

THE TOWN HOUSE COMPANY LIMITED

Report and Financial Statements

31 October 2007

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THE TOWN HOUSE COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS 2007

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THE TOWN HOUSE COMPANY LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Peter J Taylor
Mhairi J Taylor
Hamish J Taylor
Iain P Taylor
Hans Rissmann
Douglas J Brotherston

SECRETARY

Mhairi J Taylor

REGISTERED OFFICE

35 Drumsheugh Gardens
Edinburgh
EH3 7RN

BANKERS

Bank of Scotland
38 St Andrew Square
Edinburgh
EH2 2YR

SOLICITORS

Bell & Scott WS
16 Hill Street
Edinburgh
EH2 3LD

INDEPENDENT AUDITORS

Deloitte LLP
Edinburgh, United Kingdom

THE TOWN HOUSE COMPANY LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 October 2007.

ACTIVITIES

The principal activities of the company are hotel management and catering.

REVIEW OF THE BUSINESS

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

Turnover grew over the previous year by 7.56% with strong volume and growth across all hotels within the company. Gross margin has remained stable at 57%. The profit for the year before tax has fallen to £222,370 (2006: £443,324) driven by an increase in administration expenses. The directors have not recommended a dividend in respect of the current year.

The company, and its subsidiary undertaking as detailed in Note 9, (together "the group") meets its day to day working capital requirements through an overdraft facility and cash flows generated from its trading activities. In their consideration of going concern, the directors have reviewed the group's future cash flow forecasts and associated risks; these forecasts extend for a period beyond one year from the date of approval of these financial statements. The group's heritable trading assets are funded by bank term loans which are subject to financial covenants and are secured over the group's fixed assets. The subsidiary undertaking's heritable asset is undergoing a major re-development into a premium hotel and leisure facility that is scheduled to be completed during October 2009 based on confirmed hand over schedules agreed with the main contractor. This asset and its subsequent re-development are funded through a structure of term, development and mezzanine loans provided by the bank intended to enable the development work to be completed and a period of trading to be established.

The collective facilities (described above) were approved by the bank and the board of directors for each entity on 17 June 2009. These facilities have terms that extend beyond the going concern foresight period with the exception of working capital facilities which fall due for review with the bank on 31 December 2009. In approving the collective facilities in June 2009 no matters have been drawn to the attention of the directors to suggest that renewal of the working capital facilities may not be forthcoming on acceptable terms. The mezzanine elements of the bank funding provided total £7.7m (principal). These amounts, in addition to the prescribed returns to the bank, will require to be refinanced by the group by 31 October 2010. The directors are currently considering a range of options in respect of alternative funding structures that they anticipate to conclude upon through the forthcoming year.

The directors acknowledge that current economic conditions create uncertainty particularly over the level of demand for the group's services. Nevertheless, the group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the group should be able to operate within the level of its current funding levels and associated financial covenants.

After making enquiries, the directors have a reasonable expectation that the group and the company have adequate resources to continue in operational existence for the foreseeable future. The financial statements have therefore been prepared on a going concern basis.

RISK MANAGEMENT

In common with most businesses, The Town House Company Limited goes to considerable lengths to ensure that the major risks faced by the company are identified and evaluated, and where possible, well managed and controlled.

This is a family owned company with the principal shareholder working full time within the business. The Board meets on a regular basis to discuss key issues affecting the company. The day to day management of the company is carried out by a senior management team who meet fortnightly under the chairmanship of the managing director and principal shareholder to deal with operational, financial and compliance issues. The risk profile of the company is reviewed at least once a year by the Board.

The principal operational risks are associated with the performance of each of the company's hotels. The company continues to focus investment in these hotels in order to continue successful penetration of the marketplace. The company is also dependent on the economic prosperity of the tourist and business tourist markets in which it sells, and it continues to monitor the risk in these areas.

