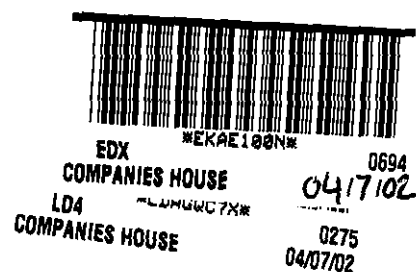


IS Europe Limited

Directors' report and consolidated  
financial statements

Registered number 3203996

31 December 2000



3-7-02 385

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## Directors' report

The directors present their annual report and the audited consolidated financial statements for the year ended 31 December 2000.

### Principal activities

The principal activity of the company is that of an investment company. It has exclusive rights to create Ian Schrager Hotels throughout Europe. These hotels trade through a subsidiary company, Ian Schrager London Limited. St Martin's Lane commenced trading on 7 September 1999. Sanderson was opened on the 25 April 2000. There are no other hotels currently being developed.

### Results and dividends

The directors do not recommend the payment of a dividend for the year (1999: *£nil*). The group's retained profit for the year of £47,000 (1999: *loss of £3,401,000*) has been transferred to reserves.

### Directors and directors' interests

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

J Gleek  
I Schrager  
J Anderson  
D Hamamoto

According to the register of directors' interests, none of the directors who held office at the end of the year had any interest in the shares of group companies, nor were any rights to subscribe for shares in group companies granted to, or exercised by, any of these directors.

### Employment of disabled persons

It is the group's policy to give full consideration to the suitability for employment of disabled persons. Opportunities also exist for employees of the group who become disabled to continue in their employment or be trained for other positions in the group.

### Employee involvement

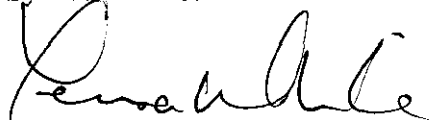
The group's policy is to encourage the involvement of all employees in the group's development and success. This is achieved through its established structure for communicating with employees by means of regular briefings and presentations.

## **Directors' report** *(continued)*

### **Auditors**

KPMG were re-appointed auditors. However, since that date their business was transferred to a limited liability partnership, KPMG LLP. Accordingly KPMG resigned as auditors on 14 June 2002 and the directors thereupon appointed KPMG LLP to fill the vacancy arising. A resolution for the reappointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



**Teresa Catherine White**  
*Secretary*

20 Thayer Street  
London  
W1M 6DD

3 July 2002

## 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 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;
- 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 group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.



PO Box 695  
8 Salisbury Square  
London EC4Y 8BB  
United Kingdom

## **Independent auditors' report to the members of IS Europe Limited**

We have audited the financial statements on pages 5 to 20

### **Respective responsibilities of directors and auditors**

The directors are responsible for preparing the directors' report and, as described on page 3, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

### **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 group'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 the company and group as at 31 December 2000 and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

**KPMG LLP**

**KPMG LLP**

*Chartered Accountants*

*Registered Auditors*

4 July 2002

## Consolidated profit and loss account

at 31 December 2000

	<i>Note</i>	<b>2000</b> <b>£000</b>	1999 £000
<b>Turnover</b>		<b>29,558</b>	4,748
Cost of sales		<b>(6,947)</b>	(1,283)
		<hr/>	<hr/>
<b>Gross profit</b>		<b>22,611</b>	3,465
Administrative expenses		<b>(12,048)</b>	(2,304)
Preopening expenses		<b>(3,575)</b>	(3,488)
		<hr/>	<hr/>
		<b>(15,623)</b>	(5792)
<b>Operating profit/(loss)</b>		<b>6,988</b>	(2,327)
Interest receivable		<b>261</b>	-
Interest payable and similar charges	4	<b>(7,202)</b>	(1,074)
		<hr/>	<hr/>
<b>Profit/(loss) on ordinary activities before taxation</b>	3	<b>47</b>	(3,401)
		<hr/>	<hr/>
<b>Profit/(loss) for the financial year transferred to reserves</b>		<b>47</b>	(3,401)
		<hr/>	<hr/>

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

There were no other gains or losses during the year not reported in the above statement.

The above results relate to continuing operations.

