



Grand Hotel Group Limited

Report and Accounts

31st October 2001



Company Registration Number 3657769

Grand Hotel Group Limited

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DIRECTORS

K Leech (Chairman)
M Pasquale
P Mason (Non Executive)
S Last (Non Executive)
S W Sim (Non Executive)
R J Smith (Non Executive)

SECRETARY

B Jeffries

AUDITORS

Ernst & Young LLP
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

BANKERS

Barclays Bank Plc
London Corporate Banking Centre
50 Pall Mall
PO Box 15161R
London SW1A 1QA

SOLICITORS

Herbert Smith
Exchange House
Primrose Street
London
EC2A 2HS

REGISTERED OFFICE

Grand Ocean Hotel
Longridge Avenue
Saltdean
East Sussex BN2 8RP

Grand Hotel Group Limited

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DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31st October 2001.

RESULTS AND DIVIDENDS

The loss for the year, after taxation and exceptional items, amounted to £288,000. The directors do not recommend the payment of a dividend.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The company's principal activity during the year was the ownership and operation of leisure hotels.

Difficult trading conditions were experienced during the first half of the year due to the foot and mouth and fuel crises. The second half of the year saw improved trading conditions which have extended into 2002.

On 16 November 2000 Grand Hotel (Burstin) Limited, the Company's previously dormant subsidiary, purchased the trade and net assets of the Burstin Hotel, a leisure hotel in Kent, from Queensborough Holdings Limited by way of the issue of 11,000,000 £1 ordinary shares. On the same date the Company purchased these shares from Queensborough Holdings Limited for £11,000,000. The details of this acquisition are given in note 10 to the accounts.

DIRECTORS AND THEIR INTERESTS

The directors at 31st October 2001 and their interests in the share capital of the company were as follows:

| | At 31st October 2001 | At 31st October 2000 |
|--|----------------------|----------------------|
| K Leech (Chairman) | 85 | 85 |
| R Rodgers (Retired 31 October 2001) | 2 | 2 |
| D Marriott (Resigned 31 January 2002) | 1 | 1 |
| M Pasquale (Appointed 14 January 2002) | - | - |
| P Mason (Non Executive) | 10 | 10 |
| S Last (Non Executive) | 2 | 2 |
| S W Sim (Non Executive) | - | - |
| R J Smith (Non Executive) | - | - |
| | <hr/> | <hr/> |
| | 100 | 100 |
| | <hr/> | <hr/> |

K Leech's interest in the ordinary share capital of the company is held through Cygnet Ventures Limited, a company registered in Jersey.

DISABLED EMPLOYEES

The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

Grand Hotel Group Limited

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DIRECTORS' REPORT

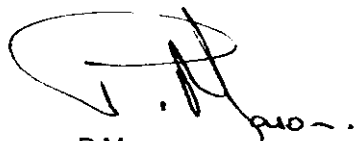
EMPLOYEE INVOLVEMENT

During the year, the policy of providing employees with information about the company has been continued by way of regular meetings at all levels, through which employees have also been encouraged to present their suggestions and views on the company's performance. These meetings, particularly between local management and employees allow a free flow of information and ideas.

AUDITORS

A resolution to reappoint Ernst & Young LLP as auditors will be put to members at the Annual General Meeting.

By order of the board

A handwritten signature in black ink, appearing to read 'P. Mason', is written over a horizontal line.

P Mason

Director

27 November 2002

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing these accounts, the directors are required to:

- * select suitable accounting policies and then apply them consistently;
- * make judgements and estimates that are reasonable and prudent; and
- * state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GRAND HOTEL GROUP LIMITED

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We have audited the group's financial statements for the year ended 31 October 2001 which comprise the Consolidated Profit and Loss Account, Consolidated Balance Sheet, Balance Sheet, Consolidated Statement of Cashflows and related notes 1 to 27. These financial statements have been prepared on the basis of the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you 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.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 judgments 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.

Going concern

In forming our opinion we have considered the adequacy of the disclosures made in Note 1 to the financial statements concerning the possible outcome of negotiations for finance being made available to replace the existing bank loans which are repayable on demand and to refinance the group. The financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being made available. The financial statements do not include any adjustments which would result from a failure to obtain funding. Our opinion is not qualified in this respect.