THE TOWN HOUSE COMPANY LIMITED

DIRECTORS' REPORT

RISK MANAGEMENT (CONTINUED)

Through its wholly owned subsidiary, the company purchased and is in the process of refurbishing hotel facilities in Glasgow to create a new 100 bedroom boutique hotel that is scheduled to open in October 2009. The company has carried out significant market research to ascertain the need for such facilities. The company closely monitors the development of these facilities with regards to cost and development timescales.

As a result of the above the company actively maintains a mixture of long and short term debt finance designed to ensure it has sufficient funds available for its activities, and has a policy of stabilising interest costs at acceptable levels through a mixture of borrowing arrangements.

The company's principal financial assets are bank balances, cash and trade receivables. The company's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. The Board are of the opinion the company has no concentration of credit risk, with exposure spread over a large number of customers.

The Board of the company retains overall responsibility for the company's system of internal financial control, which is designed to give reasonable assurance against material financial misstatement or loss. Financial controls have been established which the Board believes enables it to meet its responsibility for the integrity and accuracy of the company's accounting records.

DIRECTORS

The directors who served the company during the year and to the date of this report were:

Peter J Taylor
Mhairi J Taylor
Hamish J Taylor
Iain P Taylor
Hans Rissmann (appointed 1 April 2008)
Douglas J Brotherton (appointed 1 April 2008)

INDEPENDENT AUDITORS

Each of the persons who are directors of the company at the date when this report is approved confirms that:

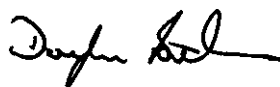
- so far as the director is aware, there is no relevant audit information (as defined in the Companies Act 1985) of which the company's auditors are unaware; and
- the director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Deloitte LLP have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Registered office:
35 Drumsheugh Gardens
Edinburgh
EH3 7RN

Signed by order of the directors



DOUGLAS J BROTHERTON
Company Secretary

Approved by the directors on 18/6/09.....

THE TOWN HOUSE COMPANY LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE TOWN HOUSE COMPANY LIMITED

We have audited the financial statements of The Town House Company Limited for the year ended 31 October 2007 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the 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 are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we 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 company's affairs as at 31 October 2007 and of its profit 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.

Sehottle LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
Edinburgh, United Kingdom

19 Apr 2009

THE TOWN HOUSE COMPANY LIMITED

PROFIT AND LOSS ACCOUNT Year ended 31 October 2007

	Note	2007 £	2006 £
TURNOVER	2	6,096,837	5,668,140
Cost of sales		(2,612,462)	(2,440,739)
GROSS PROFIT		<u>3,484,375</u>	<u>3,227,401</u>
Administrative expenses		(3,011,459)	(2,557,290)
OPERATING PROFIT	3	472,916	670,111
Interest payable and similar charges	6	(250,546)	(226,787)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>222,370</u>	<u>443,324</u>
Tax credit/(charge) on profit on ordinary activities	7	380,482	(117,612)
PROFIT FOR THE FINANCIAL YEAR	18	<u><u>602,852</u></u>	<u><u>325,712</u></u>

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

	2007 £	2006 £
Profit for the financial year attributable to the shareholders	602,852	325,172
Unrealised profit on revaluation of certain fixed assets	-	9,648,572
Total gains and losses recognised during the year and since the last annual report	<u><u>602,852</u></u>	<u><u>9,974,284</u></u>

