

Prestbury Hotel Holdings Limited

Directors' Report and Financial Statements

Registered number 5237994

Period Ended 31 March 2006



Annual report and financial statements for the period ended 31 March 2006

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Directors

B S Anderson
S L Gumm
N M Leslau
J C McMahon

Secretary and registered office

S L Gumm, Cavendish House, 18 Cavendish Square, London W1G 0PJ

Company number

5237994

Auditors

BDO Stoy Hayward LLP, Emerald House, East Street, Epsom, Surrey KT17 1HS

Report of the directors for the period ended 31 March 2006

The directors present their report together with the audited financial statements for the period ended 31 March 2006.

Results and dividends

The results of the group for the period are set out on page 9 and show a loss after tax for the period of £1,764,474 (2005: profit £184,970).

The directors do not recommend the payment of a final ordinary dividend (2005: £nil).

The results relate to the period from 11 March 2005 to 31 March 2006.

Principal activities, review of business and future developments

The principal activity of the group is that of property investment in the United Kingdom.

On 14 March 2005, the authorised share capital of the company was increased to £120,000 by the creation of a further 110,000 ordinary shares of £1 each (see note 18).

Also on 14 March 2005, Prestbury Hotel Holdings Limited became the owner of 100% of the issued share capital of Prestbury Hotels Limited pursuant to a share for share exchange agreement with the existing shareholders of that company (see note 18). Effective from that date, Prestbury Hotels Limited and its subsidiary undertakings now form part of the enlarged Prestbury Hotel Holdings group.

Prestbury Hotels Limited and its subsidiaries owned £370 million of investment properties at the time of the agreement. Net liabilities at the time of the agreement, as adjusted for inherent capital gains tax and hedging break costs, were £59 million.

Also on the above date, the company entered into a group agreement with the bankers of Prestbury Hotels Limited to guarantee the bank loans made to that company.

On 13 April 2005, the group acquired investment properties for a total consideration of £7,220,000. This was financed by a non-recourse bank facility of £6,364,524, with the balance provided by existing cash resources.

On 5 May 2005, the group acquired a company for a consideration of £119,660 and injected a further £11,510,905 to enable it to repay its intercompany debt. This was financed by a non-recourse bank facility of £11,106,749, with the balance provided by existing cash resources.

Merger accounting has been adopted for the purposes of the preparation of the group's consolidated financial statements. Details of the policy in relation to this are set out in note 1 of the financial statements.

The group has commissioned a director's valuation of its real estate assets as at 31 March 2006. The UK property investment market is currently (and was at 31 March 2006) experiencing exceptionally high levels of demand, and this is amongst the factors reflected in the £99.4m valuation uplift in the period.

The directors are satisfied with the performance of the group in the period.

Report of the directors for the period ended 31 March 2006 (Continued)

Post balance sheet events

On 27 June 2006, in addition to current bank loans drawn of £360,626,529 at the time, a further amount of £48,000,000 was drawn under a new loan facility. The net proceeds were applied to repay £35,360,000 of loans from corporate shareholders with the surplus, after associated costs, advanced to shareholders as unsecured loans bearing interest at 8%.

Directors

The directors who held office during the period were:

S L Gumm	
N M Leslau	
J C McMahon	
I S MacIntosh	(resigned 26 July 2005)
B S Anderson	(appointed 28 July 2005)

No director had any interest in the share capital of the company during the period.

Principal risks and uncertainties - risk management objectives and policies

The management of risk is integral to the group's approach to running its property investment activities. The group utilises secured bank debt and shareholder loans to fund its property investment purchases. Cash resources generated from the group's operations, including those resulting from strict credit control over its short term debtors and creditors, are utilised in meeting the group's working capital requirements.

Set out below are the policies operated by the group for the management of the principal risks and uncertainties that it is exposed to in the conduct of its operations.

General treasury policy

The group enters into hedging instruments, such as interest rate swaps, to manage the interest rate risks arising from those operations and its sources of finance.

In addition, various financial instruments such as rental and other debtors and trade and other creditors arise directly from the group's operations.

All the group's operations are in the UK and it therefore has no currency risks.

Operations are predominantly financed by a mixture of non recourse bank borrowings and shareholders' loans. Bank loans are at fixed rates, by way of purchases of interest rate hedging products (swaps and swaptions) and are secured on the group's assets.

Working capital requirements are met principally by cash resources generated from the group's operations. Cash levels are monitored regularly to ensure sufficient resources are available to meet the group's short term and long term operational requirements. Short term money market deposits are used to manage liquidity whilst maximizing the rate of return on cash resources, giving due consideration to risk.

Details of interest rate swaps in use at 31 March 2006 are set out in note 16 to the financial statements. Details of bank and shareholder loan borrowings are set out in notes 14 and 15 to the financial statements.