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
GRAND HOTEL GROUP LIMITED - Continued**

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Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31st October 2001 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Company's Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
Southampton

27 NOV 2002

Grand Hotel Group Limited

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CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31st October 2001

| | Notes | 2001 Before Exceptional Items £000 | 2001 Exceptional items (Note 9) £000 | 2001 Total £000 | 2000 £000 |
|---|-------|--|--|-----------------------|--------------|
| TURNOVER | 2 | | | | |
| Continuing operations: | | | | | |
| Ongoing | | 16,691 | - | 16,691 | 17,090 |
| Acquisitions | | 6,014 | - | 6,014 | - |
| | | 22,705 | - | 22,705 | 17,090 |
| COST OF SALES | | 13,116 | - | 13,116 | 10,440 |
| GROSS PROFIT | 4 | 9,589 | - | 9,589 | 6,650 |
| ADMINISTRATIVE EXPENSES | | 6,571 | - | 6,571 | 4,519 |
| EXCEPTIONAL ADMINISTRATIVE EXPENSES | 9 | - | 806 | 806 | 611 |
| OPERATING PROFIT | 3,4 | | | | |
| Continuing operations: | | | | | |
| Ongoing | | 1,487 | (806) | 681 | 1,520 |
| Acquisitions | | 1,531 | - | 1,531 | - |
| | | 3,018 | (806) | 2,212 | 1,520 |
| Bank interest receivable | | 29 | - | 29 | 42 |
| Other interest receivable | | - | - | - | 28 |
| Interest payable and similar charges | 7 | (2,841) | - | (2,841) | (1,796) |
| PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION | | 206 | (806) | (600) | (206) |
| Tax on profit/(loss) on ordinary activities | 8 | 312 | - | 312 | (207) |
| PROFIT/(LOSS) FOR THE PERIOD | 20 | 518 | (806) | (288) | (413) |

There are no recognised gains or losses other than the loss for the year to 31 October 2001 of £288,000 (2000: £413,000)

Grand Hotel Group Limited

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CONSOLIDATED BALANCE SHEET

At 31st October 2001

| | Notes | 2001 £000 | 2000 £000 |
|--|-------|-----------------|----------------|
| FIXED ASSETS | | | |
| Intangible assets - negative goodwill | 11 | (1,433) | (1,970) |
| Tangible assets | 12 | 32,573 | 21,521 |
| | | <u>31,140</u> | <u>19,551</u> |
| CURRENT ASSETS | | | |
| Stocks | 13 | 213 | 272 |
| Debtors | 14 | 2,369 | 1,229 |
| Cash at bank and in hand | | 2,795 | 1,872 |
| | | <u>5,377</u> | <u>3,373</u> |
| CREDITORS: amounts falling due within one year | 15 | 27,105 | 6,382 |
| NET CURRENT LIABILITIES | | <u>(21,728)</u> | <u>(3,009)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 9,412 | 16,542 |
| CREDITORS: amounts falling due after more than one year | | | |
| Loans | 16 | 9,207 | 16,113 |
| Obligations under finance leases and hire purchase contracts | 17 | 166 | 115 |
| | | <u>9,373</u> | <u>16,228</u> |
| PROVISIONS FOR LIABILITIES AND CHARGES | 18 | 166 | 153 |
| | | <u>(127)</u> | <u>161</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 19 | - | - |
| Profit and loss account | 20 | (127) | 161 |
| SHAREHOLDERS' FUNDS - EQUITY INTERESTS | | <u>(127)</u> | <u>161</u> |

S Last
DIRECTOR

27 November 2002

Grand Hotel Group Limited

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BALANCE SHEET

At 31st October 2001

| Notes | 2001 £000 | 2000 £000 |
|--|-----------------|----------------|
| FIXED ASSETS | | |
| Investments | 10 11,233 | - |
| Intangible assets - negative goodwill | 11 (1,433) | (1,970) |
| Tangible assets | 12 21,652 | 21,521 |
| | <u>31,452</u> | <u>19,551</u> |
| CURRENT ASSETS | | |
| Stocks | 13 213 | 272 |
| Debtors | 14 2,369 | 1,229 |
| Cash at bank and in hand | 2,795 | 1,872 |
| | <u>5,377</u> | <u>3,373</u> |
| CREDITORS: amounts falling due within one year | 15 27,493 | 6,382 |
| NET CURRENT LIABILITIES | <u>(22,116)</u> | <u>(3,009)</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | 9,336 | 16,542 |
| CREDITORS: amounts falling due after more than one year | | |
| Loans | 16 9,207 | 16,113 |
| Obligations under finance leases and hire purchase contracts | 17 166 | 115 |
| | <u>9,373</u> | <u>16,228</u> |
| PROVISIONS FOR LIABILITIES AND CHARGES | 18 114 | 153 |
| | <u>(151)</u> | <u>161</u> |
| CAPITAL AND RESERVES | | |
| Called up share capital | 19 - | - |
| Profit and loss account | 20 (151) | 161 |
| SHAREHOLDERS' FUNDS - EQUITY INTERESTS | <u>(151)</u> | <u>161</u> |

S Last
DIRECTOR

27 November 2002

The operating profit attributable to the acquired hotel for the financial year ended 31 January 2000 was £1,599,000.