THE TOWN HOUSE COMPANY LIMITED

BALANCE SHEET 31 October 2007

	Note	2007 £	2006 £
FIXED ASSETS			
Tangible fixed assets	8	25,724,790	25,692,506
Investments	9	100	100
		<u>25,724,890</u>	<u>25,692,606</u>
CURRENT ASSETS			
Stocks	10	32,347	36,417
Debtors			
- due within one year	11	556,152	261,448
- due after more than one year	11	4,398	171,866
Cash at bank and in hand		6,150	4,258
		<u>599,047</u>	<u>473,989</u>
CREDITORS: amounts falling due within one year	12	<u>(2,093,181)</u>	<u>(1,772,525)</u>
NET CURRENT LIABILITIES		<u>(1,494,134)</u>	<u>(1,298,536)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		24,230,756	24,394,070
CREDITORS: amounts falling due after more than one year	13	<u>(2,491,237)</u>	<u>(2,913,381)</u>
		21,739,519	21,480,689
PROVISIONS FOR LIABILITIES	15	<u>(331,510)</u>	<u>(675,532)</u>
NET ASSETS		<u>21,408,009</u>	<u>20,805,157</u>
CAPITAL AND RESERVES			
Called up share capital	17	100,000	100,000
Revaluation reserve	18	16,975,895	16,975,895
Other reserves	18	14,700	14,700
Profit and loss account	18	4,317,414	3,714,562
SHAREHOLDERS' FUNDS	18	<u>21,408,009</u>	<u>20,805,157</u>

These financial statements were approved by the Board of Directors on 16 June 2009.

Signed on behalf of the Board of Directors



P Taylor
Director

THE TOWN HOUSE COMPANY LIMITED

CASH FLOW STATEMENT Year ended 31 October 2007

	Note	2007 £	2006 £
Net cash inflow from operating activities	19	421,210	852,313
Returns on investments and servicing of finance	19	(250,546)	(226,787)
Corporation tax paid		(12,789)	-
Capital expenditure and financial investment	19	(169,846)	(79,258)
Acquisitions and disposals		-	(100)
Acquisitions of shares in group undertakings		-	(100)
Net cash outflow from acquisitions and disposals		-	(100)
Cash (outflow)/inflow before financing		(11,971)	546,168
Financing	19	(276,105)	(456,456)
(Decrease)/increase in cash	19	(288,076)	89,712

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 October 2007

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below and have been applied consistently throughout the current and prior year.

Basis of preparation

The financial statements are prepared under the historical cost convention as modified by the revaluation of heritable property.

The company's business activities, together with the factors likely to affect its future prospects, are discussed in the director's report on page two. After making enquiries, the directors have a reasonable expectation that the company and its subsidiary undertaking have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Consolidation

In the opinion of the directors, the company and its subsidiary undertakings comprise a medium group. The company has therefore taken advantage of the exemption provided by Section 248 of the Companies Act 1985 not to prepare group accounts. These financial statements present information for the company only and not the group as a whole.

Turnover

The turnover shown in the profit and loss account represents amounts invoiced during the year, exclusive of Value Added Tax.

Fixed assets

The company has adopted a valuation policy for heritable property. Heritable property is valued including trading potential. A full valuation of each property is carried out every five years by a qualified external valuer, with interim valuations every three years. The surplus or deficit on book value is transferred to the revaluation reserve. Other fixed assets are stated at cost net of depreciation and any provision for impairment.

Depreciation

No depreciation is provided on heritable property. The company follows a programme of regular refurbishment and maintenance of its heritable property, which includes the re-instatement of the fabric of the buildings, where necessary, in order to maintain them to a high standard. The costs of refurbishment and maintenance are charged to the profit and loss account as incurred. The directors review the value of heritable property annually and a provision is made for any impairment accordingly.

This policy is not in accordance with the Companies Act 1985. However, the directors consider that any depreciation arising would not be material to the company.

Depreciation is provided on all other tangible fixed assets at rates calculated to write off the cost of the assets over their expected useful lives as follows:

Furniture and equipment	- 10% per annum reducing balance and 25% per annum straight line
Motor vehicles	- 25 % per annum reducing balance

Investments

Investments are recorded at cost. The directors carry out a review annually and a provision is made for impairment accordingly.

Stocks

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

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 October 2007

1. ACCOUNTING POLICIES (CONTINUED)

Hire purchase agreements

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account on a straight line basis over the lease term.

Finance lease agreements

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated in accordance with the above depreciation policies. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account using the actuarial method, and the capital element which reduces the outstanding obligation for future instalments.