Report of the directors for the period ended 31 March 2006 (*Continued*)

Policy in relation to interest rate risk

The group's policy is to substantially eliminate risk in respect of changes in interest rates such that over the longer term changes in interest rates will have a minimal impact on the reported results.

The group maintains internal guidelines for interest cover and gearing. Management monitor the group's current and projected financial position against these guidelines on a quarterly basis.

Policy in relation to liquidity risk

The group seeks to manage its liquidity risk by ensuring that sufficient liquidity is available to meet its foreseeable needs.

Efficient treasury management and strict credit control over rental debtors minimise the costs and risks associated with this policy, which ensures that funds are available to meet commitments as they fall due.

Policy in relation to credit risk

The group's principal financial assets are bank balances, short term deposits, rental debtors and other trade receivables, including VAT recoverable balances. The group's credit risk on short term deposits and hedging instruments is limited because the counterparties are banks with high credit ratings. The group's credit risk on rental debtors and other receivables is limited because of the high credit rating of the group's tenant base and other counterparties and the strict credit control applied.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

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

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

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

Report of the directors for the period ended 31 March 2006 (*Continued*)

Auditors

BDO Stoy Hayward LLP have expressed their willingness to continue in office. A resolution to re-appoint them will be proposed at the annual general meeting.

On behalf of the Board



S L Gurnam
Director

1 December 2006

Report of the independent auditors to the shareholders of Prestbury Hotel Holdings Limited

We have audited the group and parent company financial statements ("the financial statements") of Prestbury Hotel Holdings Limited for the period ended 31 March 2006 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the consolidated reconciliation of movements in shareholders' funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

Basis of audit opinion

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

Report of the independent auditors to the shareholders of Prestbury Hotel Holdings Limited

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's affairs as at 31 March 2006 and of the group's profit for the period then ended;
- the parent company's financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the parent company's affairs as at 31 March 2006; and
- have been properly prepared in accordance with the Companies Act 1985.



BDO Stoy Hayward LLP

Chartered Accountants and Registered Auditors

Epsom

1 December 2006

Consolidated profit and loss account for the period ended 31 March 2006

	Note	Period from 11 March 2005 to 31 March 2006 £	Period from 22 September 2004 to 10 March 2005 £
Turnover	2	27,481,417	8,832,468
Cost of sales - direct property costs		(609,985)	(10,424)
Gross profit		26,871,432	8,822,044
Administrative expenses		(326,179)	(165,300)
Operating profit	3	26,545,253	8,656,744
Interest receivable		204,078	146,591
Interest payable and similar charges	6	(26,072,279)	(8,537,029)
Profit on ordinary activities before taxation		677,052	266,306
Taxation on profit on ordinary activities	7	(2,441,526)	(81,336)
Retained (loss) / profit for the period	19	(1,764,474)	184,970

All amounts relate to continuing activities.

There was no difference between historical cost result and the reported result on ordinary activities for the current or preceding period.

There were no recognised gains or losses in either the current or preceding period other than as disclosed above.

The notes on pages 14 to 30 form part of the financial statements.

Consolidated reconciliation of movements in shareholders' funds for the period ended 31 March 2006

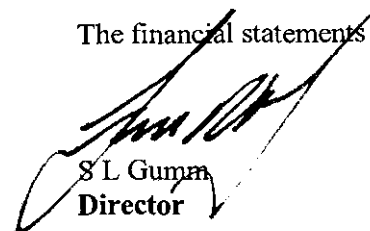
	Note	Period from 11 March 2005 to 31 March 2006 £	Period from 22 September 2004 to 10 March 2005 £
(Loss) / profit for the period		(1,764,474)	184,970
Revaluation surplus		99,398,403	-
Issue of shares	18	-	20,000
Net increase in shareholders' funds		97,633,929	204,970
Opening shareholders' funds		204,970	-
Closing shareholders' funds		97,838,899	204,970

The notes on pages 14 to 30 form part of these financial statements.

Consolidated balance sheet at 31 March 2006

	Note	31 March 2006 £	31 March 2006 £	10 March 2005 £	10 March 2005 £
Fixed assets					
Investment properties	9		491,795,000		370,511,717
Investment in gilts	10		9,802		9,802
			<u>491,804,802</u>		<u>370,521,519</u>
Current assets					
Debtors due within one year	12	172,197		3,322,551	
Debtors due after more than one year	12	-		2,284,800	
		<u>172,197</u>		<u>5,607,351</u>	
Cash at bank and in hand	13	9,300,252		5,636,525	
		<u>9,472,449</u>		<u>11,243,876</u>	
Creditors: amounts falling due within one year	14	(15,304,219)		(10,155,771)	
Net current (liabilities) / assets			<u>(5,831,770)</u>		<u>1,088,105</u>
Total assets less current liabilities			<u>485,973,032</u>		<u>371,609,624</u>
Creditors: amounts falling due after more than one year	15		(387,912,085)		(371,323,318)
Provision for liabilities	17		(222,048)		(81,336)
Net assets			<u><u>97,838,899</u></u>		<u><u>204,970</u></u>
Capital and reserves					
Called up share capital	18		20,000		20,000
Profit and loss account	19		(1,579,504)		184,970
Revaluation reserve	19		99,398,403		-
Shareholders' funds			<u><u>97,838,899</u></u>		<u><u>204,970</u></u>

The financial statements were approved by the Board and authorised for issue on 1 December 2006.


