

International Hotels Limited

**Directors' report and consolidated
financial statements**

31 December 1997

Registered number 1352019



Directors' report and consolidated financial statements

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Directors' report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 1997.

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.

Business review

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

In April 1998 on the basis of a professional revaluation, the directors revalued the company's interest in its freehold property at Beaufort Gardens which is disclosed in note 9.

Proposed dividend

The directors do not recommend the payment of a dividend (1996: £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.

Directors' report *(continued)*

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.

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


H.G. Menon
Secretary

Hertford Place
Denham Way
Rickmansworth
Hertfordshire
WD3 2XB

23rd October 1998

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.



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.

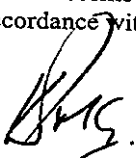
Basis of opinion

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 1997 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
Chartered Accountants
Registered Auditors

28 October 1998

Consolidated profit and loss account

for the year ended 31 December 1997

| | <i>Note</i> | 1997 £000 | 1996 £000 |
|---|-------------|------------------|------------------|
| Turnover | | | |
| Cost of sales | 2 | 3,677 (1,358) | 3,202 (1,699) |
| Gross profit | | | |
| Administrative expenses | | 2,319 (3,662) | 1,503 (2,094) |
| Operating loss | | | |
| Interest payable and similar charges | 4 | (1,343) | (591) |
| Interest receivable | 5 | (104) 2 | (177) - |
| Loss on ordinary activities before and after tax | 3 | (1,445) | (768) |

The above results were derived solely from continuing operations.

There is no difference between the results for the year and the historical cost or loss.

Consolidated statement of total recognised gains and losses

for the year ended 31 December 1997

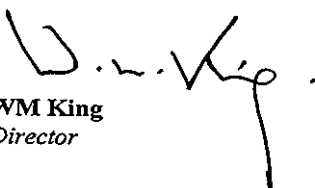
| | 1997 £000 | 1996 £000 |
|--|--------------|--------------|
| Loss for the year | (1,445) | (768) |
| Property revaluation | 686 | 2,414 |
| Total recognised (losses)/gains | (759) | 1,646 |

Consolidated balance sheet

at 31 December 1997

| | Note | 1997 £000 | 1996 £000 |
|--|------|-----------------|----------------|
| Fixed assets | | | |
| Tangible assets | 9 | 17,132 | 10,422 |
| Current assets | | | |
| Stocks | 11 | 289 | 199 |
| Debtors | 12 | 771 | 302 |
| Cash in hand | | 3 | 4 |
| | | <u>1,063</u> | <u>505</u> |
| Creditors: amounts falling due within one year | 13 | <u>(4,783)</u> | <u>(2,650)</u> |
| Net current liabilities | | <u>(3,720)</u> | <u>(2,145)</u> |
| Total assets less current liabilities | | <u>13,412</u> | <u>8,277</u> |
| Creditors: amounts falling due after more than one year | 14 | <u>(14,557)</u> | <u>(8,663)</u> |
| Net liabilities | | <u>(1,145)</u> | <u>(386)</u> |
| Capital and reserves | | | |
| Called up share capital | 15 | 2,505 | 2,505 |
| Revaluation reserve | | 3,100 | 2,414 |
| Profit and loss account | | <u>(6,750)</u> | <u>(5,305)</u> |
| Deficit on equity shareholders' funds | 16 | <u>(1,145)</u> | <u>(386)</u> |

These financial statements were approved by the board of directors on 23 October 1998 and were signed on its behalf by:

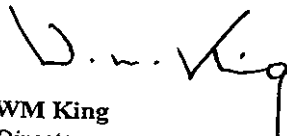

WM King
Director

Company balance sheet

at 31 December 1997

| | Note | 1997 £000 | 1996 £000 |
|--|------|---------------|--------------|
| Fixed assets | | | |
| Tangible assets | 9 | 5,660 | 4,699 |
| Investments | 10 | 1 | 1 |
| | | <u>5,661</u> | <u>4,700</u> |
| Current assets | | | |
| Stocks | 11 | 101 | 78 |
| Debtors | 12 | 9,212 | 5,024 |
| Cash in hand | | 1 | 1 |
| | | <u>9,314</u> | <u>5,103</u> |
| Creditors: amounts falling due within one year | 13 | (2,549) | (1,764) |
| Net current assets | | <u>6,765</u> | <u>3,339</u> |
| Total assets less current liabilities | | <u>12,426</u> | <u>8,039</u> |
| Creditors: amounts falling due after more than one year | 14 | (12,401) | (8,651) |
| Net assets/(liabilities) | | <u>25</u> | <u>(612)</u> |
| Capital and reserves | | | |
| Called up share capital | 15 | 2,505 | 2,505 |
| Profit and loss account | | (3,166) | (3,117) |
| Revaluation reserve | | 686 | - |
| Equity shareholders' funds/(deficit) | 16 | <u>25</u> | <u>(612)</u> |