**Consolidated balance sheet**  
*for the year ended 31 December 2000*

	Note	2000 £000	1999 £000
<b>Fixed assets</b>			
Tangible fixed assets	6	115,602	102,475
<b>Current assets</b>			
Stocks	7	487	599
Debtors	9	2,860	2,131
Cash	10	11,405	4,256
		<u>14,752</u>	<u>6,986</u>
<b>Creditors: amounts falling due within one year</b>	11	<u>(8,677)</u>	<u>(9,952)</u>
<b>Net current assets/(liabilities)</b>		<u>6,075</u>	<u>(2,966)</u>
<b>Total assets less current liabilities</b>		<u>121,677</u>	<u>99,509</u>
<b>Creditors: amounts falling due after more than one year</b>	12	<u>(102,167)</u>	<u>(67,924)</u>
<b>Net assets</b>		<u><u>19,510</u></u>	<u><u>31,585</u></u>
<b>Capital and reserves</b>			
Called up share capital	13	5,000	5,000
Share premium accounts	14	10,000	30,000
Capital redemption reserve	14	7,878	-
Profit and loss account	14	<u>(3,368)</u>	<u>(3,415)</u>
<b>Equity shareholders' funds</b>	16	<u><u>19,510</u></u>	<u><u>31,585</u></u>

These financial statements were approved by the board of directors on 3 July 2002 and were signed on its behalf by:

J Glock  
Director





## Company balance sheet

at 31 December 2000

	Note	2000 £000	1999 £000
<b>Fixed assets</b>			
Investment in subsidiary	8	35,000	35,000
<b>Current assets</b>			
Debtors	9	-	1
Cash	10	12	715
		<u>12</u>	<u>716</u>
<b>Creditors: amount falling due within one year</b>	11	<u>(12,807)</u>	<u>(762)</u>
<b>Net current liabilities</b>		<b>(12,795)</b>	<b>(46)</b>
<b>Total assets less current liabilities</b>		<b>22,205</b>	<b>34,954</b>
<b>Net assets</b>		<b>22,205</b>	<b>34,954</b>
<b>Capital and reserves</b>			
Called up share capital	13	5,000	5,000
Share premium accounts	15	10,000	30,000
Capital redemption reserve		7,878	-
Profit and loss account	15	(673)	(46)
<b>Equity shareholders' funds</b>	16	<b>22,205</b>	<b>34,954</b>

These financial statements were approved by the board of directors on 3 July 2002 and were signed on its behalf by:

J Gleek  
Director

## Consolidated cash flow statement

at 31 December 2000

	<i>Note</i>	2000 £000	1999 £000
Net cash inflow from operating activities	20	6,159	2,588
Returns on investment and servicing of finance	21	(6,605)	(4,559)
Capital expenditure	21	(19,747)	(34,469)
Financing	21	22,121	39,938
Increase in cash and cash equivalents		<u>1,928</u>	<u>3,498</u>

## Reconciliation of net cash flow to movement in net debt

Increase in cash in the period	1,928	3,498
Cash inflow from increase in debt	(35,783)	(39,751)
Non cash movements	(600)	1,557
Movement in net debt in the period	<u>(34,455)</u>	<u>(34,696)</u>
Net debt at the start of the period	(62,528)	(27,832)
Net debt at the end of the period	22	<u>(96,983)</u>

## 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 group's financial statements.

#### ***Basis of preparation***

The consolidated financial information has been prepared on a going concern basis, under the historic cost convention and in accordance with generally accepted accounting principles in the United Kingdom.

Following the breach of loan covenants described in note 12 the directors have supplied cashflow information to the banks which shows that they will be in a position to make the loan repayments and consequently they believe that the going concern basis is appropriate. The directors believe their discussions with the banks to waive the breach of loan covenants will be concluded satisfactorily.

The group has adopted the provisions of FRS 15 – Tangible Fixed Assets in the year.

#### ***Basis of consolidation***

The consolidated financial statements include the financial statements of the company and its subsidiary undertaking made up to 31 December 2000.

#### ***Investments***

Investments are stated at cost or cost less provision where there is a permanent diminution in value.

#### ***Fixed assets and depreciation***

Tangible fixed assets are stated at cost less depreciation and any provision for impairment.

The group has adopted FRS 15. In doing so it has taken account of the guidance notes for the Hotel Industry on Tangible Fixed Assets published by the British Association of Hospitality Accountants. These suggested that hotel buildings should be split into 'Building Core' which typically comprises the sub-structure, structure, envelope and cellular composition of the building and 'Building surface finishes and services', typically comprising the elements of the building which are exposed to guests to project the style and character of the property. Accordingly the group had adopted the following estimated useful lives over which assets are depreciated to their residual values.