Grand Hotel Group Limited

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CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31st October 2001

| | Notes | 2001 £000 | 2000 £000 |
|---|-------|--------------|--------------|
| NET CASH INFLOW FROM OPERATING ACTIVITIES | 22a | 4,261 | 2,251 |
| RETURNS ON INVESTMENTS AND SERVICING OF FINANCE | 22b | (1,537) | (818) |
| TAXATION - UK CORPORATION TAX PAID | | (125) | (243) |
| CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT | 22b | (1,195) | (1,717) |
| ACQUISITIONS AND DISPOSALS | 22b | (8,218) | - |
| MANAGEMENT OF LIQUID RESOURCES | 22b | 500 | 1,607 |
| FINANCING | 22b | 7,737 | (184) |
| INCREASE IN CASH | 22c | 1,423 | 896 |

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

| | | 2001 £000 | 2000 £000 |
|---|---------|--------------|--------------|
| Increase/(Decrease) in cash | | 1,423 | 896 |
| Cash outflow from decrease in lease financing | | 243 | 184 |
| Cash (inflow)/outflow from change in debt financing | | | |
| New long term bank loan | (7,980) | - | - |
| Issue costs of new long term loan | 164 | - | - |
| Short term loan advanced | 659 | 460 | - |
| | | (7,157) | 460 |
| Cash inflow from decrease in liquid resources | | (500) | (1,607) |
| Change in net debt resulting from cash flows | 22c | (5,991) | (67) |
| Finance charge on vendor loan stock | | (922) | (835) |
| New finance leases and hire purchase contracts | | (306) | (101) |
| Loan issue costs amortisation | | (87) | (63) |
| Provision against short term loan (note 9) | | (659) | (460) |
| New Vendor loan notes issued | | (3,000) | - |
| MOVEMENT IN NET DEBT | | (10,965) | (1,526) |
| NET DEBT AT 31st October 2001 | 22c | (28,112) | (17,147) |

NOTES TO THE ACCOUNTS

At 31st October 2001

1. ACCOUNTING POLICIES

Fundamental accounting concept

The financial statements have been prepared on the going concern basis on the assumption that future funding will be available to enable the company and group to continue operating. Negotiations are presently ongoing, with a major financial institution, regarding replacement funds to enable repayment of the group's current bank loans, which are repayable on demand. These negotiations are being undertaken in order to develop a refinancing package that will provide sufficient funds to: repay the £16.5m bank loans currently outstanding within the group, repay £10.4 million to the company's controlling party relating to the repayment of the Vendor Loan Stock (Rank Group Plc) in June 2002 undertaken on the company's behalf, redeem the group's £3 million 7% vendor Loan Stock (Queensborough Holdings Limited), fund the further development of the company and group, and for working capital requirements.

While there can be no certainty as to the outcome of these negotiations, the directors anticipate that the negotiations will be successful and therefore believe that it is appropriate to prepare the financial statements on a going concern basis. The financial statements do not reflect any adjustments which would have to be made should replacement funding not be made available.

Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation

The group accounts consolidate the accounts of Grand Hotel Group Limited and all its subsidiary undertakings drawn up to 31 October. No profit and loss account is presented for Grand Hotel Group Limited as permitted by section 230 of the Companies Act 1985.

The Burstin Hotel has been included in the group accounts using the acquisition method of accounting. Accordingly the group profit and loss account and statement of cash flows include the results of the Burstin Hotel for the period from its acquisition on 16 November 2000. The purchase consideration has been allocated to assets and liabilities on the basis of fair value at the date of acquisition.

Goodwill

Where the fair value of the separable net assets exceeds the fair value of the consideration for an acquired undertaking the difference is treated as negative goodwill and is capitalised and amortised through the profit and loss account in the period in which the non-monetary assets to which it relates are recovered.

On acquisition of subsidiary undertakings, positive goodwill (being the excess of purchase consideration over the fair value of net assets) is capitalised as an intangible fixed asset. Fair values are attributed to the identifiable assets and liabilities that existed at the date of acquisition, reflecting their condition at that date. Adjustments are also made to bring the accounting policies of acquired businesses into alignment with those of the group. Goodwill arising on acquisitions is amortised by equal annual instalments over its estimated useful economic life, taking into account the nature of the business acquired.

Fixed Assets

All fixed assets are recorded at cost.

Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost of each asset evenly over its expected useful life as follows:

| | |
|------------------------------|---------------------|
| Freehold buildings | over 50 years |
| Leasehold land and buildings | over the lease term |
| Plant and machinery | over 20 years |
| Fixtures and fittings | over 4 to 10 years |
| Computer equipment | over 3 years |
| Motor Vehicles | over 3 years |

The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Stocks

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

Grand Hotel Group Limited

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NOTES TO THE ACCOUNTS

At 31st October 2001

1. ACCOUNTING POLICIES (continued)

Leasing and hire purchase commitments

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Pensions

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

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse.

Deferred taxation assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

2. TURNOVER

Turnover, which is stated net of value added tax, represents amounts received from and invoiced to third parties for services provided during the year.