 S L Gumm
 Director

The notes on pages 14 to 30 form part of these financial statements.

Company balance sheet at 31 March 2006

	Note	31 March 2006 £	31 March 2006 £	10 March 2005 £	10 March 2005 £
Fixed assets					
Investment in subsidiary undertakings	11		20,000		10,000
Current assets					
Debtors due within one year	12	306		-	
Creditors: amounts falling due within one year	14	(143,333)		-	
Net current liabilities			(143,027)		-
Total assets less current liabilities			(123,027)		10,000
Creditors: amounts falling due after more than one year	15		(44,961)		-
Net (liabilities) / assets			(167,988)		10,000
Capital and reserves					
Called up share capital	18		20,000		10,000
Profit and loss account	19		(187,988)		-
Shareholders' (deficit) / funds			(167,988)		10,000

The financial statements were approved by the Board and authorised for issue on 1 December 2006.


S L Gumm
Director

The notes on pages 14 to 30 form part of these financial statements.

Consolidated cash flow statement for the period ended 31 March 2006

	Note	Period from 11 March 2005 to 31 March 2006 £	Period from 11 March 2005 to 31 March 2006 £	Period from 22 September 2004 to 10 March 2005 £	Period from 22 September 2004 to 10 March 2005 £
Net cash inflow from operating activities	22		36,438,318		3,032,578
Returns on investments and servicing of finance					
Interest received		204,097		146,573	
Interest and other financing costs paid		(23,667,207)		(6,022,896)	
Net cash outflow from returns on investment and servicing of finance			(23,463,110)		(5,876,323)
Capital expenditure and financial investment					
Payments to acquire investment properties		(10,095,570)		(19,836,247)	
Purchase of gilts		-		(9,802)	
			(10,095,570)		(19,846,049)
Cash outflow from acquisition of subsidiary undertakings			(11,793,688)		(348,134,737)
Cash outflow before financing			(8,914,050)		(370,824,531)
Financing					
Issue of shares for cash at par		-		20,000	
Bank loans drawn down net of loan issue costs		20,668,743		338,174,990	
Repayment of bank loans		(5,184,900)		-	
Shareholder loans (repaid) / drawn		(3,535,000)		38,895,000	
Cash inflow from financing			11,948,843		377,089,990
Increase in cash in the period	23		3,034,793		6,265,459

The notes on pages 14 to 30 form part of these financial statements.

Notes forming part of the financial statements for the period ended 31 March 2006

1 Accounting policies

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, and are in accordance with applicable accounting standards.

The principal accounting policies are:

Basis of preparation

On 14 March 2005, the shareholders of Prestbury Hotels Limited entered into a share exchange agreement with the company. Effective from that date, Prestbury Hotels Limited and its subsidiary undertakings now form part of the enlarged Prestbury Hotel Holdings Limited group.

The consolidated financial statements have been prepared in accordance with the group reconstruction principles of FRS 6 'Acquisitions and Mergers', using the merger accounting method for the combination of the group. Accordingly, the group's financial statements for the two periods ended 31 March 2006 and 10 March 2005 have been prepared as if the company had always been the parent company of the group. The profit and loss accounts and cash flow statements reflect the group's activities for each of the two periods ended 31 March 2006 and 10 March 2005 and the consolidated balance sheets present the group's state of affairs at the end of those periods.

Basis of consolidation

The consolidated financial statements incorporate the results of Prestbury Hotel Holdings Limited and all of its subsidiary undertakings as at 31 March 2006, using the merger or acquisition method of accounting as required. For investments in subsidiary undertakings accounted for using the acquisition method, their results are included from the date of their acquisition until the date of their disposal.

Merger accounting

Where merger accounting is used, the investment is recorded in the company's balance sheet at the nominal value of the shares issued together with the fair value of any additional consideration paid.

In the group financial statements, merged subsidiary undertakings are treated as if they had always been a member of the group. The results of such a subsidiary are included for the whole period in the year it joins the group. The corresponding figures for the previous year include its results for that period, the assets and liabilities at the previous balance sheet date and the shares issued by the company as consideration as if they had always been in issue. Any difference between the nominal value of the shares acquired by the company and those issued by the company to acquire them is taken to reserves.

Turnover

Turnover represents rents receivable from investment properties during the period, excluding value added tax.

