International Hotels Limited

Directors' report and consolidated financial statements

31 December 1998

Registered number 1352019

Directors' report and consolidated financial statements

Contents

Directors' report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 1998.

Principal activities

The principal activities of the company are the operation of a luxury country house hotel, Alexander House, providing accommodation, restaurant and conference facilities, and property investment. The company's subsidiary, Stoke Park Limited, holds the leasehold of Stoke Poges golf club which it operates, along with a luxury hotel business which commenced during the year.

Business review

The consolidated results for the year are set out in the profit and loss account on page 5.

Proposed dividend

The directors do not recommend the payment of a dividend *(1997: £nil)*.

Directors and directors' interests

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

The Right Honourable	
Earl Alexander of Tunis	(Chairman)
RM King	(Deputy Chairman)
GD King	
HM King	
WM King	
CM King	

None of the directors who held office at the end of the year had any disclosable interest in the shares of the company.

Creditor payment policy

Supplier credit is an extremely important factor in the success of the business of the group. Whilst we do not follow any specified code or standard on payment practice, we endeavour to ensure that all payments are made within mutually agreed credit terms, subject to the terms and conditions being met by the supplier.

Directors' report *(continued)*

Year 2000

The directors recognise that there are significant risks and uncertainties associated with the Year 2000 problem relating to internal control systems, products and third party relationships. They have implemented a programme to address such problems which is intended to minimise disruption to the business which might be caused by the failure of such systems.

With regard to third party relationships, the directors believe that the company is not overly reliant on any of its customers or suppliers.

The directors do not consider that the programme will cause the business to incur any significant additional costs beyond planned replacement expenditure and existing personnel resources.

The general expectation by those who have studied best practice in managing the Year 2000 problem is that even the best run projects will face some Year 2000 compliance failures. There can be no assurance that Year 2000 projects will be successful or that the date change from 1999 to 2000 will not adversely affect the group.

Auditors

In accordance with Section 385 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

RG Menon
Secretary

Hertford Place
Denham Way
Rickmansworth
Hertfordshire
WD3 2XB

3rd Sept. 1999

Statement of directors' responsibilities in respect of the preparation of financial statements

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 group 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;
- 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

PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Auditors' report to the members of International Hotels Limited

We have audited the financial statements on pages 5 to 18.

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 affairs of the company and group as at 31 December 1998 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

7 September 1999

Consolidated profit and loss account

for the year ended 31 December 1998

	Note	**1998**	1997
		£000	£000
Turnover	2	**5,183**	3,677
Cost of sales		**(1,676)**	(1,358)
Gross profit		**3,507**	2,319
Administrative expenses		**(4,193)**	(3,662)
Operating loss		**(686)**	(1,343)
Interest payable and similar charges	*4*	**(419)**	(104)
Interest receivable	*5*	**2**	2
Loss on ordinary activities before and after tax	*3*	**(1,103)**	(1,445)

The above results were derived solely from continuing operations.

Consolidated statement of total recognised gains and losses

for the year ended 31 December 1998

	1998	1997
	£000	£000
Loss for the year	**(1,103)**	(1,445)
Property revaluation	-	686
Total recognised losses	**(1,103)**	(759)

Consolidated statement of historical cost profits and losses

for the year ended 31 December 1998

	1998	1997
	£000	£000
Reported loss on ordinary activities before taxation	**(1,103)**	(1,445)
Depreciation difference between historical cost and the revalued amount	**20**	20
Historical cost loss on ordinary activities before taxation	**(1,083)**	(1,425)
Historical cost retained loss for the year	**(1,083)**	(1,425)

Consolidated balance sheet

at 31 December 1998

	Note	1998		1997	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	9		**17,846**		17,132
Current assets					
Stocks	11	**310**		289	
Debtors	12	**431**		771	
Cash in hand		**117**		3	
		858		1,063	
Creditors: amounts falling due within one year	13	**(4,121)**		(4,783)	
Net current liabilities			**(3,263)**		(3,720)
Total assets less current liabilities			**14,583**		13,412
Creditors: amounts falling due after more than one year	14		**(16,831)**		(14,557)
Net liabilities			**(2,248)**		(1,145)
Capital and reserves					
Called up share capital	15		**2,505**		2,505
Revaluation reserve			**3,100**		3,100
Profit and loss account			**(7,853)**		(6,750)
Deficit on equity shareholders' funds	16		**(2,248)**		(1,145)