Turnover is attributable to one continuing activity, the letting of hotel bedrooms and associated bar, food and retail sales in the UK.

3. OPERATING PROFIT

This is stated after charging/(crediting):

| | 2001 £000 | 2000 £000 |
|--|--------------|--------------|
| Depreciation of owned fixed assets | 782 | 364 |
| Depreciation of assets held under finance leases | 208 | 178 |
| Amortisation of negative goodwill | (537) | (537) |
| Auditor's remuneration | | |
| - Audit services | 30 | 21 |
| - Non audit services | 10 | 9 |
| Operating lease rentals | | |
| - Land and buildings | 88 | 67 |
| - Plant and machinery | 52 | 25 |

4. COST OF SALES AND OTHER OPERATING EXPENSES

| | Ongoing £000 | Acquisition £000 | Total £000 |
|---|-----------------|---------------------|---------------|
| Turnover | 16,691 | 6,014 | 22,705 |
| Cost of Sales | 10,183 | 2,933 | 13,116 |
| GROSS PROFIT | 6,508 | 3,081 | 9,589 |
| Administrative expenses | 5,021 | 1,550 | 6,571 |
| Exceptional administrative expense items (note 9) | 806 | - | 806 |
| OPERATING PROFIT | 681 | 1,531 | 2,212 |

Grand Hotel Group Limited

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NOTES TO THE ACCOUNTS

At 31st October 2001

| 5. DIRECTORS' EMOLUMENTS | 2001 £000 | 2000 £000 |
|--|--------------|--------------|
| Emoluments | 206 | 193 |
| Compensation for loss of office | 86 | - |
| Company contributions paid to money purchase pension schemes | 11 | 9 |

The amounts in respect of the highest paid director are as follows:

| | | |
|--|----|----|
| Emoluments | 65 | 60 |
| Compensation for loss of office | 86 | - |
| Company contributions paid to money purchase pension schemes | 6 | 6 |

Included in emoluments above, is £19,000 (2000: £55,000) paid to Queensborough Holdings Limited and Great British Holiday Parks Limited for making available the services of P Mason and S Last as directors of the Company.

| 6. STAFF COSTS | 2001 £000 | 2000 £000 |
|-----------------------|--------------|--------------|
| Wages and salaries | 6,948 | 5,532 |
| Social security costs | 435 | 338 |
| Other pension costs | 77 | 93 |
| | <u>7,460</u> | <u>5,963</u> |

The monthly average number of employees during the period was as follows:

| | 2001 No. | 2000 No. |
|----------------|-------------|-------------|
| Administration | 19 | 38 |
| Operations | 792 | 637 |
| | <u>811</u> | <u>675</u> |

| 7. INTEREST PAYABLE AND SIMILAR CHARGES | 2001 £000 | 2000 £000 |
|--|--------------|--------------|
| Bank loans | 1,416 | 819 |
| Other loans | 7 | 8 |
| Finance charges payable under finance leases and hire purchase contracts | 104 | 71 |
| Amortisation of loan costs | 87 | 63 |
| Finance charge on vendor loan notes | 1,227 | 835 |
| | <u>2,841</u> | <u>1,796</u> |

| 8. TAX ON PROFIT ON ORDINARY ACTIVITIES | 2001 £000 | 2000 £000 |
|---|--------------|--------------|
| Based on the profit for the period: | | |
| UK corporation tax | - | 129 |
| Deferred taxation (note 18) | 13 | 102 |
| | <u>13</u> | <u>231</u> |
| Corporation tax overprovided in previous year | (325) | (24) |
| | <u>(312)</u> | <u>207</u> |

Grand Hotel Group Limited

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NOTES TO THE ACCOUNTS

At 31st October 2001

9. EXCEPTIONAL ITEMS

During the year the company advanced a short term loan of £659,000 (2000: £460,000) and paid £147,000 (2000: £151,000) for services on behalf of Leisure Travel Group Limited, a related party. The recovery of this debt is doubtful and full provision has been made (see note 26). The exceptional items all related to ongoing activities.

| | 2001 £000 | 2000 £000 |
|--|--------------|--------------|
| Provision for short term loan advanced | 659 | 460 |
| Provision for purchase of goods and services | 147 | 151 |
| | <u>806</u> | <u>611</u> |

10. INVESTMENTS

| | <i>Subsidiary undertakings £000</i> |
|--------------------|---|
| Cost: | |
| At 31 October 2000 | - |
| Additions | 11,233 |
| At 31 October 2001 | <u>11,233</u> |

At 31 October 2001 the company had the following wholly owned subsidiary undertakings:

| <i>Name of company</i> | <i>Holding</i> | <i>Proportion of shares held</i> | <i>Nature of business</i> |
|-----------------------------------|-----------------|--|-------------------------------|
| Grand Hotel (Burstin) Limited | Ordinary shares | 100% | Hoteliers |
| Grand Hotel (Scarborough) Limited | Ordinary shares | 100% | Dormant |
| Grand Hotel (Brighton) Limited | Ordinary shares | 100% | Dormant |
| Grand Hotel Casinos Limited | Ordinary shares | 100% | Dormant |