Notes forming part of the financial statements for the period ended 31 March 2006 (*Continued*)

1 **Accounting policies** (*continued*)

Investment properties

Investment properties are included in the balance sheet at their open market value at the balance sheet date, on the basis of an annual valuation. Aggregate surpluses or deficits arising on revaluation are transferred to the revaluation reserve except where a deficit is deemed to represent a permanent diminution in the value, in which case it is charged directly to the profit and loss account.

Additions to investment properties include only costs of a capital nature. Costs such as interest and other property outgoings are treated as revenue expenditure and are written off as incurred.

In accordance with SSAP 19 (as amended), no depreciation or amortisation is provided in respect of freehold or leasehold investment properties. This treatment is a departure from the requirements of the Companies Act 1985 concerning depreciation of fixed assets. However, the group's investment properties are held not for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy is therefore necessary for the accounts to give a true and fair view. Depreciation or amortisation is only one of the factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that:

- deferred tax is not recognised on timing differences arising on revalued properties unless the group has entered into a binding sale agreement and is unable to utilise existing capital losses; and
- the recognition of deferred tax assets is limited to the extent that the group anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances arising from underlying timing differences in respect of tax allowances on hotel buildings are reversed if and when all conditions for retaining those allowances have been met.

Deferred tax balances are not discounted.

Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost. Any permanent diminution in value is written off to the profit and loss account.

Cash

For the purposes of the cash flow statement, cash comprises cash in hand and deposits repayable on demand.

Notes forming part of the financial statements for the period ended 31 March 2006 (Continued)

1 Accounting policies (continued)

Financial instruments

The group does not trade in derivative financial instruments. Hedging instruments are used to protect the group's exposure to movements in interest rates. Gains or losses are deferred until the related interest in the hedging instrument is realised.

Loan issue and hedging costs

Costs relating to the raising of bank loan facilities, including the costs associated with the purchase of hedging instruments, are amortised over the life of the loan or hedging instrument as appropriate and charged to the profit and loss account as part of the group's financing costs. The bank loans are disclosed net of the unamortised loan issue and hedging costs.

2 Turnover

Turnover is wholly attributable to the principal activity of the group and arises solely in the United Kingdom.

3 Operating profit

Period from 11 March 2005 to 31 March 2006 £	Period from 22 September 2004 to 10 March 2005 £
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This is arrived at after charging:

Auditors' remuneration	- audit services (company: £5,000 (2005: £nil))	63,501	22,000
	- non-audit services	8,657	18,000
		<u>72,158</u>	<u>40,000</u>

4 Employees

The average number of employees of the group during the period, excluding directors, was nil (2005: nil).

5 Directors

No director received any emoluments from the group during the period (2005: none).

Notes forming part of the financial statements for the period ended 31 March 2006 (Continued)

6 Interest payable and similar charges

	Period from 11 March 2005 31 March 2006 £	Period from 22 September 2004 to 10 March 2005 £
On bank loans	25,095,864	8,106,551
Amortisation of prepaid finance fees	725,885	244,171
Loan commitment fees	206,823	172,974
Agency fees	43,333	13,333
Other interest payable	374	-
	<u>26,072,279</u>	<u>8,537,029</u>

7 Taxation on profit from ordinary activities

	Period from 11 March 2005 31 March 2006 £	Period from 22 September 2004 to 10 March 2005 £
<i>UK corporation tax</i>		
Current tax on profits of the period	-	-
<i>Deferred tax</i>		
Origination and reversal of timing differences (note 17)	140,712	81,336
Amount provided against deferred tax asset in respect of acquired capital losses	2,300,814	-
	<u>2,441,526</u>	<u>81,336</u>
Taxation on profit on ordinary activities		

Notes forming part of the financial statements for the period ended 31 March 2006 (Continued)

7 Taxation on profit from ordinary activities (continued)

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

	Period from 11 March 2005 to 31 March 2006 £	Period from 22 September 2004 to 10 March 2005 £
Profit on ordinary activities before tax	677,052	266,306
Tax on ordinary activities at the standard rate of corporation tax in the UK of 30%	203,116	79,892
Effects of:		
Disallowed expenses	12,882	-
Hotel building allowances for the period	(1,912,563)	(541,496)
Losses brought forward and utilised	(564,158)	-
Losses available to carry forward	2,260,723	460,160
Other timing differences	-	1,444
Current tax charge for the period	-	-

Movements in deferred taxation asset (in respect of acquired capital losses)

	Group £
At 11 March 2005	2,284,800
Further acquisition costs incurred	16,014
Amount provided against deferred tax asset	(2,300,814)
At 31 March 2006 – included in debtors	-

8 Profit for the financial period

The company has taken advantage of the exemption allowed under section 230 of the Companies Act 1985 and has not presented its own profit and loss account in these financial statements. The group profit for the period includes a loss after tax of £187,988 (2005: £nil) which is dealt with in the financial statements of the parent company.

