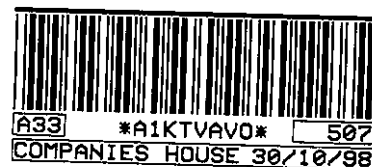


Copthorne Hotel (Gatwick) Limited

Directors' report and financial statements

31 December 1997

Registered number 994968



Directors' report and financial statements

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Directors' report

The directors have pleasure in submitting their report on the affairs of the company together with the financial statements and the auditors' report thereon, for the year ended 31 December 1997.

Principal activities and business review

The principal activity of the company is the ownership and operation of the Copthorne Gatwick Hotel.

Results and dividends

Turnover for the year was £7,206,000 (1996: £6,187,000) and the profit before tax was £2,206,000 (1996: £1,036,000).

The directors paid a dividend of £700,000 for the year (1996: £5,650,000).

Fixed assets

Changes in fixed assets are set out in note 6 to the financial statements.

Following the revaluation of a number of hotels for Millennium & Copthorne Hotels plc group purposes, the market value of the hotel at 31 December 1997 was £21,250,000 compared to a book value at depreciated historical cost of £13,697,000.

Directors and directors' interests

The directors who served during the year are listed below:

PJ Taylor (Chairman)
DAH Cook
FJA Brown

The interests of the directors in the shares of group companies are disclosed in the directors' report of Millennium & Copthorne Hotels plc.

Creditor payment policy

It is the company's policy to adhere to the payment terms agreed with the supplier. Payments are contingent on the supplier providing goods or services to the required standards.

Directors' report

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board



DAH Cook
Director

Victoria House
Victoria Road
Horley
Surrey
RH6 7AF

28 October 1998

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss 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 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 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.



KPMG Audit Plc

PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Auditors' report to the members of Copthorne Hotel (Gatwick) Limited

We have audited the financial statements on pages 5 to 16.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

28 October 1998

Profit and loss account

for the year ended 31 December 1997

	<i>Note</i>	1997 £000	1996 £000
Turnover	<i>1</i>	7,206	6,187
Cost of sales		(2,910)	(2,664)
Gross profit		4,296	3,523
Administrative expenses		(2,102)	(2,125)
Operating profit		2,194	1,398
Interest receivable and similar income		12	5
Interest payable and similar charges	<i>4</i>	-	(367)
Profit on ordinary activities before taxation	<i>2</i>	2,206	1,036
Tax on profit on ordinary activities	<i>5</i>	(672)	(41)
Profit for the financial year		1,534	995
Dividend paid/proposed		(700)	(5,650)
Retained profit/(loss) for the year		834	(4,655)
Profit and loss account brought forward		30	4,685
Profit and loss account carried forward		864	30

The company's results have been derived solely from continuing operations.

There are no recognised gains or losses for the year other than those reported above.

The company's historical cost results are the same as its reported results.

Balance sheet

at 31 December 1997

	Note	£000	1997 £000	£000	1996 £000
Fixed assets					
Tangible assets	6		13,712		13,693
Investments	7		19		19
			<hr/>		<hr/>
			13,731		13,712
Current assets					
Stocks	8	31		29	
Debtors	9	434		4,832	
Cash at bank and in hand		179		163	
		<hr/>		<hr/>	
		644		5,024	
Creditors: amounts falling due within one year	10	(6,646)		(6,491)	
		<hr/>		<hr/>	
Net current liabilities			(6,002)		(1,467)
			<hr/>		<hr/>
Total assets less current liabilities			7,729		12,245
Creditors: amounts falling due after more than one year	11		-		(5,350)
			<hr/>		<hr/>
Net assets			7,729		6,895
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	13		425		425
Revaluation reserve	6		6,440		6,440
Profit and loss account			864		30
			<hr/>		<hr/>
Shareholders' funds (including non-equity interests)	14		7,729		6,895
			<hr/>		<hr/>

These financial statements were approved by the board of directors on 28 October 1998 and were signed on its behalf by:


PJ Taylor
 Director


DAH Cook
 Director

Notes

(forming part of the financial statements)

1 Accounting policies

The company's principal accounting policies, which have been applied consistently throughout the year, are set out below.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under historical cost accounting rules, modified to include the revaluation of the hotel property.