On 16 November 2000 Grand Hotel (Burstin) Limited, the Company's previously dormant subsidiary, purchased the trade and net assets of the Burstin Hotel, a leisure hotel in Kent, from Queensborough Holdings Limited by way of the issue of 11,000,000 £1 ordinary shares. On the same date, the Company purchased these shares from Queensborough Holdings Limited for a consideration of £11,000,000. This consideration was satisfied by £8,000,000 of cash and £3,000,000 of issued vendor loan notes. The investment in Grand Hotel (Burstin) Limited has been included in the company's balance sheet at its fair value at the date of acquisition.

As at 16 November 2000 S Last and P Mason were directors of Queensborough Holdings Limited.

| | <i>Book and fair value to the group £000</i> |
|---------------------------------------|--|
| Tangible fixed assets | 11,233 |
| Stock | 23 |
| Debtors | 363 |
| Cash | 15 |
| Creditors due within one year | (401) |
| Net assets | <u>11,233</u> |
| Discharged by: | |
| Cash | 8,000 |
| Vendor Loan Notes | 3,000 |
| Costs associated with the acquisition | 233 |
| | <u>11,233</u> |

There was no goodwill arising on this acquisition.

There were no material accounting policy alignments and fair value adjustments in respect of the acquisition.

Grand Hotel (Burstin) Limited contributed £1,846,000 to the group's net operating cashflows.

The pre-acquisition turnover and operating profit for the Burstin Hotel are set out below:

Grand Hotel Group Limited

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NOTES TO THE ACCOUNTS

At 31st October 2001

10. INVESTMENTS (continued)

The following information has been extracted from the records of Queensborough Holdings Limited for the Burstin Hotel.

| | Period from 01/02/00 to 16/11/00 £000 |
|------------------|--|
| Turnover | 4,451 |
| Operating Profit | 768 |

The operating profit attributable to the acquired hotel for the financial year ended 31 January 2000 was £1,599,000.

Amounts relating to interest and taxation for periods prior to the acquisition are not available to the group and accordingly only 'Operating profit' figures have been included above.

11. INTANGIBLE FIXED ASSETS

*Negative
Goodwill
£000*

GROUP AND COMPANY

Cost:

At 31 October 2000 and 31 October 2001 (2,686)

Amortisation

At 31 October 2000 716

Movement in the year 537

At 31 October 2001 1,253

Net book value:

At 31 October 2001 (1,433)

At 31 October 2000 (1,970)

Negative goodwill is being amortised on a straight line basis over 5 years.

12. TANGIBLE FIXED ASSETS

GROUP

| | Land and buildings | | | Plant, fixtures and other equipment | Total |
|------------------------|--------------------|---------------------------|----------------------------|---|---------------|
| | Freehold £000 | Long Leasehold £000 | Short Leasehold £000 | £000 | £000 |
| Cost: | | | | | |
| At 31 October 2000 | 14,381 | 5,213 | 44 | 2,495 | 22,133 |
| Acquisitions | 9,695 | - | - | 1,538 | 11,233 |
| Additions | 172 | 36 | - | 651 | 859 |
| Disposals | - | - | - | (54) | (54) |
| At 31 October 2001 | <u>24,248</u> | <u>5,249</u> | <u>44</u> | <u>4,630</u> | <u>34,171</u> |
| Depreciation: | | | | | |
| At 31 October 2000 | 137 | 93 | 15 | 367 | 612 |
| Provided in the period | 261 | 82 | - | 647 | 990 |
| Disposals | - | - | - | (4) | (4) |
| At 31 October 2001 | <u>398</u> | <u>175</u> | <u>15</u> | <u>1,010</u> | <u>1,598</u> |
| Net book value: | | | | | |
| At 31 October 2001 | <u>23,850</u> | <u>5,074</u> | <u>29</u> | <u>3,620</u> | <u>32,573</u> |
| At 31 October 2000 | <u>14,244</u> | <u>5,120</u> | <u>29</u> | <u>2,128</u> | <u>21,521</u> |