Taxation

Current tax, comprising UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

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 have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

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

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

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

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Pension contributions

The company operates a defined contribution pension scheme for all employees. Contributions to the scheme are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

2. TURNOVER

Turnover represents amounts derived from the provision of goods and services and is recognised when the goods and services have been provided. All amounts fall within the company's ordinary activities after deduction of Value Added Tax and arise in the United Kingdom.

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 October 2007

3. OPERATING PROFIT

	2007 £	2006 £
Operating profit is after charging/(crediting):		
Depreciation		
- on owned assets	120,688	104,593
- on assets under hire purchase contracts	16,874	21,234
Gain on sale of fixed assets	-	(1,250)
Auditors' remuneration	9,000	8,000
	<u> </u>	<u> </u>

4. PARTICULARS OF EMPLOYEES

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

	No	No
Number of staff	154	158
	<u> </u>	<u> </u>
	£	£
Staff costs during the year (including directors)		
Wages and salaries	2,223,687	2,160,137
Social security costs	200,620	174,029
Pension contributions	445,518	32,227
	<u> </u>	<u> </u>
	2,869,825	2,366,393
	<u> </u>	<u> </u>

5. DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were:

	2007 £	2006 £
Emoluments receivable	234,893	203,921
Value of company pension contributions to money purchase schemes	415,020	9,000
	<u> </u>	<u> </u>
	649,913	212,921
	<u> </u>	<u> </u>

One director participated in the company defined contribution pension scheme (2006 – 1). Details of transactions with directors are given in note 12.

The above details include the following amounts in respect of the highest paid director:

	2007 £	2006 £
Emoluments	207,353	191,921
Pension contributions	415,020	9,000
	<u> </u>	<u> </u>
	622,373	200,921
	<u> </u>	<u> </u>

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 October 2007

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2007 £	2006 £
Bank interest and charges	48,361	17,746
Hire purchase interest	5,417	3,324
Term loan interest	196,768	205,717
	<u>250,546</u>	<u>226,787</u>

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	2007 £	2006 £
Current tax:		
UK corporation tax	-	49,249
Adjustments in respect of prior periods	(36,460)	-
	<u>(36,460)</u>	<u>49,249</u>
Deferred tax (credit)/charge	<u>(344,022)</u>	<u>68,363</u>
Total tax (credit)/charge on profit on ordinary activities	<u>(380,482)</u>	<u>117,612</u>

The differences between the total current tax shown above and the amount calculated, by applying the standard rate of UK corporation tax to the profit before tax, is as follows:

	2007 £	2006 £
Profit on ordinary activities before tax	<u>222,370</u>	<u>443,324</u>
Tax charge on profit on ordinary activities at standard UK corporation tax rate of 30% (2006: 30%)	66,711	132,997
<i>Factors affecting charge for the year</i>		
Non deductible expenses	3,132	9,000
Utilisation of tax losses	-	(23,914)
Non taxable revenue	(508)	-
Movement in short term timing differences	1,900	(376)
Marginal rate adjustment	(24,461)	(14,575)
Capital allowances in excess of depreciation	(39,456)	(53,701)
Group relief claimed	(7,318)	-
Adjustment in respect of prior periods	<u>(36,460)</u>	<u>-</u>
Total actual amount of current tax	<u>(36,460)</u>	<u>49,249</u>

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 October 2007

8. TANGIBLE FIXED ASSETS

	Heritable property £	Furniture & equipment £	Motor vehicles £	Total £
Cost or valuation				
At 1 November 2006	24,500,000	2,984,839	60,858	27,545,697
Additions	-	169,846	-	169,846
	<u>24,500,000</u>	<u>3,154,685</u>	<u>60,858</u>	<u>27,715,543</u>
At 31 October 2007	24,500,000	3,154,685	60,858	27,715,543
Accumulated depreciation				
At 1 November 2006	-	1,801,158	52,033	1,853,191
Charge for the year	-	135,356	2,206	137,562
	<u>-</u>	<u>1,936,514</u>	<u>54,239</u>	<u>1,990,753</u>
At 31 October 2007	-	1,936,514	54,239	1,990,753
Net book value				
At 31 October 2007	<u>24,500,000</u>	<u>1,218,171</u>	<u>6,619</u>	<u>25,724,790</u>
At 31 October 2006	<u>24,500,000</u>	<u>1,183,681</u>	<u>8,825</u>	<u>25,692,506</u>

Hire purchase agreements

Included within the net book value of £25,724,790 is £50,084 (2006 - £66,958) relating to assets held under hire purchase agreements. The depreciation charged to the financial statements in the year in respect of such assets amounted to £16,874 (2006 - £21,234).