Notes forming part of the financial statements for the period ended 31 March 2006 (*Continued*)

9 Investment properties

Group	Leasehold land and buildings £	Freehold land and buildings £	Total land and buildings £
<i>Valuation</i>			
At 11 March 2005	101,236,043	269,275,674	370,511,717
Reclassification	(11,495,000)	11,495,000	-
Additions at cost	9,304,785	728,461	10,033,246
Additions arising through acquisition of subsidiaries in the period, at fair value, including associated costs	7,783,900	4,067,734	11,851,634
Surplus on revaluation	43,289,272	56,109,131	99,398,403
At 31 March 2006	150,119,000	341,676,000	491,795,000

At 31 March 2006 the group's investment properties were valued at £491,795,000 (2005: 370,511,717) on an open market basis by Nick Leslau BSc MRICS, a Chartered Surveyor and director of the company.

The historical cost of the properties to the group is £392,396,597 (2005: £370,511,717).

The group's investment properties are held as security by a fixed charge in respect of bank borrowings provided to a group undertaking.

10 Investment in gilts - group

	£
<i>At cost and net book value</i>	
At 11 March 2005	9,802
Additions during the period	-
At 31 March 2006	9,802

11 Investment in subsidiary undertakings – company

	£
<i>At cost and net book value</i>	
At 11 March 2005	10,000
Additions – shares in subsidiary acquired	-
Additions – acquired in exchange for shares in the company (note 18)	10,000
At 31 March 2006	20,000

Notes forming part of the financial statements for the period ended 31 March 2006 (*Continued*)

11 Investment in subsidiary undertakings – company (*continued*)

Subsidiary undertakings

The following were the principal subsidiary undertakings at the end of the period and have all been included in the consolidated financial statements:

Name	Country of incorporation	Proportion of voting rights and ordinary share capital held	Nature of business
Prestbury Hotels Limited	England	100%	Provision of finance to group companies
Prestbury Hotels Assets Limited	England	100%	Property investment*
Prestbury Hotels Two Limited	England	100%	Not active*
Prestbury Hotels Three Limited	England	100%	Investment
TLLC Bridgeco1 Limited	England	100%	Property investment**
TLLC Bridgeco2 Limited	England	100%	Property investment**
TLLC Bridgeco5 Limited	England	100%	Property investment**
TLLC Bridgeco6 Limited	England	100%	Property investment**
TLLC Cmpropco1 Limited	England	100%	Property investment**
TLLC Cmpropco2 Limited	England	100%	Property investment**
TLLC Cmpropco3 Limited	England	100%	Property investment**
TLLC Cmpropco4 Limited	England	100%	Property investment**
TLLC Cmpropco5 Limited	England	100%	Property investment**
TLLC Cmpropco8 Limited	England	100%	Property investment**
TLLC Cmpropco9 Limited	England	100%	Property investment**
TLLC Cmpropco10 Limited	England	100%	Property investment**
TLLC Cmpropco11 Limited	England	100%	Property investment**
TLLC Cmpropco12 Limited	England	100%	Property investment**
TLLC Levpropco2 Limited	England	100%	Property investment**
TLLC Levpropco8 Limited	England	100%	Property investment**
TLLC Levpropco9 Limited	England	100%	Property investment**
TLLC Levpropco10 Limited	England	100%	Property investment**

* Undertakings in which Prestbury Hotels Limited holds the group's 100% interest.

** Prestbury Hotels Limited holds the group's 100% interest and each of these companies acts as an intermediate parent company to a wholly owned subsidiary undertaking which undertakes property investment activities.

For all undertakings listed above, the country of operation is the same as its country of incorporation.

Notes forming part of the financial statements for the period ended 31 March 2006 (*Continued*)

12 Debtors

	Group 31 March 2006 £	Group 10 March 2005 £	Company 31 March 2006 £	Company 10 March 2005 £
<i>Due within one year</i>				
Trade debtors	611	-	-	-
VAT recoverable	-	2,690,900	306	-
Prepayments and accrued income	171,541	2,519	-	-
Other debtors	45	629,132	-	-
	<u>172,197</u>	<u>3,322,551</u>	<u>306</u>	<u>-</u>
<i>Due after one year</i>				
Deferred tax asset (note 7)	-	2,284,800	-	-
	<u>-</u>	<u>2,284,800</u>	<u>-</u>	<u>-</u>

13 Cash

Included within the group's cash balances at 31 March 2006 is £6,463,584 (2005: £25,609) (Company: £nil (2005: £nil)) of cash held in accounts held as security by the provider of the secured debt.

