets £000	Fixed rate financial assets £000	Financial assets on which no interest is received £000
Sterling	**57,150**	**21,014**	**35,797**	**339**
US Dollars	**(1,092)**	**(1,092)**	-	-
Euro	**(1,458)**	**(1,458)**	-	-
Other currencies	**169**	**169**	-	-
At 31 March 2006	**54,769**	**18,633**	**35,797**	**339**
Sterling	62,875	21,806	40,671	398
US Dollars	4,716	4,716	-	-
Euro	(183)	(183)	-	-
Other currencies	155	155	-	-
At 31 March 2005	67,563	26,494	40,671	398

Maturity of financial liabilities

The maturity profile of the carrying amount of the Group's financial liabilities at 31 March 2006 was as follows:

	Group		Company	
Maturity of debt:	**2006 £000**	2005 £000	**2006 £000**	2005 £000
Due for repayment				
In one year or less or on demand	**164,625**	168,218	-	-
In more than one year, but not more than two years	**1,800**	1,800	-	-
In more than two years, but not more than five years	**5,701**	5,400	-	-
In more than five years	**109,627**	87,215	-	-
	281,753	262,633	-	-

Notes to the financial statements

for the year ended 31 March 2006 (continued)

25 Derivatives and financial instruments (continued)

Borrowing facilities

The Group has the following undrawn committed borrowing facilities available at 31 March 2006 in respect of which all conditions precedent had been met at that date:

	Floating rate £000	**Fixed rate £000**	**Total 2006 £000**	Total 2005 £000
Expiring within 1 year	**1,606**	-	**1,606**	2,971
Expiring between 1 and 2 years	-	-	-	-
Expiring in more than 2 years	-	-	-	-
	1,606	-	**1,606**	2,971

Fair values of financial assets and financial liabilities

There are no significant differences between the carrying amounts and fair values of the Group's financial assets and liabilities at 31 March 2006. A comparison of the book values and fair values of the Group's borrowings and financial assets is set out below:

Primary financial instruments held or issued to finance the Group's operations	**Book value 2006 £000**	**Fair value 2006 £000**	Book value 2005 £000	Fair value 2005 £000
Short-term borrowing	**(164,625)**	**(164,625)**	(168,218)	(169,303)
Long-term borrowing	**(117,128)**	**(117,128)**	(94,415)	(94,415)
Investments	**11,496**	**11,496**	13,633	15,860
Cash and overdrafts	**43,273**	**43,273**	53,930	53,930
	(226,984)	**(226,984)**	(195,070)	(193,928)

Derivative financial instruments held to manage the interest rate and currency profile	**Book value 2006 £000**	**Fair value 2006 £000**	Book value 2005 £000	Fair value 2005 £000
Interest rate swaps	-	**(162)**	-	-
Forward foreign currency contracts	**(782)**	**(738)**	-	1,085
	(782)	**(900)**	-	1,085

Notes to the financial statements

for the year ended 31 March 2006 (continued)

25 Derivatives and financial instruments (continued)

Currency exposures

To mitigate the effect of currency exposures on the Group's foreign borrowings, the Group swaps its foreign borrowings into sterling using currency swaps.

The Group's only significant currency of operations is sterling. An analysis of the Group's foreign monetary assets is disclosed in the table headed Currency and interest rate risk profile of financial assets. The Group has no significant foreign monetary liabilities after taking into account the effect of currency swaps.

Gains and losses on hedges

The Company uses interest rate swaps to manage its interest rate and currency profiles. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures. An analysis of these unrecognised gains and losses is as follows:

	Gains £000	Losses £000	Total net £000
At 1 April 2005	1,085	-	1,085
Arising in previous year included in 2006 income	(1,085)	-	(1,085)
Gains (losses) arising in the year not yet recognised	43	(162)	(119)
Net gains (losses) on hedges at 31 March 2006	43	(162)	(119)
Of which:			
Gains (losses) expected to be included in 2007 income	43	(162)	(119)

Notes to the financial statements
for the year ended 31 March 2006 (continued)

26 Provisions for liabilities and charges

Group

	Deferred Tax £000	Claims and warranties £000	Other £000	Total £000
At 1 April 2005	5,132	6,390	796	12,318
Charged to the profit and loss account	(37)	(2,202)	(218)	(2,457)
Utilised in year	-	(516)	(414)	(930)
Reallocation from debtors and creditors	-	(363)	(105)	(468)
At 31 March 2006	**5,095**	**3,309**	**59**	**8,463**

	2006 £000	2005 £000
Provision for deferred tax comprises:		
Accelerated capital allowance	**4,857**	6,532
Other timing differences	**238**	(1,400)
	5,095	5,132