Under Financial Reporting Standard No 1 (revised), the company is exempt from the requirement to prepare a cash flow statement as it is a wholly owned undertaking of Millennium & Copthorne Hotels plc and its cashflows are included within the published consolidated cashflow statement of that company.

At 31 December 1997 the company had net current liabilities. The directors of the immediate parent company, Copthorne Hotel Holdings Limited, have confirmed their intention to make continued financial support available to enable the company to meet liabilities as they fall due. As a result the financial statements have been prepared on a going concern basis.

Fixed assets and depreciation

Land and buildings are stated at cost or subsequent valuation as set out in note 6. Other fixed assets are shown at cost less depreciation and any provision for permanent diminution in value.

The company's practice is to maintain hotel properties in a continual state of sound repair and to extend and improve such properties from time to time. Accordingly, the directors consider that the lives of these assets are so long and residual values, based on prices prevailing at the time of acquisition or subsequent valuation, are so high that any depreciation is insignificant. Accordingly, no depreciation is provided on freehold hotel properties. Any permanent diminution in value of such properties is charged to the profit and loss account as appropriate.

In the company's accounts, investments in associated undertakings are stated at cost less provision for permanent diminution in value. Dividends received and receivable are credited to the company's profit and loss account when they are declared.

All other assets are depreciated on a straight-line basis over their estimated useful lives as follows:

Plant and machinery	-	15 years
Furniture and equipment	-	10 years
Computer equipment	-	5 years
Soft furnishings	-	5 years
Motor vehicles	-	4 years

Capital expenditure on major projects is recorded separately within fixed assets as capital work in progress. Once the project is complete the balance is transferred to the appropriate fixed asset categories. Capital work in progress is not depreciated.

Initial purchases of china and plateware have been treated as a base stock and renewals and replacements of such stocks are written off to the profit and loss account as incurred.

Interest attributable to funds used to finance construction is capitalised and added to the cost of the hotel.

Notes (continued)

1 Accounting policies (continued)

Operating leases

Rentals under operating leases are charged to the profit and loss account on a straight line basis as incurred.

Stocks

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

Turnover

Turnover represents amounts derived in the United Kingdom from the ownership and operation of the hotel calculated on an accruals basis. Turnover is stated net of value added tax.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Provision for deferred taxation is calculated using the liability method on timing differences and is made only to the extent that it is probable that liabilities will crystallise within the foreseeable future.

Foreign exchange

Transactions denominated in foreign currencies are recorded at actual exchange rates as of the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rate of exchange prevailing at that date. Any gain or loss arising from a change in exchange rates subsequent to the date of a transaction is included as an exchange gain or loss in the profit and loss account.

Pension costs

The amounts charged to the profit and loss account in respect of defined benefit schemes is the estimated cost of providing the benefits accrued in the year, adjusted to reflect variations from that cost. The cost is calculated so that it represents a substantially level percentage of current and future pensionable payroll. Variations from these costs are charged or credited to the profit and loss account over the average remaining service lives of employees.

Contributions to money purchase schemes are charged to the profit and loss account as incurred.

Any difference between amounts charged to the profit and loss account and contributions paid to pension schemes is included in debtors or creditors in the balance sheet.

Notes *(continued)*

2 Profit on ordinary activities before taxation

	1997 £000	1996 £000
<i>Profit on ordinary activities before taxation is stated after charging:</i>		
Auditors' remuneration:		
Audit	10	18
Other services	7	5
Depreciation of tangible fixed assets	504	558
Rentals payable under operating leases:		
Plant and machinery	98	98
	<u> </u>	<u> </u>

3 Staff numbers and costs

The average weekly number of persons employed (excluding directors) by the company during the year, analysed by category, was as follows:

	Number of employees 1997	1996
Operating staff	135	115
Administration staff	14	14
	<u> </u>	<u> </u>
	149	129
	<u> </u>	<u> </u>

Notes (continued)

3 Staff numbers and costs (continued)

The aggregate payroll costs of these persons were as follows:

	1997 £000	1996 £000
Wages and salaries	1,757	1,660
Social security costs	118	109
Other pension costs	41	33
	<u>1,916</u>	<u>1,802</u>

No emoluments were paid to any director for services to the company during the year (1996: £nil).