Freehold buildings	-	50 years
Building surface finishes	-	25 years
Plant and machinery	-	15 years
Fixtures, fittings and equipment	-	5-10 years

No depreciation is provided on freehold land or assets in the course of development. No residual values are ascribed to building surface finishes.

Properties in the course of development are included at the lower of cost and net realisable value. The cost includes directly attributable costs together with interest on specific external debts.

## Notes (continued)

### 1 Accounting policies (continued)

#### Foreign currency transactions

Translations into sterling are made at the average of rates ruling throughout the period for profit and loss items and at the rate ruling at 31 December for assets and liabilities. Exchange differences arising in the ordinary course of trading are included in the profit and loss account.

#### Deferred taxation

Deferred taxation is provided under the liability method in respect of the taxation effect of all timing differences to the extent that it is probable the liabilities will crystallise in the future.

#### Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors.

#### Finance costs

Finance costs are included within the carrying value of the loan and are amortised over the term of the loan.

#### Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials and consumables the weighted average purchase price is used.

#### Turnover

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

### 2 Staff numbers and costs

	2000 £000	1999 £000
The average number of employees in the year was:		
Hotel operating staff	206	46
Management/administration	29	5
Sales and marketing	7	2
Repair and maintenance	11	3
	<hr/>	<hr/>
Total	253	56
The aggregate payroll costs for these persons were as follows:		
Employee costs	5,277	2,502
Social security costs	443	240
Pension costs	17	11
	<hr/>	<hr/>
	5,737	2,753
	<hr/>	<hr/>

## Notes (continued)

### 2 Staff numbers and costs (continued)

None of the directors received any remuneration during the year or previous year.

In 1999 £927,000 of the payroll costs were either recharged to the F&B concession or capitalised in Group development properties.

### Funded defined contribution scheme for employees (group scheme)

Pension costs of £17,000 (1999: £11,000) were charged to the profit and loss account of which £3,000 (1999: £nil) was outstanding at the balance sheet date.

The pension scheme is held with Standard Life and is administered by Inter Alliance.

### 3 Profit/(loss) on ordinary activities before taxation

	2000 £000	1999 £000
<i>Profit/loss on ordinary activities before taxation is stated after charging:</i>		
Auditors' remuneration:		
Audit		
- Group	85	60
- Company	5	5
Non-audit		
- Group	30	
Depreciation and other amounts written off tangible fixed assets:		
- Owned	1,626	333
- Leased	432	165
Loss on disposal of tangible fixed assets	274	-
	<hr/>	<hr/>

### 4 Interest payable and similar charges

	2000 £000	1999 £000
Amounts payable on bank loans and overdrafts	6,209	4,532
Finance charges	1,738	-
Finance charges payable in respect of finance leases	188	27
Less interest capitalised	(933)	(3,485)
	<hr/>	<hr/>
	7,202	1,074
	<hr/>	<hr/>

## Notes (continued)

### 5 Taxation

No corporation tax has been provided due to the availability of losses in prior years.

### 6 Fixed assets - Group

	Freehold land and buildings	Plant and machinery	Fixtures, fittings and equipment	Assets in course of development	Total
	£000	£000	£000	£000	£000
<b>Cost</b>					
At start of the year	63,793	9,000	3,494	26,686	102,973
Additions	6,391	1,887	7,181	-	15,459
Transfers	29,686	(3,000)	-	(26,686)	-
Disposals	-	-	(274)	-	(274)
At end of year	<b>99,870</b>	<b>7,887</b>	<b>10,401</b>	<b>-</b>	<b>118,158</b>
<b>Depreciation</b>					
At start of the year	157	126	215	-	498
Charge for the year	653	386	1,019	-	2,058
Disposals	-	-	-	-	-
At end of year	<b>810</b>	<b>512</b>	<b>1,234</b>	<b>-</b>	<b>2,556</b>
<b>Net book value</b>					
At 31 December 2000	<b>99,060</b>	<b>7,375</b>	<b>9,167</b>	<b>-</b>	<b>115,602</b>
At 31 December 1999	63,636	8,874	3,279	26,686	102,475

Included in the total net book value of freehold buildings is £4,418,000 (1999: £3,485,000) of capitalised interest (net of accumulated depreciation).