27 Called up share capital

	Group & Company 2006 £000	Group & Company 2005 £000
Authorised		
10,001,000,000 ordinary shares of 1p each	**100,010**	100,010
Allotted, called up and fully paid		
10,001,000,000 ordinary shares of 1p each	**100,010**	100,010

Notes to the financial statements
for the year ended 31 March 2006 (continued)

28 Profit and loss account reserve

	Group 2006 £000	Company 2006 £000
At 1 April 2005 as previously reported	**8,876**	(138)
Prior year adjustment	**(33,118)**	-
At 1 April 2005 as restated	**(24,242)**	(138)
Exchange adjustments	**1,045**	-
Retained profit (loss) for the year	**13,970**	(98)
Actuarial gain on pension scheme - Group	**19,700**	-
Unrealised losses on securities – Joint venture	**(207)**	-
At 31 March	**10,266**	(236)

Prior year adjustment
The prior year adjustment relates to the implementation of FRS17. The adoption of FRS17 has resulted in an increase in staff costs by £0.08m (2005: £0.4m), other finance income of £5.7m (2005: £3.3m), and other finance expenses of £0.1m (2005: £0.1m). The total recognised gains and losses increased by £19.7m (2005: decreased by £5.5m)

Analysis of prior year adjustment	£000
Adjustment to opening shareholders' funds at 1 April 2004 – pension liability	(30,718)
Adjustment to profit and loss for the year ended 31 March 2005	3,147
Adjustment to STRGL for the year ended 31 March 2005	(5,547)
Adjustment to opening shareholders' funds at 1 April 2005	(33,118)

Notes to the financial statements
for the year ended 31 March 2006 (continued)

29 Reconciliation of movements in shareholders' funds

	Group 2006 £000	Group 2005 Restated £000	Company 2006 £000	Company 2005 £000
At 1 April	**174,080**	64,418	**198,184**	98,295
Profit for the year	**13,970**	15,096	**(98)**	(111)
Net proceeds of issue of ordinary share capital	-	100,000	-	100,000
Exchange adjustments	**1,045**	113	-	-
FRS17 revaluation of pension liability - Group	**19,700**	(5,700)	-	-
FRS17 revaluation of pension liability – Joint venture	-	153	-	-
Unrealised losses on securities - Joint venture	**(207)**	-	-	
Shareholders' funds at 31 March	**208,588**	174,080	**198,086**	198,184

In 2005 10,000,000,000 shares were allotted at par value and fully paid to provide additional capital for the company.

30 Equity minority interests

	2006 £000	2005 £000
At 1 April	**236**	-
Minority interests acquired on purchase of subsidiary	-	236
At 31 March	**236**	236

Minority interests were acquired on purchase of Menzies Hotel Group.

31 Cash flow from operating activities

	Group 2006 £000	Group 2005 Restated £000
Continuing operations		
Operating profit / (loss)	**39,613**	(19,302)
Prior year adjustment to operating costs-FRS17 restatement	-	400
Depreciation charge	**4,670**	2,061
Profit on disposal of subsidiary	-	(27,930)
Profit on sale of investment assets	**(44,119)**	-
Goodwill amortisation	**1,717**	885
Investment revaluations	**454**	(1,696)
Movement in provisions	**(3,119)**	2,361
Continuing operations – carried forward	**(784)**	(43,221)

Notes to the financial statements

for the year ended 31 March 2006 (continued)

31 Cash flow from operating activities (continued)

	Group	Group
	2006	2005 Restated
	£000	£000
Continuing operations – brought forward	**(784)**	(43,221)
Net movement in exchange differences	**1,045**	113
Decrease in stocks	**913**	16,106
(Increase) in debtors	**(52,168)**	(104,859)
Increase in creditors	**6,575**	40,466
Net cash outflow from continuing operations	**(44,419)**	(91,395)
Discontinued operations		
Operating profit	-	41,980
Depreciation charge	-	2,851
Goodwill amortisation	-	1,760
Amortisation of government grants	-	(175)
Decrease in stocks	-	10,548
Increase in debtors	-	(253,206)
Decrease in creditors	-	(16,202)
Net cash outflow from discontinued operations	-	(212,444)
Total net cash outflow	**(44,419)**	(303,839)

32 Reconciliation of movement in net debt

	1 April 2005 £000	Cash flow £000	Capitalised issue costs £000	Year ended 31 March 2006 £000
Cash in hand and at bank	53,930	(10,657)	-	43,273
Overdrafts	(87)	50	-	(37)
Debt due after 1 year	(94,415)	(22,482)	(231)	(117,128)
Debt due within 1 year	(168,131)	3,543	-	(164,588)
	(208,703)	**(29,546)**	**(231)**	**(238,480)**

Notes to the financial statements

for the year ended 31 March 2006 (continued)

33 Capital and other commitments

Contracts placed for future capital expenditure not provided in the financial statements at 31 March 2006 amounts to £1,256,000 (2005: £3,356,000).