4 Interest payable and similar charges

	1997 £000	1996 £000
On loans from parent and fellow subsidiary undertakings	-	367
	<u>-</u>	<u>367</u>

5 Tax on profit on ordinary activities

The tax charge is based on profit for the year and comprises:

	1997 £000	1996 £000
Corporation tax charge at 31.5% (1996: 33%)	672	149
Tax credit for group relief surrendered relating to earlier periods	-	(108)
	<u>672</u>	<u>41</u>

The tax charge for the current year has been reduced as a result of capital allowances available on assets not depreciated for accounts purposes. The credit in relation to the prior period relates to a payment of group relief surrendered in earlier periods for which no consideration had previously been received.

Notes (continued)

6 Tangible fixed assets

	Freehold Land & Buildings	Plant & machinery	Fixture, Fittings, Equipment and vehicles	Total
	£000	£000	£000	£000
<i>Cost or valuation</i>				
At beginning of year	11,463	2,879	3,378	17,720
Additions	30	119	375	524
Disposals	-	-	(231)	(231)
At end of year	11,493	2,998	3,522	18,013
<i>Depreciation</i>				
At beginning of year	-	1,313	2,714	4,027
Charge for the year	-	196	309	505
Disposals	-	-	(231)	(231)
At end of year	-	1,509	2,792	4,301
<i>Net book value</i>				
At 31 December 1997	11,493	1,489	730	13,712
At 31 December 1996	11,463	1,566	664	13,693

The freehold hotel and related equipment were last valued on 31 October 1986, by a professional valuer on the basis of their open market value for the existing use in the business.

Cost or valuation for the freehold hotel comprises:

	1997 £000	1996 £000
Valuation	6,440	6,440
Cost	5,053	5,023
	11,493	11,463

Notes (continued)

6 Tangible fixed assets (continued)

If stated at historical net book value, the comparable amount for the freehold hotel would be:

	1997 £000	1996 £000
Net book value	5,053	5,023

Freehold land and buildings includes £131,200 (1996: £131,200) of interest capitalised subsequent to the revaluation.

7 Fixed asset investments

The company's investment in its associated undertaking comprises 40% of the ordinary £1 shares in Copthorne Squash Club Limited, a company registered in England and Wales. Copthorne Squash Club Limited's principal activity is the operation of a squash club in the United Kingdom. Details of the investment are as follows:

	Unlisted shares £000
At beginning and end of year	19

8 Stocks

	1997 £000	1996 £000
Consumables and supplies	31	29

The replacement cost of stocks is not significantly different from their balance sheet values.

Notes (continued)

9 Debtors

	1997 £000	1996 £000
Amounts falling due within one year:		
Trade debtors	374	328
Amounts owed by parent and fellow subsidiary undertakings	-	4,435
Prepayments and accrued income	57	69
Other debtors	3	
	<u>434</u>	<u>4,832</u>

10 Creditors: amounts falling due within one year

	1997 £000	1996 £000
Trade creditors	282	253
Amounts owed to parent and fellow subsidiary undertakings (non-interest bearing)	5,282	26
Dividends payable	-	5,650
Other creditors including taxation and social security:		
Corporation tax	672	149
Value added tax	233	212
Social security and PAYE	32	32
Other creditors	39	54
Accruals and deferred income	106	115
	<u>6,646</u>	<u>6,491</u>

The amounts owed to parent and fellow subsidiary undertakings are interest free.

11 Creditors: amounts falling due after more than one year

	1997 £000	1996 £000
Amounts owed to parent and fellow subsidiary undertakings	-	5,350

The amounts owed to parent and fellow subsidiary undertakings carried a commercial rate of interest, and were due for repayment on 31 December 1998.

Notes (continued)

12 Provision for liabilities and charges

A tax charge estimated at approximately £696,000 (1996:£2,542,000) would crystallise if the hotel were sold at its book carrying value. No provision for deferred taxation has been made since there is no intention to sell the hotel.