Included in fixtures, fittings and equipment are assets held under finance leases with a hotel net book value of £nil (1999: £2,450,000).

All tangible fixed assets of the group are held by the subsidiary undertaking, Ian Schrager London Limited.

## Notes (continued)

### 7 Stocks

	Group 2000 £000	Group 1999 £000
Raw materials and consumables	487	599

### 8 Investment in subsidiary company

	£000
At 1 January 2000 and 31 December 2000	35,000

The company owns 100% of the ordinary shares of Ian Schrager London Limited, a company incorporated in England and Wales, whose principal activity is the operating of two Ian Schrager hotels in London.

### 9 Debtors: amounts due within one year

	Group 2000 £000	Company 2000 £000	Group 1999 £000	Company 1999 £000
Trade debtors	2,179	-	860	-
Receivable from related parties	620	-	561	-
Other debtors	-	-	612	-
Prepayments and accrued income	61	-	98	1
	<u>2,860</u>	<u>-</u>	<u>2,131</u>	<u>1</u>

### 10 Cash

	Group 2000 £000	Company 2000 £000	Group 1999 £000	Company 1999 £000
Cash	6,184	12	4,256	715
Restricted cash	5,221	-	-	-
	<u>11,405</u>	<u>12</u>	<u>4,256</u>	<u>715</u>

Under the terms of the loan agreement, the group was required to set aside £4,022,490 in a general reserve. The group is also required to set aside an amount of £1,198,507 to cover any potential construction liabilities. A settlement has been agreed since the year end to pay £650,000 in relation to a claim in connection with the construction of St Martin's Lane.

## Notes (continued)

### 11 Creditors: amounts falling due within one year

	Group 2000 £000	Company 2000 £000	Group 1999 £000	Company 1999 £000
Bank loans	1,000	-	-	-
Obligations under finance leases	-	-	400	-
Trade creditors	1,897	3	6,553	-
Amounts due to group undertakings and related parties	783	12,804	555	762
Other creditors including taxation and social security	1,650	-	310	-
Accruals and deferred income	3,347	-	2,134	-
	<u>8,677</u>	<u>12,807</u>	<u>9,952</u>	<u>762</u>

The finance leases related to fixtures, fittings and equipment and were repaid in 2000 as part of the refinancing.

### 12 Creditors: amounts falling due after more than one year

	Group 2000 £000	Group 1999 £000
Bank loans and overdrafts	102,167	64,909
Obligations under finance leases	-	1,475
Amounts due to joint investors	-	1,540
	<u>102,167</u>	<u>67,924</u>

Bank loans are repayable as follows:

	2000 £000	1999 £000
Within one year	1,000	-
Between two and five years	10,500	15,707
In five years or more	91,667	49,202
	<u>103,167</u>	<u>64,909</u>

Bank loans falling due in five years or more are as follows:

	2000 £000	1999 £000
Sterling bank loans repayable in quarterly instalments, secured on the group's hotels.	91,667	-
An interest rate swap fixes the interest payable at rates varying between 7.54% and 7.62%		
Sterling cash loans repayable in monthly instalments secured on the group's hotels.	-	49,202
An interest rate swap fixes the interest payable at 7.7%		
	<u>91,667</u>	<u>49,202</u>



## Notes (continued)

### 12 Creditors: amounts falling due after more than one year (continued)

The group has a £105 million loan facility. This is due to be repaid over the next seven years with the timing of repayments contingent on achieved ratios of EBITDA to net interest.

During 2001 the Group had a technical breach of its loan covenants. The Group is in discussions with the banks to waive the breach and suspend the covenant conditions until March 2003.

Finance leases related to fixtures, fittings and equipment were repaid in 2000 as part of refinancing.