Heritable property

In September 2006 the directors obtained a valuation of the properties by Ryden, Chartered Surveyors. All valuations of heritable properties are on the basis of the properties as fully operational entities having regard to their trading potential. Notional acquisition costs included in the valuation are not material. The value of the properties is still, in the opinion of the directors, considered to be £24,500,000 at 31 October 2007.

In December 2008 the directors obtained a valuation of the properties by Colliers Robert Barry, Chartered Surveyors. The valuation report estimated the fair value of the heritable properties, including the fixtures and fittings within each property, to be £23,750,000.

Comparable amounts in respect of the revalued heritable property determined according to the historical cost convention are as follows:

	Heritable Property	
	2007	2006
	£	£
Cost	<u>7,524,105</u>	<u>7,524,105</u>

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 October 2007

9. INVESTMENTS

£

Blythwood Square Limited
(formerly known as Belsco 1026 Limited)

Cost

At 1 November 2006 and at 31 October 2007

100

The company owns 100% of the issued share capital of Blythwood Square Limited (formerly known as Belsco 1026 Limited), a company incorporated in Scotland. The company will provide hotel management and catering services upon completion of the building development as detailed below.

Its net liabilities at 31 October 2007 were £25,872 (2006 – assets of £2,965) and its loss for the period to 31 October 2007 was £28,837 (2006 - £2,865).

Blythwood Square Limited (formerly known as Belsco 1026 Limited) has purchased buildings in Glasgow and is in the process of refurbishing them to create a new, boutique hotel. The directors estimate that the redevelopment will cost approximately £27m (including the purchase of the building) and this will be funded by the company's bankers. There were no amounts contracted for or committed at the year end.

10. STOCKS

	2007 £	2006 £
Food and liquor	32,347	36,417

11. DEBTORS

	2007 £	2006 £
Due within one year:		
Trade debtors	382,488	178,095
Other debtors	134,852	66,488
Prepayments and accrued income	38,812	16,865
	<u>556,152</u>	<u>261,448</u>
Due after more than one year:		
Amounts due from subsidiary undertaking	4,398	171,866
	<u>560,550</u>	<u>433,314</u>

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 October 2007

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2007 £	2006 £
Bank overdraft	497,274	207,306
Bank loans	407,700	407,700
Trade creditors	358,729	407,867
Other taxation and social security	300,757	248,318
Corporation tax	-	49,249
Hire purchase agreements	16,317	20,278
Other creditors	133,135	87,361
Director's loan account	150,000	-
Accruals and deferred income	229,269	344,446
	<u>2,093,181</u>	<u>1,772,525</u>

The bank loans and overdraft are secured by a first standard security and bond and floating charge over the property and assets of the company. The loans bear interest of 1.5% to 2% over bank base rate and are repayable in equal monthly instalments with the last payment due on 1 October 2012.

Hire purchase and finance lease obligations are secured on the related assets.

During the year Mr P. Taylor, provided an interest free unsecured loan of £195,000 to the company. The balance due as at the year end is £150,000, the company having repaid £45,000 during the year.