These financial statements were approved by the board of directors on 23rd October 1998 and were signed on its behalf by:


WM King
Director

Consolidated cash flow statement

for the year ended 31 December 1997

| | <i>Note</i> | 1997 £000 | 1996 £000 |
|--|-------------|--------------|--------------|
| Net cash outflow from operating activities | 18 | (513) | (222) |
| Returns on investment and servicing of finance | | | |
| Interest paid | | (107) | (183) |
| Interest received | | 2 | - |
| | | (105) | (183) |
| Capital expenditure | | | |
| Purchase of tangible fixed assets | | (6,457) | (1,137) |
| Sale of tangible fixed assets | | - | 19 |
| | | (6,457) | (1,118) |
| Cash outflow before financing | | (7,075) | (1,523) |
| Financing | | | |
| Increase in loans from related parties | | 3,744 | 2,371 |
| Increase in finance leases | | 8 | 14 |
| (Decrease)/increase in cash | | (3,323) | 862 |

Reconciliation of net cash flow to movement in net debt

for the year ended 31 December 1997

| | <i>Note</i> | 1997 £000 | 1996 £000 |
|---|-------------|--------------|--------------|
| (Decrease)/increase in cash in the year | | (3,323) | 862 |
| (Increase)/decrease in lease financing | | (8) | (14) |
| Change in net debt | | | |
| Net debt at beginning of the year | 19 | (3,331) | 848 |
| | | (1,588) | (2,436) |
| Net debt at end of the year | | (4,919) | (1,588) |

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 creditors have undertaken not to seek repayment of amounts due to them, totalling £10,895,000 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 1997.

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

| | 1997 £000 | 1996 £000 |
|--|-------------------|-------------------|
| <i>Loss on ordinary activities before and after tax is stated after charging</i> | | |
| Auditors' remuneration: | | |
| - audit services | 17 | 17 |
| Depreciation | 433 | 288 |
| | <u> </u> | <u> </u> |

The parent company audit fee is £7,000 (1996: £7,000).

4 Interest payable and similar charges

| | 1997 £000 | 1996 £000 |
|------------------------------|-------------------|-------------------|
| On bank loans and overdrafts | 104 | 177 |
| | <u> </u> | <u> </u> |

5 Interest receivable

| | 1997 £000 | 1996 £000 |
|--------------------------|-------------------|-------------------|
| Bank interest receivable | 2 | - |
| | <u> </u> | <u> </u> |

Notes (continued)

6 Remuneration of directors

None of the directors received any 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 | |
|----------------|---------------------|-------|
| | 1997 | 1996 |
| Administration | 18 | 18 |
| Operational | 81 | 68 |
| | <hr/> | <hr/> |
| | 99 | 86 |
| | <hr/> | <hr/> |

The aggregate payroll costs of these persons were as follows:

| | 1997 | 1996 |
|-----------------------|-------|-------|
| | £000 | £000 |
| Wages and salaries | 1,314 | 1,085 |
| Social security costs | 103 | 87 |
| Other pension costs | 5 | 6 |
| | <hr/> | <hr/> |
| | 1,422 | 1,178 |
| | <hr/> | <hr/> |

8 Tax on profit on ordinary activities

No liability to United Kingdom Corporation Tax arose during the year ended 31 December 1997 due to the loss arising for tax purposes (1996: £nil).