Grand Hotel Group Limited

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NOTES TO THE ACCOUNTS

At 31st October 2001

12. TANGIBLE FIXED ASSETS (continued)

| COMPANY | Land and buildings | | Short Leasehold £000 | Plant, fixtures and other equipment £000 | Total £000 |
|------------------------|--------------------|---------------------------|----------------------------|---|---------------|
| | Freehold £000 | Long Leasehold £000 | | | |
| Cost: | | | | | |
| At 31 October 2000 | 14,381 | 5,213 | 44 | 2,495 | 22,133 |
| Additions | 172 | 36 | - | 651 | 859 |
| Disposals | - | - | - | (54) | (54) |
| At 31 October 2001 | <u>14,553</u> | <u>5,249</u> | <u>44</u> | <u>3,092</u> | <u>22,938</u> |
| Depreciation: | | | | | |
| At 31 October 2000 | 137 | 93 | 15 | 367 | 612 |
| Provided in the period | 107 | 82 | - | 489 | 678 |
| Disposals | - | - | - | (4) | (4) |
| At 31 October 2001 | <u>244</u> | <u>175</u> | <u>15</u> | <u>852</u> | <u>1,286</u> |
| Net book value: | | | | | |
| At 31 October 2001 | <u>14,309</u> | <u>5,074</u> | <u>29</u> | <u>2,240</u> | <u>21,652</u> |
| At 31 October 2000 | <u>14,244</u> | <u>5,120</u> | <u>29</u> | <u>2,128</u> | <u>21,521</u> |

The net book value of plant and machinery for the group and the company includes an amount of £470,384 (2000: £371,377) in respect of assets held under finance leases and hire purchase contracts.

13. STOCKS

| | Group | | Company | |
|------------------|--------------|--------------|--------------|--------------|
| | 2001 £000 | 2000 £000 | 2001 £000 | 2000 £000 |
| Goods for resale | 213 | 272 | 213 | 272 |
| | <u>213</u> | <u>272</u> | <u>213</u> | <u>272</u> |

Goods for resale are bar liquor, stocks of food and retail shop stocks.

14. DEBTORS

| | Group | | Company | |
|--------------------------------|--------------|--------------|--------------|--------------|
| | 2001 £000 | 2000 £000 | 2001 £000 | 2000 £000 |
| Trade debtors | 1,097 | 657 | 1,097 | 657 |
| Other debtors | 119 | 191 | 119 | 191 |
| Current Corporation Tax | 325 | - | 325 | - |
| Prepayments and accrued income | 828 | 381 | 828 | 381 |
| | <u>2,369</u> | <u>1,229</u> | <u>2,369</u> | <u>1,229</u> |

Included in other debtors is an amount of £66,000 (2000: £66,000) which is due after more than one year.

15. CREDITORS: amounts falling due within one year

| | Group | | Company | |
|---|---------------|--------------|---------------|--------------|
| | 2001 £000 | 2000 £000 | 2001 £000 | 2000 £000 |
| Loans (note 16) | 21,332 | 2,600 | 21,332 | 2,600 |
| Obligations under finance leases and hire purchase contracts (note 17) | 203 | 191 | 203 | 191 |
| Trade creditors | 1,434 | 554 | 1,434 | 554 |
| Corporation tax | 8 | 133 | 8 | 133 |
| Other taxes and social security costs | 850 | 738 | 850 | 738 |
| Accruals | 1,243 | 733 | 1,243 | 733 |
| Amounts owed to subsidiary undertakings | - | - | 388 | - |
| Guest deposits | 2,035 | 1,433 | 2,035 | 1,433 |
| | <u>27,105</u> | <u>6,382</u> | <u>27,493</u> | <u>6,382</u> |

Grand Hotel Group Limited

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NOTES TO THE ACCOUNTS

At 31st October 2001

16. LOANS

| | Group and Company | |
|---|-------------------|---------------|
| | 2001 | 2000 |
| | £000 | £000 |
| Amounts repayable: | | |
| In one year or less, or on demand | 21,332 | 2,600 |
| In more than one year but not more than two years | 2,000 | 11,309 |
| In more than two years but not more than five years | 1,500 | 5,000 |
| In more than five years | 5,980 | - |
| | <u>30,812</u> | <u>18,909</u> |
| Less: issue costs | (273) | (196) |
| | <u>30,539</u> | <u>18,713</u> |
| Current obligations (note 15) | 21,332 | 2,600 |
| Non-current obligations | 9,207 | 16,113 |
| | <u>30,539</u> | <u>18,713</u> |

The loan balances comprised:

£10,000,000 (2000: £10,000,000) bank loan at 2% over Libor with capital repayments of £2,500,000 due on the second, third, fourth and fifth anniversaries of the draw down of the loan in June 1999. The first repayment of £2,500,000 was not paid in June 2001, and therefore the remainder of the loan is now repayable on demand (see note 1).

£7,980,000 (2000: £nil) bank loan at 2.25% over Libor with capital repayments of £500,000 on the second, third, fourth, fifth, sixth and seventh anniversaries with a final payment of £5,000,000 on the eighth anniversary of the draw down of the loan in November 2000.

£9,732,000 (2000: £8,809,000) vendor loan stock (Rank Group Plc), repayable in June 2002 at an interest rate of 10%. The cumulative finance charge on the loan stock is repayable on 23 June 2002 and therefore has been included within the balance outstanding above. Security for the loan stock has been provided by the company's controlling party. In addition the company has granted a charge over all of the shares in its subsidiary company, Grand Hotel (Burstin) Limited, as security for this obligation of the controlling party. This security ranks in all respects second in priority to the security granted on the bank loans.