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2007 £	2006 £
Bank loans	2,480,085	2,887,785
Hire purchase agreements	11,152	25,596
	<u>2,491,237</u>	<u>2,913,381</u>

	2007 £	2006 £
The term loans are repayable in instalments as follows:		
Within one year	407,700	407,700
Between one and two years	407,700	407,700
Between two and five years	1,223,100	1,223,100
After more than five years	849,285	1,256,985
	<u>2,887,785</u>	<u>3,295,485</u>
Included in creditors falling due within one year	(407,700)	(407,700)
	<u>2,480,085</u>	<u>2,887,785</u>

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS Year ended 31 October 2007

14. COMMITMENTS UNDER HIRE PURCHASE AGREEMENTS

Future commitments under hire purchase agreements are as follows:

	2007 £	2006 £
Amounts payable within 1 year	16,317	20,278
Amounts payable between 1 and 2 years	11,152	25,596
Balance at 31 October 2007	<u>27,469</u>	<u>45,874</u>

15. PROVISION FOR LIABILITIES

The movement in the deferred taxation provision during the year was:

	2007 £	2006 £
Provision brought forward	675,532	607,169
(Credit)/charge for the year	(344,022)	68,363
Provision carried forward	<u>331,510</u>	<u>675,532</u>

The provision for deferred taxation consists of the tax effect of timing differences in respect of:

	2007 £	2006 £
Excess of taxation allowances over depreciation on fixed asset	341,408	676,280
Other timing differences	(9,898)	(748)
	<u>331,510</u>	<u>675,532</u>

16. RELATED PARTY TRANSACTIONS

During the year Mr P. Taylor, provided an interest free unsecured loan of £195,000 to the company. The balance due as at the year end is £150,000, the company having repaid £45,000 during the year.

The company is exempt from disclosing transaction with its subsidiary undertakings on the basis that 100% of the share capital is owned by the group.

17. CALLED UP SHARE CAPITAL

	2007 £	2006 £
Authorised 5,000,000 ordinary shares of £0.1 each	<u>500,000</u>	<u>500,000</u>
Called up, allotted and fully paid 1,000,000 Ordinary shares of £0.1 each	<u>100,000</u>	<u>100,000</u>

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 October 2007

18. RECONCILIATION OF SHAREHOLDERS FUNDS AND MOVEMENTS IN RESERVES

	Share capital £	Revaluation reserve £	Other reserves £	Profit and loss account £	Total share- holders' funds £
Balance brought forward	100,000	16,975,895	14,700	3,714,562	20,805,157
Profit for the year	-	-	-	602,852	602,852
Balance carried forward	100,000	16,975,895	14,700	4,317,414	21,408,009

19. NOTES TO THE CASH FLOW STATEMENT

RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2007 £	2006 £
Operating profit	472,916	670,111
Depreciation charge	137,562	125,827
Gain on disposal of fixed assets	-	(1,250)
Decrease/(increase) in stock	4,070	(5,270)
Increase in debtors	(127,236)	(190,146)
(Decrease)/increase in creditors	(66,102)	253,041
Net cash inflow from operating activities	421,210	852,313

RETURNS ON INVESTMENT AND SERVICING OF FINANCE

	2007 £	2006 £
Interest paid	(245,129)	(223,463)
Interest element of hire purchase	(5,417)	(3,324)
Net cash outflow from returns on investments and servicing of finance	(250,546)	(226,787)

CAPITAL EXPENDITURE

	2007 £	2006 £
Payments to acquire tangible fixed assets	(169,846)	(80,508)
Receipts from sale of fixed assets	-	1,250
Net cash outflow from capital expenditure	(169,846)	(79,258)

FINANCING

	2007 £	2006 £
Repayment of bank loans	(407,700)	(407,700)
Director's loan account	150,000	-
Repayment of hire purchase agreements	(18,405)	(48,756)
Net cash outflow from financing	(276,105)	(456,456)

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 October 2007

19. NOTES TO THE CASH FLOW STATEMENT (CONTINUED)

RECONCILIATION OF NET CASH FLOW TO MOVEMENTS IN NET DEBT

	2007 £	2006 £
(Decrease)/increase in cash in the period	(288,076)	89,712
Net cash outflow from bank loans	407,700	407,700
Net cash inflow from director's loan	(150,000)	-
Net cash outflow in respect of hire purchase	18,405	48,756
Change in net debt arising from cash flows	(11,971)	546,168
New hire purchase agreements entered into during the year	-	(51,160)
Net debt at 1 November 2006	(3,544,407)	(4,039,415)
Net debt at 31 October 2007	(3,556,378)	(3,544,407)