The potential deferred tax liability following revaluation of the group's long leasehold property 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 | 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 | 3,665 | 4,424 | 52 | 3,801 | 11,942 |
| Additions | 116 | 4,562 | 126 | 1,653 | 6,457 |
| Disposals | - | - | - | (394) | (394) |
| Revaluation | 686 | - | - | - | 686 |
| At end of year | 4,467 | 8,986 | 178 | 5,060 | 18,691 |
| Depreciation | | | | | |
| At beginning of year | - | 102 | 52 | 1,366 | 1,520 |
| Charge for year | - | 127 | 16 | 290 | 433 |
| On disposals | - | - | - | (394) | (394) |
| At end of year | - | 229 | 68 | 1,262 | 1,559 |
| Net book value | | | | | |
| At 31 December 1997 | 4,467 | 8,757 | 110 | 3,798 | 17,132 |
| At 31 December 1996 | 3,665 | 4,322 | - | 2,435 | 10,422 |

The cost of fixtures, fittings tools and equipment includes £2,250,000 (1996: £1,753,000) of assets 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.

Included above are assets held under finance leases with a cost of £18,000 (1996: £18,000), accumulated depreciation of £5,700 (1996: £2,100) and a net book value of £12,300 (1996: £15,900).

On 8 April 1998, Hampton International revalued the companies' freehold properties at Beaufort Garden on the basis of open market value for existing use. The directors have incorporated this valuation into these financial statements. The historical cost of freehold land and buildings is £3,781,000.

Notes (continued)

9 Tangible fixed assets (continued)

| Company | Land and buildings | Motor vehicles | Fixtures fittings tools and equipment | Total |
|--------------------------|-----------------------|-------------------|--|-------|
| | £000 | £000 | £000 | £000 |
| Cost or valuation | | | | |
| At beginning of year | 3,665 | 52 | 1,969 | 5,686 |
| Additions | 62 | 126 | 141 | 329 |
| Disposals | - | - | (394) | (394) |
| Transfers to subsidiary | - | (52) | - | (52) |
| Revaluation | 686 | - | - | 686 |
| At end of year | 4,413 | 126 | 1,716 | 6,255 |
| Depreciation | | | | |
| At beginning of year | - | 52 | 935 | 987 |
| Charge for year | - | 16 | 38 | 54 |
| On disposals | - | - | (394) | (394) |
| Transfer to subsidiary | - | (52) | - | (52) |
| At end of year | - | 16 | 579 | 595 |
| Net book value | | | | |
| At 31 December 1997 | 4,413 | 110 | 1,137 | 5,660 |
| At 31 December 1996 | 3,665 | - | 1,034 | 4,699 |

The cost of fixtures, fittings tools and equipment includes £890,000 (1996: £890,000) of assets not subject to depreciation.

On 8 April 1998, Hampton International revalued the companies' freehold properties at Beaufort Garden on the basis of open market value for existing use. The directors have incorporated this valuation into these financial statements. The historical cost of freehold land and buildings is £3,727,000.

Notes (continued)

10 Investments

| Cost and net book value at beginning and end of year | Shares in subsidiary undertaking | | |
|---|--|------------------------------|--|
| | £000 | | |
| | | | 1 |
| | | | <hr/> |
| | 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 | |
|---------------------------|--------------|--------------|--------------|--------------|
| | 1997 £000 | 1996 £000 | 1997 £000 | 1996 £000 |
| Finished goods for resale | 289 | 199 | 101 | 78 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

12 Debtors: amounts falling due within one year

| | Group | | Company | |
|---|--------------|--------------|--------------|--------------|
| | 1997 £000 | 1996 £000 | 1997 £000 | 1996 £000 |
| Trade debtors | 199 | 133 | 77 | 56 |
| Amounts owed by subsidiary undertaking | - | - | 9,086 | 4,944 |
| Other debtors | 492 | 133 | 21 | 7 |
| Prepayments and accrued income | 80 | 36 | 28 | 17 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 771 | 302 | 9,212 | 5,024 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

Notes (continued)

13 Creditors: amounts falling due within one year

| | Group | | Company | |
|--|--------------|--------------|----------------|--------------|
| | 1997 | 1996 | 1997 | 1996 |
| | £000 | £000 | £000 | £000 |
| Bank loans and overdrafts | 2,752 | 1,577 | 2,245 | 1,567 |
| Obligations under finance leases | 8 | 3 | 5 | - |
| Deferred income | 556 | 473 | - | - |
| Trade creditors | 1,046 | 417 | 131 | 116 |
| Other creditors including tax and social security: | | | | |
| Other taxes and social security | 81 | 50 | 30 | 31 |
| Other creditors | 298 | 99 | 96 | 19 |
| Accruals and deferred income | 42 | 31 | 42 | 31 |
| | <u>4,783</u> | <u>2,650</u> | <u>2,549</u> | <u>1,764</u> |