£3,000,000 (2000: £Nil) vendor loan stock (Queensborough Holdings Limited), repayable equally in April 2002 and 2003 at an interest rate of 7%.

£100,000 (2000:£Nil) shareholder loan (Cygnet Ventures Limited) at 2% over the base rate of HSBC Bank plc, repayable on demand.

The bank loans are secured by fixed and floating charges over the group's properties and other group assets.

17. OBLIGATIONS UNDER FINANCE LEASES AND HIRE PURCHASE CONTRACTS

The maturity of these amounts is as follows:

| | Group and Company | |
|---|-------------------|------------|
| | 2001 | 2000 |
| | £000 | £000 |
| Amounts payable: | | |
| Within one year | 277 | 191 |
| In two to five years | 194 | 156 |
| | <u>471</u> | <u>347</u> |
| Less: finance charges allocated to future periods | 102 | 41 |
| | <u>369</u> | <u>306</u> |
| Finance leases and hire purchase contracts are analysed as follows: | | |
| Current obligations (note 15) | 203 | 191 |
| Non-current obligations | 166 | 115 |
| | <u>369</u> | <u>306</u> |

Grand Hotel Group Limited

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NOTES TO THE ACCOUNTS

At 31st October 2001

18. PROVISIONS FOR LIABILITIES AND CHARGES

The movements in deferred taxation during the current and previous year are as follows:

| | Group | | Company | |
|------------------------------|------------|------------|------------|------------|
| | 2001 | 2000 | 2001 | 2000 |
| | £000 | £000 | £000 | £000 |
| At 1 October | 153 | 51 | 153 | 51 |
| Charge for the year (Note 8) | 13 | 102 | (39) | 102 |
| At 31 October | <u>166</u> | <u>153</u> | <u>114</u> | <u>153</u> |

Deferred taxation provided in the accounts and the amounts not provided are as follows:

| | Provided | | Not provided | |
|---|------------|------------|--------------|------------|
| | 2001 | 2000 | 2001 | 2000 |
| | £000 | £000 | £000 | £000 |
| Capital allowances in advance of depreciation | 306 | 154 | 254 | 154 |
| Other timing differences | (140) | (1) | (140) | (1) |
| | <u>166</u> | <u>153</u> | <u>114</u> | <u>153</u> |

19. SHARE CAPITAL

| | Authorised | | Allotted, called up and fully paid | |
|----------------------------|------------|------|------------------------------------|------|
| | 2001 | 2000 | 2001 | 2000 |
| | No. | No. | £ | £ |
| Ordinary shares of £1 each | 900 | 900 | 100 | 100 |
| Rank shares | 100 | 100 | - | - |

20. RESERVES

PROFIT AND LOSS ACCOUNT

| | Group | Company |
|---------------------|--------------|--------------|
| | £000 | £000 |
| At 31 October 2000 | 161 | 161 |
| Loss for the period | (288) | (312) |
| At 31 October 2001 | <u>(127)</u> | <u>(151)</u> |

21. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

| | Share Capital | Profit and loss account | Total shareholders' funds |
|---------------------|---------------|-------------------------|---------------------------|
| | 2001 | 2001 | 2001 |
| | £000 | £000 | £000 |
| At 31 October 2000 | - | 161 | 161 |
| Loss for the period | - | (288) | (288) |
| At 31 October 2001 | <u>-</u> | <u>(127)</u> | <u>(127)</u> |

Grand Hotel Group Limited

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NOTES TO THE ACCOUNTS

At 31st October 2001

22. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of operating profit to net cash inflow from operating activities

| | 2001 £000 | 2000 £000 |
|--|--------------|--------------|
| Operating profit | 2,212 | 1,520 |
| Depreciation | 990 | 542 |
| Amortisation of negative goodwill | (537) | (537) |
| Loss on sale of assets | 36 | - |
| (Increase)/Decrease In Debtors | (455) | 1,026 |
| Decrease In Stocks | 82 | 40 |
| Increase/(Decrease) In Creditors | 1,274 | (800) |
| Provision against short term loan (note 9) | 659 | 460 |
| Net cash inflow from operating activities | <u>4,261</u> | <u>2,251</u> |