13 Called up share capital

	1997 £000	1996 £000
<i>Authorised</i>		
57,500,000 ordinary shares of 1p each	575	575
425,000 deferred shares of £1 each	425	425
	<hr/> 1,000 <hr/>	<hr/> 1,000 <hr/>
<i>Allotted, called-up and fully paid</i>		
42,500 ordinary shares of 1p each	-	-
425,000 deferred shares of £1 each	425	425
	<hr/> 425 <hr/>	<hr/> 425 <hr/>

The holders of the deferred shares are not entitled to participate in the company's profits nor have voting rights. On liquidation the deferred shares are subordinated to the ordinary shares.

All of the share ordinary capital is equity share capital.

Notes *(continued)*

14 Reconciliation of movements in shareholders' funds

	1997	1996
	£000	£000
Opening shareholders' funds	6,895	11,550
Profit for the financial year	1,534	995
Dividend paid/proposed	(700)	(5,650)
	<hr/>	<hr/>
Closing shareholders' funds	7,729	6,895
	<hr/>	<hr/>
Shareholders' funds comprise:		
Non-equity share capital	425	425
Equity shareholders' funds	7,304	6,470
	<hr/>	<hr/>
Closing shareholders' funds	7,729	6,895
	<hr/>	<hr/>

15 Commitments

Capital commitments at the end of the financial year for which no provisions have been made:

	1997	1996
	£000	£000
Contracted	53	131
	<hr/>	<hr/>

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

	Plant and machinery	
	1997	1996
	£000	£000
Operating leases which expire		
Within one year	-	4
In the second to fifth years inclusive	107	87
Over five years	-	17
	<hr/>	<hr/>
	107	108
	<hr/>	<hr/>

Notes *(continued)*

16 Pension scheme

The company participates in the Millennium & Copthorne Pension Plan which was set up in 1993. Staff employed by the company contribute to either the defined benefit section or the defined contribution section, both of which are funded. The assets of the plan are held separately from those of the company, being invested with Morgan Grenfell Asset Management and Nationwide Building Society.

For the defined contribution schemes, contributions are charged to the profit and loss account as incurred.

For the defined benefit scheme, costs are charged so as to spread the cost of providing the guaranteed benefits over the average remaining service lives of the employees concerned. The contributions required are determined by a qualified actuary on the basis of triennial valuations using the attained age method. The most recent valuation was carried out as at 6 April 1996. At the valuation date the value of the Plan's assets was £5,180,693 giving a funding level of 100%. The contributions of the company were set at 10% until April 1997 and those after at 12.5%, (1996: 10.5%) of earnings and those of employees at 5% (1996: 5%) of earnings. The assumptions which have the most significant effect on the results of the valuation are those relating to the return on investments and the rates of increase in salaries and pensions. It was assumed that investment returns would be 9% per annum, that salary increases would average 7.5% per annum and that pensions will increase at 3% per annum until April 1997 and at the annual rate of Limited Price Indexation thereafter (currently 4.5%), in compliance with statutory requirements.

The next valuation of the scheme is due at 6 April 1999.

The total annual pension cost for the company was £41,000 (1996: £33,000).

17 Related parties transactions

As the company is a wholly owned subsidiary of Millennium & Copthorne Hotels plc, the company has taken advantage of the exemption contained in Financial Reporting Standard No 8 and has therefore not disclosed transactions or balances with entities which form part of the group headed by Millennium & Copthorne Hotels plc.

The directors confirm that there were no related party transactions other than those disclosed in these financial statements.

Notes (continued)

18 Ultimate parent and controlling company and parent undertaking of the smallest and largest group of which the company is a member

The directors consider the ultimate holding and controlling company to be Hong Leong Investment Holdings Pte Limited incorporated in the Republic of Singapore. The accounts of the ultimate holding company, which heads the largest group in which the results of the company are consolidated, are available to the public at The Registrar of Companies and Businesses, 10 Anson Road # 05 - 10/15, International Plaza, Singapore 0207.

The immediate holding and controlling company is Copthorne Hotel Holdings Limited, a company registered in England and Wales. The smallest group in which the results of the company are consolidated is headed by Millennium & Copthorne Hotels plc, a company registered in England and Wales. The consolidated accounts are available to the public and may be obtained from Victoria House, Victoria Road, Horley, Surrey, RH6 7AF.

Advisors

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