These financial statements were approved by the board of directors on 3rd Sep 1999 and were signed on its behalf by:

Chester King

CM King
Director

Company balance sheet

at 31 December 1998

	Note	1998		1997	
		£000	**£000**	£000	£000
Fixed assets					
Tangible assets	*9*		**5,529**		5,660
Investments	*10*		**1**		1
			5,530		5,661
Current assets					
Stocks	*11*	**111**		101	
Debtors	*12*	**11,485**		9,212	
Cash in hand		**1**		1	
		11,597		9,314	
Creditors: amounts falling due within one year	*13*	**(2,113)**		(2,549)	
Net current assets			**9,484**		6,765
Total assets less current liabilities			**15,014**		12,426
Creditors: amounts falling due after more than one year	*14*		**(15,212)**		(12,401)
Net (liabilities)/assets			**(198)**		25
Capital and reserves					
Called up share capital	*15*		**2,505**		2,505
Profit and loss account			**(3,389)**		(3,166)
Revaluation reserve			**686**		686
Equity shareholders' funds/(deficit)	*16*		**(198)**		25

These financial statements were approved by the board of directors on 3rd Sep 1999 and were signed on its behalf by:

Chester King

CM King
Director

Consolidated cash flow statement

for the year ended 31 December 1998

	Note	**1998**	1997
		£000	£000
Net cash outflow from operating activities	*18*	**(126)**	(513)
Returns on investment and servicing of finance			
Interest paid		**(422)**	(107)
Interest received		**2**	2
		(420)	(105)
Capital expenditure			
Purchase of tangible fixed assets		**(1,548)**	(6,457)
Sale of tangible fixed assets		**153**	-
		(1,395)	(6,457)
Cash outflow before financing		**(1,941)**	(7,075)
Financing			
Increase in loans from related parties		**2,817**	3,744
Increase in finance leases		**5**	8
Repayment of bank loans		**(402)**	-
Increase/(decrease) in cash		**479**	(3,323)

Reconciliation of net cash flow to movement in net debt

for the year ended 31 December 1998

	Note	**1998**	1997
		£000	£000
Increase/(decrease) in cash in the year		**479**	(3,323)
Increase in lease financing		**(5)**	(8)
Repayment of bank loans		**402**	-
Change in net debt	*19*	**876**	(3,331)
Net debt at beginning of the year		**(4,919)**	(1,588)
Net debt at end of the year		**(4,043)**	(4,919)

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

Certain related parties have undertaken not to seek repayment of amounts due to them, totalling £13,712,000 within 12 months of the date on which these financial statements are signed. Accordingly, the financial statements have been prepared on the basis that the company will be able to trade as a going concern.

If the group or company were unable to continue to trade, adjustments would have to be made to reduce the value of assets to their recoverable amounts, to provide for any further liabilities that might arise, and to reclassify fixed assets and long term liabilities as current assets and current liabilities.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertaking made up to 31 December 1998.

A separate profit and loss account dealing with the results of the company has not been presented as provided by S230(4) of the Companies Act 1985.

Fixed assets and depreciation

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows:

Motor vehicles	-	33.3%
Fixtures and fittings	-	12.5%
Plant and equipment	-	20%

No depreciation is provided on freehold or long leasehold land and buildings or on fine art works included within fixtures and fittings as it is considered that the residual value of these items will be greater than cost. The costs of maintaining the condition of the freehold and leasehold properties are expensed through the profit and loss account.

Notes *(continued)*

1 Accounting policies (continued)

Stocks

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

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year.

2 Segmental information

In the opinion of the directors, turnover and the loss on ordinary activities before tax arose in the same class of business and geographical market.

3 Loss on ordinary activities before and after tax

	1998	1997
	£000	£000
Loss on ordinary activities before and after tax is stated after charging		
Auditors' remuneration:		
- audit services	**17**	17
Depreciation	**597**	433
Profit on sale of tangible fixed assets	**6**	-

The parent company audit fee is £7,000 *(1997: £7,000)*.

4 Interest payable and similar charges

	1998	1997
	£000	£000
On bank loans and overdrafts	**419**	104

5 Interest receivable

	1998	1997
	£000	£000
Bank interest receivable	**2**	2

Notes *(continued)*

6 Remuneration of directors

None of the directors received any direct emoluments for their services to the company or the group (note 20a).