14 Creditors: Amounts falling due within one year

	Group 31 March 2006 £	Group 10 March 2005 £	Company 31 March 2006 £	Company 10 March 2005 £
Trade creditors	1,000	147,557	-	-
Other creditors	2,223,958	-	-	-
Accruals and deferred income	11,002,457	4,433,964	143,333	-
Current portion of secured bank debt (note 15)	2,076,804	2,049,250	-	-
Loan from a shareholder (unsecured)	-	3,525,000	-	-
	<u>15,304,219</u>	<u>10,155,771</u>	<u>143,333</u>	<u>-</u>

Notes forming part of the financial statements for the period ended 31 March 2006 (Continued)

15 Creditors: Amounts falling due after more than one year

	Group 31 March 2006 £	Group 10 March 2005 £	Company 31 March 2006 £	Company 10 March 2005 £
Secured bank loans	360,716,781	344,577,977	-	-
Prepaid finance fees	(6,087,892)	(6,575,409)	-	-
	<u>354,628,889</u>	<u>338,002,568</u>	<u>-</u>	<u>-</u>
Less secured debt due within one year (note 14)	(2,076,804)	(2,049,250)	-	-
	<u>352,552,085</u>	<u>335,953,318</u>	<u>-</u>	<u>-</u>
Shareholders' loans	35,360,000	35,370,000	-	-
Amounts due to subsidiary undertakings	-	-	44,961	-
	<u>387,912,085</u>	<u>371,323,318</u>	<u>44,961</u>	<u>-</u>

	31 March 2006 £	10 March 2005 £
Secured bank loans are due:		
Within one year	1,842,539	2,049,250
In more than one year but not more than two years	2,160,058	-
In more than two years but not more than five years	11,212,622	-
In more than five years but not more than ten years	345,501,562	342,528,727
	<u>360,716,781</u>	<u>344,577,977</u>

The bank loans are secured by charges over the investment properties held by the group, over the shares in the subsidiary undertakings and by fixed and floating charges over the assets of all the group companies.

The group's strategy in respect of the use of financial instruments is to hedge future interest rate risk for the term of the loan to ensure that expected loan balances are fully hedged.

The bank loans bear interest at 3 month LIBOR plus a lenders' blended margin. Interest has been fixed by way of purchases of interest rate hedging products (swaps and a swaption) which fix the interest rate payable at approximately 6.65%.

The shareholder loans are unsecured, non-interest bearing, and subordinated to the bank debt. These loans were repaid on 27 June 2006 with funds received from the refinancing of the bank loans as explained in note 28.

Notes forming part of the financial statements for the period ended 31 March 2006 *(Continued)*

16 Financial instruments

The following financial instruments were in place at 31 March 2006:

			31 March 2006 Market value loss pre-tax £	10 March 2005 Market value loss pre-tax £
	Protected Rate %	Expiry		
£358 million (2005: £313 million) amortising/accreting swap	5.04	October 2024	(26,686,000)	(4,048,000)
Total net loss pre tax			(26,686,000)	(4,048,000)
Total net loss post tax			(18,680,200)	(2,833,600)

The market value of the hedging portfolio changes with interest rate fluctuations, but the exposure of the group to movements in interest rates is protected by way of the hedging product listed above. In accordance with accounting standards, the valuations are struck using a mid-market interest rate. The valuation therefore does not reflect the cost or gain to the group of cancelling its interest rate protection at 31 March 2006, which is generally a marginally higher cost (or smaller gain) than a market valuation.

The group has taken advantage of the exemptions in the Financial Reporting Standard 13, "Derivatives and other financial instruments" whereby short-term debtors and creditors are excluded from the preceding disclosures. All monetary assets and liabilities are denominated in sterling.

17 Provision for liabilities

Details of the group's deferred tax liability are set out below:

	Group only £
At 11 March 2005	81,336
Charged to the profit and loss account	140,712
At 31 March 2006	222,048

Notes forming part of the financial statements for the period ended 31 March 2006 (*Continued*)

17 Provision for liabilities and charges (*continued*)

Analysis of deferred tax liability:

	Group		Company	
	31 March 2006		31 March 2006	
	Unprovided	Provided	Unprovided	Provided
	£	£	£	£
Hotel building allowances	6,934,606	2,514,504	-	-
Losses available to carry forward	(145,460)	(2,292,456)	-	-
Inherent capital gain arising on investment properties at valuation	81,315,687	-	-	-
	<u>88,104,833</u>	<u>222,048</u>	<u>-</u>	<u>-</u>

	Group		Company	
	10 March 2005		10 March 2005	
	Unprovided	Provided	Unprovided	Provided
	£	£	£	£
Hotel building allowances	6,730,000	541,496	-	-
Losses available to carry forward	-	(460,160)	-	-
Inherent capital gain arising on investment properties at valuation	48,193,000	-	-	-
	<u>54,923,000</u>	<u>81,336</u>	<u>-</u>	<u>-</u>