The maturity of obligations under finance leases, net of future finance charges, is as follows:

	2000 £000	1999 £000
Within one year	-	400
In the second to fifth years	-	1,475
Over five years	-	-
	<hr/> -	<hr/> 1,875
	<hr/>	<hr/>

### 13 Called up share capital

	2000 £000	1999 £000
<i>Authorised</i>		
1,000 ordinary shares of £1 each	1	1
2,499,999 A ordinary shares of £1 each	2,500	2,500
2,499,997 B ordinary shares of £1 each	2,500	2,500
2 preferred non-voting ordinary shares of £1 each	-	-
	<hr/> 5,001	<hr/> 5,001
	<hr/>	<hr/>
<i>Allotted, called up and fully paid</i>		
2 ordinary shares of £1 each	-	-
2,499,999 A ordinary shares of £1 each	2,500	2,500
2,499,997 B ordinary shares of £1 each	2,500	2,500
1 preferred non-voting ordinary shares of £1 each	-	-
	<hr/> 5,000	<hr/> 5,000
	<hr/>	<hr/>

Both the A and B ordinary shares carry equal voting rights and rank pari passu with each other. The preferred ordinary shares carry non-voting rights and rank pari-passu with the A and B ordinary shares.

## Notes (continued)

### 14 Reserves – group

	Share premium	Profit and loss account	Capital redemption reserve
	£000	£000	£000
At 1 January 2000	30,000	(3,415)	-
Profit for the financial year	-	47	-
Repayment of capital	(20,000)	-	7,878
<b>At 31 December 2000</b>	<b>10,000</b>	<b>(3,368)</b>	<b>7,878</b>

During the year the courts authorised the repayment of £20,000,000 of paid up share premium split equally between the group's shareholders, Ian Schrager Hotels LLC and Burford Hotels Limited. £12,122,000 was paid in the year, the remainder is held in the capital redemption reserve.

### 15 Reserves - company

	Share premium	Profit and loss account	Capital redemption reserve
	£000	£000	£000
At 1 January 2000	30,000	(46)	-
Loss for the financial year	-	(627)	-
Repayment of capital	(20,000)	-	7,878
<b>At 31 December 2000</b>	<b>10,000</b>	<b>(673)</b>	<b>7,878</b>

### 16 Reconciliation of movement in equity shareholders' funds

	Group 2000 £000	Company 2000 £000	Group 1999 £000	Company 1999 £000
Retained profit/(loss) for the financial year	47	(627)	(3,401)	(32)
Repayment of capital	(12,122)	(12,122)	-	-
<b>Net decrease in shareholders' funds</b>	<b>(12,075)</b>	<b>(12,749)</b>	<b>(3,401)</b>	<b>(32)</b>
Opening shareholders' funds	31,585	34,954	34,986	34,986
<b>Closing shareholders' funds</b>	<b>19,510</b>	<b>22,205</b>	<b>31,585</b>	<b>34,954</b>

## Notes (continued)

### 17 Capital commitments

At 31 December 2000 the group had capital commitments of £nil (1999: £14,300,000).

Copies of the consolidated accounts of Ian Schrager Hotels LLC can be obtained from 475 10<sup>th</sup> Avenue, New York, NY 10018 USA.

### 18 Immediate and ultimate controlling parties

IS Europe Limited is owned 50% by Burford Hotels Limited, whose ultimate holding company is Lehman Brothers Holdings Inc., a company incorporated in the state of Delaware in the USA.

The consolidated accounts of the ultimate holding company are available to the public from 399, Park Avenue, New York, USA and from One Broadgate, London.

The other 50% is owed by IS Europe Holdings LLC, a wholly owned subsidiary of Ian Schrager Hotels LLC, a company incorporated in the USA, whose principal place of business is 475 10<sup>th</sup> Avenue, New York, NY 10018 USA.

### 19 Related party transactions

#### *Ian Schrager Hotels LLC*

Ian Schrager Hotels LLC recharge staff costs, overheads and any direct costs they incur in support provided to the company. Total costs incurred in the period were £1,364,000 (1999: £1,728,000).

#### *ISUK Management*

ISUK Management is 100% owned by Ian Schrager Hotels LLC.

ISUK Management charge IS Europe Limited a management fee and staff costs relating to hotel management, which totalled £2,989,000 (1999: £427,000) in the period.

#### *SC London*

SC London is indirectly owned 50% by Ian Schrager Hotels LLC and 50% by Chodorow Ventures LLC.

SC London pays rent and recharged expenditure to IS Europe Limited, which totalled £3,017,000 (£522,000) in the period.

#### *GK UK London Limited*

GK UK London Limited is 50% indirectly owned 50% by Ian Schrager Hotels LLC and 50% by Gold Enterprises LLC.

GK UK London Limited pays rent and recharged expenditure to IS Europe Limited, which totalled £127,000 (1999: £49,000).