7 Staff numbers and costs

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

	Number of employees	
	1999	1997
Administration	**18**	18
Operational	**94**	81
	112	99

The aggregate payroll costs of these persons were as follows:

	1998	1997
	£000	£000
Wages and salaries	**1,559**	1,314
Social security costs	**131**	103
Other pension costs	**1**	5
	1,691	1,422

8 Taxation

No liability to United Kingdom Corporation Tax arose during the year ended 31 December 1998 due to the loss arising for tax purposes *(1997: £nil)*.

The potential deferred tax liability following revaluation of the group's freehold and long leasehold properties amounts to £776,000. The directors have not provided for this potential liability as they have no intention of disposing of the property. There are no other potential deferred tax liabilities and no assets which the directors expect to crystallise in the foreseeable future.

Notes *(continued)*

9 Tangible fixed assets

Group	Freehold land and buildings	Long leasehold property and leasehold improvements	Motor vehicles	Fixtures fittings tools and equipment	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At beginning of year	4,467	8,986	178	5,060	18,691
Additions	162	798	21	566	1,547
Disposals	-	-	(110)	(160)	(270)
At end of year	4,629	9,784	89	5,466	19,968
Depreciation					
At beginning of year	-	229	68	1,262	1,559
Charge for year	-	155	29	413	597
On disposals	-	-	(33)	(1)	(34)
At end of year	-	384	64	1,674	2,122
Net book value					
At 31 December 1998	**4,629**	**9,400**	**25**	**3,792**	**17,846**
At 31 December 1997	4,467	8,757	110	3,798	17,132

The cost of fixtures, fittings tools and equipment includes £2,167,000 *(1997: £2,250,000)* of fine art works which in accordance with the group's accounting policy for such assets, are not subject to depreciation.

On 11 October 1996, Strutt and Parker, Chartered Surveyors revalued the long leasehold property at Stoke Poges on the basis of open market value for existing use. The historical cost of the long leasehold property and leasehold improvements is £6,572,000. The historical cost of freehold land and buildings is £3,781,000.

Included above are assets held under finance leases with a cost of £39,000 *(1997: £18,000)*, accumulated depreciation of £ 13,000 *(1997: £5,700)* and a net book value of £26,000 *(1997: £12,300)*.

Notes *(continued)*

9 Tangible fixed assets (continued)

Company	Freehold land and buildings	Motor vehicles	Fixtures fittings tools and equipment	Total
	£000	£000	£000	£000
Cost or valuation				
At beginning of year	4,413	126	1,716	6,255
Additions	103	-	54	157
Disposals	-	(110)	(64)	(174)
Transfers to subsidiary	-	-	(57)	(57)
At end of year	4,516	16	1,649	6,181
Depreciation				
At beginning of year	-	16	579	595
Charge for year	-	26	65	91
On disposals	-	(33)	(1)	(34)
At end of year	-	9	643	652
Net book value				
At 31 December 1998	**4,516**	**7**	**1,006**	**5,529**
At 31 December 1997	4,413	110	1,137	5,660

The cost of fixtures, fittings, tools and equipment includes £774,000 *(1997: £890,000)* of fine art works which, in accordance with the company's accounting policy for such assets, are not subject to depreciation.

The historical cost of the freehold land and buildings is £3,727,000

Notes *(continued)*

10 Investments

	Shares in subsidiary undertaking £000
Cost and net book value at beginning and end of year	1

	Country of registration and incorporation	Principal activity	Class and percentage of shares held
Stoke Park Limited	England and Wales	Management of golf course	100% ordinary

11 Stocks

	Group		Company	
	1998 £000	1997 £000	**1998 £000**	1997 £000
Finished goods for resale	**310**	289	**111**	101

12 Debtors: amounts falling due within one year

	Group		Company	
	1998 £000	1997 £000	**1998 £000**	1997 £000
Trade debtors	**247**	199	**63**	77
Amounts owed by subsidiary undertaking	**-**	-	**11,372**	9,086
Other debtors	**62**	492	**16**	21
Prepayments and accrued income	**122**	80	**34**	28
	431	771	**11,485**	9,212

Notes *(continued)*

13 Creditors: amounts falling due within one year

	Group		Company	
	1998	1997	**1998**	1997
	£000	£000	**£000**	£000
Bank loans and overdrafts	**2,526**	2,752	**1,880**	2,245
Obligations under finance leases	**15**	8	**5**	5
Deferred income	**795**	556	**-**	-
Trade creditors	**544**	1,046	**124**	131
Other creditors including tax and social security:				
Other taxes and social security	**97**	81	**38**	30
Other creditors	**88**	298	**10**	96
Accruals and deferred income	**56**	42	**56**	42
	4,121	4,783	**2,113**	2,549

The bank overdraft is secured by a fixed and floating charge over assets.