18 Share capital

	31 March	31 March	10 March	10 March
	2006	2006	2005	2005
	Number	£	Number	£
<i>Authorised</i>				
A ordinary shares of £1 each	12,000	12,000	1,000	1,000
B ordinary shares of £1 each	51,000	51,000	4,250	4,250
C ordinary shares of £1 each	33,000	33,000	2,750	2,750
D ordinary shares of £1 each	12,000	12,000	1,000	1,000
M ordinary shares of £1 each	12,000	12,000	1,000	1,000
	<u>120,000</u>	<u>120,000</u>	<u>10,000</u>	<u>10,000</u>

Notes forming part of the financial statements for the period ended 31 March 2006 (Continued)

18 Share capital (continued)

	31 March 2006 Number	31 March 2006 £	10 March 2005 Number	10 March 2005 £
<i>Allotted, called up and fully paid</i>				
A ordinary shares of £1 each	2,000	2,000	1,000	1,000
B ordinary shares of £1 each	8,500	8,500	4,250	4,250
C ordinary shares of £1 each	5,500	5,500	2,750	2,750
D ordinary shares of £1 each	2,000	2,000	1,000	1,000
M ordinary shares of £1 each	2,000	2,000	1,000	1,000
	<u>20,000</u>	<u>20,000</u>	<u>10,000</u>	<u>10,000</u>

Movements in authorised and allotted share capital:

On 14 March 2005, the company by written resolution increased its share capital to £120,000, by the creation of a further 110,000 £1 ordinary shares. These newly created shares were then re-designated into 11,000 A ordinary shares, 46,750 B ordinary shares, 30,250 C ordinary shares, 11,000 D ordinary shares and 11,000 M ordinary shares, all of £1 each. On the same date, a further 1,000 A ordinary shares, 4,250 B ordinary shares, 2,750 C ordinary shares, 1,000 D ordinary shares and 1,000 M ordinary shares were issued at par, on a pro-rata basis, to the existing shareholders. These shares were issued in exchange for the shareholders' interests in the 10,000 ordinary shares of £1 each in issue in Prestbury Hotels Limited at the time of the share exchange agreement.

Under merger accounting, the share capital in the consolidated balance sheet is shown as £20,000 at both balance sheet dates, as the shares issued in the year reflect the consideration given by the company for the shares acquired in Prestbury Hotels Limited.

Class rights:

All ordinary shares rank pari passu in relation to income and capital. Voting rights are pari passu for all shares except in relation to the procedure for the appointment and removal of directors.

19 Reserves

Group	Revaluation reserve £	Profit and loss account £
At 11 March 2005	-	184,970
Retained loss for the period	-	(1,764,474)
Unrealised surplus on revaluation of investment properties in the period	99,398,403	-
	<u>99,398,403</u>	<u>(1,579,504)</u>
At 31 March 2006		

Notes forming part of the financial statements for the period ended 31 March 2006 (Continued)

19 Reserves (continued)

Company	Profit and loss account £
At 11 March 2005	-
Retained loss for the period	(187,988)
	<hr/>
At 31 March 2006	(187,988)
	<hr/> <hr/>

20 Related party transactions

The aggregate loans due to shareholders are set out in notes 14 and 15.

Prestbury Investment Holdings Limited ("PIHL"), a shareholder in Prestbury Hotel Holdings Limited, has a 100% interest in PIHL Wentworth Manager Limited ("PIHLWML"). PIHLWML holds a 10% interest in the company. PIHLWML has agreed, pursuant to a Management Agreement dated 12 October 2004, as amended 14 March 2005, to provide investment and property management and other services to the group. PIHL has agreed to guarantee the performance by PIHLWML of its obligations under the agreement. No fees have been charged for these services.

Uberior Ventures Limited, a shareholder in Prestbury Hotel Holdings Limited at the balance sheet date, is a wholly owned group undertaking of HBOS plc (HBOS). The HBOS group provides banking facilities to the group.

The following is a summary of the significant transactions undertaken by the group with HBOS during the period and balances with HBOS as at 31 March 2006 and 10 March 2005:

	Period from 11 March 2005 to 31 March 2006 £	Period from 22 September 2004 to 10 March 2005 £
Profit and loss account		
Bank loan interest payable	24,005,869	7,924,888
	<hr/>	<hr/>
Financing costs amortised	605,187	200,835
	<hr/>	<hr/>
Other finance costs	1,296,818	354,637
	<hr/>	<hr/>
Bank interest receivable	203,499	69,853
	<hr/> <hr/>	<hr/> <hr/>

Notes forming part of the financial statements for the period ended 31 March 2006 *(Continued)*

20 Related party transactions *(continued)*

	31 March 2006 £	10 March 2005 £
Balance sheet		
Unamortised financing costs paid to HBOS	5,261,558	5,824,215
Bank loans falling due within one year	2,076,804	2,049,250
Bank loans falling due in greater than one year	358,639,977	342,528,727

All transactions with the HBOS group are undertaken on an arm's length basis.

21 Parent company and controlling party information

For the period to 31 March 2006, Prestbury Hotel Holdings Limited was a joint venture company and was not controlled by any one individual or entity.