ANALYSIS OF CHANGES IN NET DEBT

	At 1 Nov 2006 £	Cash flows £	Non-cash flow changes £	At 31 October 2007 £
Cash in hand	4,258	1,892		6,150
Bank overdraft	(207,306)	(289,968)	-	(497,274)
	(203,048)	(288,076)	-	(491,124)
Debt due within 1 year	(407,700)	407,700	(407,700)	(407,700)
Director's loan account	-	(150,000)	-	(150,000)
Debt due after more than one year	(2,887,785)	-	407,700	(2,480,085)
Hire purchase agreements	(45,874)	18,405	-	(27,469)
	(3,341,359)	276,105	-	(3,065,254)
Net debt	(3,544,407)	(11,971)	-	(3,556,378)

20. PENSIONS

During the year the company paid contributions into the company defined contribution pension scheme amounting to £30,498 (2006 - £23,277) and a private defined contribution pension scheme of £415,020 (2006 - £9,000) as detailed in notes 4 and 5. There were no amounts outstanding or prepaid at either year end.

21. CAPITAL COMMITMENTS

The directors have confirmed that there were no capital commitments at 31 October 2007 (2006: £nil).

22. CONTROLLING PARTY

The ultimate controlling party is Peter Taylor, director and majority shareholder.

THE TOWN HOUSE COMPANY LIMITED

ADDITIONAL INFORMATION

The additional information comprising the detailed profit and loss account has been prepared from the accounting records of the company. While it does not form part of the statutory financial statements, it should be read in conjunction with the statutory financial statements.

THE TOWN HOUSE COMPANY LIMITED

DETAILED PROFIT AND LOSS ACCOUNT Year ended 31 October 2007

	2007 £	2006 £
TURNOVER	6,096,837	5,668,140
COST OF SALES		
Purchases	842,948	779,247
Wages and national insurance	<u>1,769,514</u>	<u>1,661,492</u>
	2,612,462	2,440,739
GROSS PROFIT	<u>3,484,375</u>	<u>3,227,401</u>
OVERHEADS		
Administrative expenses	<u>(3,011,459)</u>	<u>2,557,290</u>
OPERATING PROFIT	472,916	670,111
Interest payable	<u>250,546</u>	<u>(226,787)</u>
PROFIT ON ORDINARY ACTIVITIES	<u><u>222,370</u></u>	<u><u>443,324</u></u>

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE DETAILED PROFIT AND LOSS ACCOUNT Year ended 31 October 2007

	£	2007 £	2006 £
ADMINISTRATIVE EXPENSES			
Personnel costs			
Directors salaries	649,913		212,921
Salaries and staff costs	483,641		569,091
		1,133,554	782,012
Establishment expenses			
Heat and light	133,101		103,719
Rates and insurance	299,707		297,929
Repairs and maintenance	109,331		136,097
Maintenance fees	248,806		189,290
		790,945	727,035
General expenses			
Printing, stationery and postage	55,294		59,687
Commission and charges	275,116		228,388
Compute costs	77,040		113,108
Miscellaneous	12,110		18,434
Laundry and cleaning	185,668		188,656
Advertising	199,476		186,397
Guest supplies	68,009		60,301
Legal and professional fees	34,529		40,500
Auditors remuneration	9,000		9,000
Depreciation	137,563		125,827
Amount written off	23,155		0
Profit on disposal of fixed assets	-		(1,250)
		1,076,960	1,029,048
Financial costs			
Ban debt written off	-		4,195
Provision for doubtful debts	10,000		15,000
		10,000	19,195
		3,011,459	2,557,290
INTEREST PAYABLE			
Bank interest payable		48,361	17,746
Hire purchase and finance lease charges		5,417	-
Bank loan interest		196,768	209,041
		250,546	226,787