#### *Ian Schrager*

Ian Schrager, a director of the group, was reimbursed expenses totalling £11,000.

## Notes (continued)

### 19 Related party transactions (continued)

Related party balances and transactions	2000 £000	1999 £000
<i>Debtors: amounts falling due within one year</i>		
- SC London Limited	457	522
- GK UK London Limited	163	39
	<hr/> 620	<hr/> 561
	<hr/>	<hr/>
	2000 £000	1999 £000
<i>Creditors: amounts falling due within one year</i>		
Ian Schrager Hotels LLC	367	179
Chodorow Ventures LLC	-	72
ISUK Management	416	-
	<hr/> 783	<hr/> 251
	<hr/>	<hr/>
	2000 £000	1999 £000
<i>Creditors: amounts falling due after more than one year</i>		
<i>Amounts due to joint investors:</i>		
- Burford Hotels Limited	-	770
- Ian Schrager Hotels LLC	-	770
	<hr/> -	<hr/> 1,540
	<hr/>	<hr/>

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

### 20 Reconciliation of operating profit/(loss) to net cash flow from operating activities

	2000 £000	1999 £000
Operating profit/(loss)	6,988	(2,327)
Loss on disposal of fixed assets	274	-
Depreciation	2,058	498
Decrease/(increase) in stock	112	(599)
(Increase) in debtors	(729)	(1,177)
Increase/(decrease) in creditors	(2,544)	6,193
	<hr/> 6,159	<hr/> 2,588
	<hr/>	<hr/>
Net cash flow from operating activities	6,159	2,588

## Notes (continued)

### 21 Analysis of cash flows

	2000 £000	1999 £000
<b>Return on investment and servicing of finance</b>		
Interest receivable	261	-
Interest on bank loan	(5,662)	(4,532)
Interest on finance leases	(66)	(27)
Finance costs	(1,138)	-
	<u>(6,605)</u>	<u>(4,559)</u>
<b>Capital expenditure</b>		
Purchase of tangible fixed assets	(14,526)	(34,469)
Increase in restricted cash	(5,221)	-
	<u>(19,747)</u>	<u>(34,469)</u>
<b>Financing</b>		
Repayment of bank loan	(66,466)	-
Draw down of new loan	104,124	39,140
Repayment of capital	(12,122)	-
Capital element of finance lease repayment	(1,875)	(742)
Amounts (repaid to)/received from joint investor	(1,540)	1,540
	<u>22,121</u>	<u>39,938</u>

### 22 Analysis of changes in net debt

	At 1 January 2000 £000	Cash flows £000	Non cash movements £000	At 31 December 2000 £000
Cash at bank and in hand	4,256	1,928	-	6,184
Debt due within one year	-	(1,000)	-	(1,000)
Debt due after more than one year	(66,466)	(36,658)	-	(103,124)
Finance leases	(1,875)	1,875	-	-
Deferred finance costs	1,557	-	(600)	957
	<u>(62,528)</u>	<u>(33,855)</u>	<u>(600)</u>	<u>(96,983)</u>
Net debt	<u>(62,528)</u>	<u>(33,855)</u>	<u>(600)</u>	<u>(96,983)</u>

## **Notes** *(continued)*

### **23 Contingent liabilities**

A claim has been made against the company arising from the construction of St Martins Lane. The claim is in the sum of £1.2m and is set for trial in November 2001. Since the year end the claim has been settled for £650,000. This amount has been included in creditors falling due within one year.

The compensation of the hotel designer consists of a base fee that has been paid to the designer and a fee of 1% of hotel gross revenues, as defined, for the period from the opening of each hotel to August 2009 for St. Martins Lane and to March 2010 for Sanderson. The group paid a portion of the revenue-based design fee during 2001. The two sole shareholders of the group acknowledge that the nature of the group's obligation to the designer, if any, is disputed by the parties. Each shareholder has agreed to pay 50% of prospective payments due to the designer.

### **24 Post balance sheet events**

During 2001, the company was the subject of a routine Inland Revenue investigation, following which a number of matters have been raised, which the company, together with its advisors in the process of discussing

No provision has been made for any liabilities that might arise as it is impractical to quantify any potential liability given the early stage of the investigation and discussions with the Inland Revenue.

A claim made by the Dorchester Hotel Ltd made in 2001 was settled in 2002 between the parties for an amount of £136,000.