22 Reconciliation of operating profit to net cash inflow from operating activities

	Period from 11 March 2005 to 31 March 2006 £	Period from 22 September 2004 to 10 March 2005 £
Operating profit	26,545,253	8,656,744
Decrease / (increase) in debtors	2,544,734	(2,693,598)
Increase / (decrease) in creditors	7,348,331	(2,930,568)
Net cash inflow from operating activities	36,438,918	3,032,578

Notes forming part of the financial statements for the period ended 31 March 2006 (Continued)

23 Reconciliation of net cash inflow to movement in net debt

	Period from 11 March 2005 to 31 March 2006 £	Period from 22 September 2004 to 10 March 2005 £
Increase in cash in the period	3,034,793	6,265,459
Cash inflow from increase in debt	(11,948,843)	(377,069,990)
	<u>(8,914,050)</u>	<u>(370,804,531)</u>
Non cash movements – prepaid finance fees	(1,142,478)	172,422
	<u>(10,056,528)</u>	<u>(370,632,109)</u>
Movement in net debt in the period	(10,056,528)	(370,632,109)
Net debt at start of period (note 24)	(370,632,109)	-
	<u>(380,688,637)</u>	<u>(370,632,109)</u>
Net debt at end of period (note 24)	(380,688,637)	(370,632,109)

24 Analysis of net debt

	At 11 March 2005 £	Cash flow £	Other non- cash changes £	At 31 March 2006 £
Cash at bank and in hand	5,636,525	3,034,793	628,934	9,300,252
Cash on deposit	628,934	-	(628,934)	-
Cash and liquid resources	6,265,459	3,034,793	-	9,300,252
Debt due after one year	(377,898,727)	(16,101,250)	-	(393,999,977)
Debt due within one year	(5,574,250)	3,497,446	-	(2,076,804)
Prepaid finance fees	6,575,409	654,961	(1,142,478)	6,087,892
Financing	(376,897,568)	(11,948,843)	(1,142,478)	(389,988,889)
Total	<u>(370,632,109)</u>	<u>(8,914,050)</u>	<u>(1,142,478)</u>	<u>(380,688,637)</u>

25 Acquisitions

The conditions set out in the purchase and sale agreement dated 15 October 2004 having been satisfied, on 5 May 2005, the group acquired TLLC Levpropco9 Limited (including its subsidiary company TLLC Levsubpropco9 Limited) for a total cash consideration payable of £119,660.

The fair values of the net assets acquired have been assessed and adjustments from book value have been made where necessary.

The acquisition of TLLC Levpropco9 Limited is not deemed to represent a substantial acquisition.

Notes forming part of the financial statements for the period ended 31 March 2006 (Continued)

25 Acquisitions (continued)

The acquisition of TLLC Levpropco9 Limited on 5 May 2005 is summarised in the following table:

Balance sheet	Total book value £	Fair value adjustments £	Fair value to the group £
Fixed assets			
Properties	11,790,000	748	11,790,748
Total assets	11,790,000	748	11,790,748
Deferred income	(159,435)	-	(159,435)
Other creditors – intragroup debt	(11,510,905)	-	(11,510,905)
Net assets	119,660	748	120,408
Cash consideration	119,660	-	119,660
Expenses of above acquisition			748
Total consideration including costs			120,408
Goodwill arising on acquisition			-

The revaluation of fixed assets relates to the assessed fair value of the properties on acquisition.

The net outflow of cash arising from the acquisitions was as follows:

Cash flow	Total book value £	Fair value adjustments £	Fair value to the group £
Settlement of intragroup indebtedness	11,510,905	-	11,510,905
Cash consideration (as above)			119,660
Acquisition costs paid in period			748
Net cash outflow			11,631,313

Notes forming part of the financial statements for the period ended 31 March 2006 (*Continued*)

26 Head lease rental commitments

Annual commitments to pay head lease rentals in respect of certain leasehold properties held as assets at the balance sheet date are as follows:

	Land and buildings	
	31 March 2006 £	10 March 2005 £
Expiry date:		
Within one year	-	-
Between 2 and 5 years	-	-
After 5 years	472,838	210,429
	<hr/>	<hr/>
	472,838	210,429
	<hr/>	<hr/>

Prestbury Hotel Holdings Limited and its subsidiaries have the right to recover the above costs from tenants.

27 Capital commitments

	31 March 2006 £	10 March 2005 £
Contracted but not provided for	1,400,000	-
	<hr/>	<hr/>

28 Post balance sheet events

On 27 June 2006, in addition to current bank loans drawn of £360,626,529 at the time, a further amount of £48,000,000 was drawn under a new loan facility. The net proceeds were applied to repay £35,360,000 of loans from corporate shareholders with the surplus, after associated costs, advanced to shareholders as unsecured loans bearing interest at 8%.