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 | |
|----------------------------------|---------------|--------------|----------------|--------------|
| | 1997 | 1996 | 1997 | 1996 |
| | £000 | £000 | £000 | £000 |
| Bank loans | 2,147 | - | - | - |
| Amounts owed to related parties | 10,895 | 7,151 | 10,895 | 7,151 |
| Shareholders' loan | 1,500 | 1,500 | 1,500 | 1,500 |
| Obligations under finance leases | 15 | 12 | 6 | - |
| | <u>14,557</u> | <u>8,663</u> | <u>12,401</u> | <u>8,651</u> |

The bank loan is secured on the group's leasehold property. In addition, two related parties have each guaranteed the bank borrowings for £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

| | 1997 £000 | 1996 £000 |
|--|--------------|--------------|
| Authorised ordinary shares of £1 each | 2,600 | 2,600 |
| Allotted, called up and fully paid shares of £1 each | <u>2,505</u> | <u>2,505</u> |

16 Reconciliation of movements in equity shareholders' funds

| Group | Share capital £000 | Profit and loss account £000 | Revaluation reserve £000 | 1997 Total shareholders' funds £000 | 1996 Total shareholders' funds £000 |
|----------------------|--------------------------|---------------------------------------|--------------------------------|---|---|
| At beginning of year | 2,505 | (5,305) | 2,414 | (386) | (2,032) |
| Loss for the year | - | (1,445) | - | (1,445) | (768) |
| Property revaluation | - | - | 686 | 686 | 2,414 |
| At end of year | <u>2,505</u> | <u>(6,750)</u> | <u>3,100</u> | <u>(1,145)</u> | <u>(386)</u> |

| Company | Share capital £000 | Profit and loss account £000 | Revaluation reserve £000 | 1997 Total shareholders' funds £000 | 1996 Total shareholders' funds £000 |
|----------------------|--------------------------|---------------------------------------|--------------------------------|---|---|
| At beginning of year | 2,505 | (3,117) | - | (612) | (375) |
| Loss for the year | - | (49) | - | (49) | (237) |
| Revaluation | - | - | 686 | 686 | - |
| At end of year | <u>2,505</u> | <u>(3,166)</u> | <u>686</u> | <u>25</u> | <u>(612)</u> |

Notes (continued)

17 Capital commitments

At the year end the company had no capital commitments (1996: £nil).

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

| | 1997 £000 | 1996 £000 |
|--|--------------|--------------|
| Operating loss | (1,343) | (591) |
| Depreciation charge | 433 | 289 |
| Profit on sale of fixed assets | - | (7) |
| Increase in stock | (90) | (16) |
| Increase in debtors | (469) | (78) |
| Increase in creditors | 956 | 181 |
| | <hr/> | <hr/> |
| Net cash outflow from operating activities | (513) | (222) |
| | <hr/> <hr/> | <hr/> <hr/> |

19 Analysis of changes in net debt

| | Finance leases £000 | Cash £000 | Bank loans/ overdraft £000 | Total £000 |
|---------------------|---------------------------|--------------|----------------------------------|---------------|
| At 1 January 1996 | (1) | 2 | (2,437) | (2,436) |
| Cash inflows | (14) | 2 | 860 | 848 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 1996 | (15) | 4 | (1,577) | (1,588) |
| Cash inflows | (8) | (1) | (3,322) | (3,331) |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| At 31 December 1997 | (23) | 3 | (4,899) | (4,919) |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

Notes *(continued)*

20 Related party transactions

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

- a) The group paid £209,000 (1997: £155,000) for the services of the directors to Beeson Holdings Limited.
- b) The group paid £146,000 (1996: £51,000) in respect of consultancy fees to Beeson & Son Limited
- c) The group incurred £94,000 in advertising and printing costs payable to International Advertising Limited.
- d) The group incurred £124,000 (1996: £109,000) 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 1997:
 - International Hospitals Group Limited £9,358,000 (1996: £6,312,000).
 - Beeson Holdings Limited £1,537,000 (1996: £839,000).

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.