(b) Analysis of cash flows for headings netted in the statement of cash flows

| | 2001 £000 | 2000 £000 |
|--|----------------|--------------|
| <i>Returns on investments and servicing of finance</i> | | |
| Interest received | 29 | 44 |
| Interest paid | (1,298) | (791) |
| Interest element of finance leases and hire purchase | (104) | (71) |
| Issue costs of new long term loan | (164) | - |
| | <u>(1,537)</u> | <u>(818)</u> |

| | 2001 £000 | 2000 £000 |
|---|----------------|----------------|
| <i>Capital expenditure and financial investment</i> | | |
| Payment to acquire tangible fixed assets | (553) | (1,257) |
| Proceeds on sale of assets | 17 | - |
| Short term loan advanced (note 9) | (659) | (460) |
| | <u>(1,195)</u> | <u>(1,717)</u> |

| | 2001 £000 | 2000 £000 |
|-----------------------------------|----------------|--------------|
| <i>Acquisitions</i> | | |
| Purchase of hotel (note 10) | (8,233) | - |
| Net cash acquired with subsidiary | 15 | - |
| | <u>(8,218)</u> | <u>-</u> |

| | 2001 £000 | 2000 £000 |
|---|--------------|--------------|
| <i>Management of liquid resources</i> | | |
| Receipts/(payments) from/(into) short term deposits | 500 | 1,607 |
| | <u>500</u> | <u>1,607</u> |

| | 2001 £000 | 2000 £000 |
|--|--------------|--------------|
| <i>Financing</i> | | |
| New long term loan | 7,980 | - |
| Repayment of capital element of finance leases and hire purchase contracts | (243) | (184) |
| | <u>7,737</u> | <u>(184)</u> |

Grand Hotel Group Limited

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NOTES TO THE ACCOUNTS

At 31st October 2001

22. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

(c) Analysis of changes in net debt

| | At 31 October 2000 £000 | Cash flow £000 | Acquisition £000 | Other £000 | At 31 October 2001 £000 |
|---|-------------------------------|-------------------|---------------------|----------------|-------------------------------|
| Cash | 1,372 | 1,423 | - | - | 2,795 |
| Short term deposits | 500 | (500) | - | - | - |
| Short term loans advanced | - | 659 | - | (659) | - |
| Finance lease and hire purchase obligations | (306) | 243 | - | (306) | (369) |
| Long term loans | (9,904) | (7,816) | - | (87) | (17,807) |
| Vendor loan | (8,809) | - | (3,000) | (922) | (12,731) |
| | <u>(17,147)</u> | <u>(5,991)</u> | <u>(3,000)</u> | <u>(1,974)</u> | <u>(28,112)</u> |

Short term deposits are included within cash at bank and in hand in the balance sheet.

Other non-cash transactions include provision against short term loans advanced (see note 9), new finance leases in the period and £922,000 finance charge on vendor loan stock (see note 16).

23. CAPITAL COMMITMENTS

Amounts contracted for but not provided in the accounts amounted to £26,000 (2000: £350,000) for both the company and the group.

24. OTHER FINANCIAL COMMITMENTS

Operating leases

At 31 October 2001 the company had annual commitments under non-cancellable operating leases as set out below:

| | Land and buildings | | Other | |
|--------------------------------|--------------------|--------------|--------------|--------------|
| | 2001 £000 | 2000 £000 | 2001 £000 | 2000 £000 |
| Operating leases which expire: | | | | |
| within one year | - | - | - | - |
| in two to five years | 66 | 26 | 57 | 37 |
| in over five years | 41 | 41 | - | - |
| | <u>107</u> | <u>67</u> | <u>57</u> | <u>37</u> |

25. CONTINGENT LIABILITIES

The company has given a guarantee for £50,000 in favour of Palmer & Harvey McIn Limited in relation to their supplier agreement.

Grand Hotel Group Limited

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NOTES TO THE ACCOUNTS

At 31st October 2001

26. RELATED PARTIES

During the period the company traded in the normal course of business with the following related parties:

| | Purchase of goods and services from £000 | Purchase of goods and services on behalf of £000 | Amount due at 31 October 2001 £000 | |
|-------------------------------------|---|--|---|------------|
| Centrix | 191 | - | - | |
| Queensborough Holdings Limited | 57 | - | - | |
| Leisure Great Britain Limited | 9 | - | 8 | In debtors |
| Great British Holiday Parks Limited | - | 5 | 5 | In debtors |
| Leisure Travel Group Limited | - | 147 | - | See note 9 |

During the year the company advanced a short term loan of £659,000 (2000: £460,000) and paid £147,000 (2000: £151,000) for services on behalf of Leisure Travel Group Limited, a related party. The recovery of this debt is doubtful and full provision has been made.

During the year the company advanced an additional loan of £79,000 to Gala Consultancy Limited at an interest rate of 6% per annum. At 31 October 2001 the loan balance was £79,000 and interest of £27,699 was outstanding.

The controlling party of the company is also the controlling party of Centrix, Leisure Travel Group Limited, Gala Consultancy Limited and has been, during the year, a shareholder of Queensborough Holdings Limited, which owns 100% of Leisure Great Britain Limited.

P Mason and S Last are directors and shareholders of Great British Holiday Parks Limited.

27. PARENT UNDERTAKING AND CONTROLLING PARTY

The company's immediate parent undertaking is Cygnet Ventures Limited, a company registered in Jersey. In the director's opinion the company's ultimate controlling party is Mr K Leech.