At 31 March 2006 the Group had no committed undrawn facilities (2005:Nil).

34 Contingent liabilities

Additional to the disclosure in note 11 detailing potential liability on the winding up of the Nikko Europe pension scheme, on 2 June 2004 a subsidiary of the Company gave a guarantee to the Trustees of a pension scheme of an investee company which allows the Trustees to call upon the subsidiary for a contribution to the scheme of up to a maximum amount of £50million in the event that certain triggers are met and the scheme is in deficit.

35 Subsidiary Undertakings

The principal operating subsidiaries are stated in Note 16.

36 Related party transactions

The company is controlled by Nikko Cordial Corporation. As 100% of the voting rights of the company are controlled within the group headed by Nikko Cordial Corporation, incoporated in Tokyo, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions with entities which form part of the group. The consolidated financial statements of Nikko Cordial Corporation, within which this company is included, can be obtained from the address given in Note 37.

As at 31 March, the amounts due by related parties were as follows:

	Group		**Company**	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Nikko Global Asset Management Limited	**-**	80	-	-
Prestige Acquisitions USA	**43,129**	39,691	-	-
Hamworthy Peabody Engineering Brazil	**-**	67	-	-
Hamworthy South Africa	**100**	-	-	-
Hamworthy Peabody Combustion Inc	**366**	-	-	-
Hamworthy Combustion Engineering Canada	**9**	-	-	-
British Credit Trust Limited	**12**	-	-	-
	43,616	39,838	-	-

Notes to the financial statements

for the year ended 31 March 2006 (continued)

36 Related party transactions (continued)

As at 31 March, the amounts due to related parties were as follows:

	Group		Company	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Nikko Securities Global Holdings	-	86	-	-
Hamworthy Peabody Combustion Inc	-	5,139	-	-
Hamworthy Combustion Engineering USA	**5,133**	-	-	-
Prestige Acquisitions USA	**33,344**	-	-	-
Nikko Principal Investments Limited	-	-	**168**	99
Powell Duffryn USA	**311**	-	-	-
Hamworthy Korea	**16**	-	-	-
	38,804	5,225	**168**	99

The Group enters into transactions at arms length with other members of The Nikko Cordial Group in the normal course of its business.

The Group has made use of the exemption in Financial Reporting Standard No.8 ("Related Party Disclosures") not to disclose transactions with other Nikko Group companies and investees of the Nikko Cordial Group qualifying as related parties.

37 Ultimate parent undertaking

The Company's parent company and ultimate controlling party is Nikko Cordial Corporation incorporated in Japan. This represents the smallest and largest group to consolidate the financial statements of the Company.

The consolidated accounts of Nikko Cordial Corporation are available from 6-5, Nihonbashi Kabuto-cho Chuo-ku, Tokyo 103-8825, Japan.

38 Post balance sheet events

In April 2006, through a wholly owned subsidiary called Pall Mall Finance Limited incorporated in the UK, NPIL successfully acquired a 68.6% shareholding in Cabot Financial Holdings Group ("Cabot"), the leading debt purchasing business in the UK. NPIL has invested £164,9 million in the form of loan note financing. NPIL intend building on the successful growth of the business in the UK and Continental European markets.

In August 2006, NPIL acquired an 85% holding in Clarity Credit Management Solutions Limited, a debt collection agency, through a wholly owned subsidiary, Pall Mall Collections Limited incorporated in the UK. NPIL actively supports management by providing financing to enable the continued development and growth of the business infrastructure.

In September 2006, NPIL acquired a controlling stake in the LifeBond Group for €6 million with a commitment to provide further finance to grow the business to a total of €50 million. The LifeBond Group is a Munich-based specialist funds manager and originator of US and German secondary life policies.

Notes to the financial statements

for the year ended 31 March 2006 (continued)

38 Post balance sheet events (continued)

In October 2006, NPIL successfully completed the sale of the Menzies Hotels business, the four star hotel chain, for proceeds of £180 million.

In November 2006, NPIL sold its 45.9% holding in the subordinated debt instruments of the Student Loans private purchasing vehicles for proceeds of £25 million.

In February 2007, NPIL's share in a subsidiary, Consumer Finance Acquisitions Company Limited, the BCT group holding company, was diluted by 18% as a result of a management incentivisation scheme.