14 Creditors: amounts falling due after more than one year

	Group		Company	
	1998	1997	**1998**	1997
	£000	£000	**£000**	£000
Bank loans	**1,606**	2,147	**-**	-
Amounts owed to related parties	**13,712**	10,895	**13,712**	10,895
Shareholders' loan	**1,500**	1,500	**1,500**	1,500
Obligations under finance leases	**13**	15	**-**	6
	16,831	14,557	**15,212**	12,401

The bank loan is secured on the group's leasehold property. In addition, two related parties have each guaranteed the bank borrowings for up to £2.5 million. The bank loan is wholly repayable within five years. There are no repayment terms or interest charged on the amounts owed to related parties.

Notes *(continued)*

15 Called up share capital

	1998 £000	1997 £000
Authorised ordinary shares of £1 each	**2,600**	2,600
Allotted, called up and fully paid shares of £1 each	**2,505**	2,505

16 Reconciliation of movements in deficit on equity shareholders' funds

Group	**Share capital £000**	**Profit and loss account £000**	**Revaluation reserve £000**	**1998 Total shareholders' funds £000**	1997 Total shareholders' funds £000
At beginning of year	**2,505**	**(6,750)**	**3,100**	**(1,145)**	(386)
Loss for the year	**-**	**(1,103)**	**-**	**(1,103)**	(1,445)
Property revaluation	**-**	**-**	**-**	**-**	686
At end of year	**2,505**	**(7,853)**	**3,100**	**(2,248)**	(1,145)

Company	**Share capital £000**	**Profit and loss account £000**	**Revaluation reserve £000**	**1998 Total shareholders' funds £000**	1997 Total shareholders' funds £000
At beginning of year	**2,505**	**(3,166)**	**686**	**25**	(612)
Loss for the year	**-**	**(223)**	**-**	**(223)**	(49)
Property revaluation	**-**	**-**	**-**	**-**	686
At end of year	**2,505**	**(3,389)**	**686**	**(198)**	25

Notes *(continued)*

17 Capital commitments

At the year end the company had no capital commitments *(1997: £nil).*

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

	1998	1997
	£000	£000
Operating loss	**(686)**	(1,343)
Depreciation charge	**597**	433
Profit on sale of fixed assets	**(6)**	-
(Increase) in stock	**(21)**	(90)
Decrease/(increase) in debtors	**340**	(469)
Decrease/(increase) in creditors	**(350)**	956
Net cash outflow from operating activities	**(126)**	(513)

19 Analysis of changes in net debt

	Finance leases	**Cash**	**Bank loans/ overdraft**	**Total**
	£000	**£000**	**£000**	**£000**
At 1 January 1997	(15)	4	(1,577)	(1,588)
Cash inflows	(8)	(1)	(3,322)	(3,331)
At 31 December 1997	(23)	3	(4,899)	(4,919)
Cash inflows/(outflow)	(5)	114	767	876
At 31 December 1998	**(28)**	**117**	**(4,132)**	**(4,043)**

Notes *(continued)*

20 Related party transactions

During the year the group had the following related party transactions and balances:

a) The group paid £120,125 *(1997: £209,000)* for the services of the directors to Beeson Holdings Limited.

b) The group paid £61,600 *(1997: £146,000)* in respect of consultancy fees to Beeson & Son Limited.

c) The group incurred £79,499 in advertising and printing costs payable to International Advertising Limited.

d) The group incurred £113,450 *(1997: £124,000)* in respect of financial and legal support payable to International Hospitals Group Limited.

e) The company had the following related party liabilities at 31 December 1998:

- International Hospitals Group Limited £10,355,000 *(1997: £9,358,000).*

- Beeson Holdings Limited £3,357,000 *(1997: £1,537,000).*

All the above companies are related parties by virtue of the fact that the board of directors of the companies include RM King, HM King, WM King and CM King.