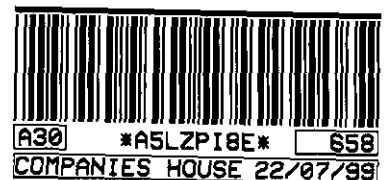


Warwick Castle Limited

Report

**for the period from 1st January 1998 to
19th October 1998**

Registered number: 1284934



Warwick Castle Limited

Report for the period from 1st January 1998 to 19th October 1998

	Pages
Directors and advisors	1
Directors' report	2 - 4
Statement of directors' responsibilities	5
Report of the auditors	6
Profit and loss account	7
Balance sheet	8
Notes to the financial statements	9 - 16

Directors and advisors

Executive directors

M G Jolly

Chairman and Chief Executive

J Britton

A R Hollingsworth

R Roger

P A Tansley

P B Taylor

P R Wells

Secretary and registered office

T N Austin

York Court

Allsop Place

London

NW1 5LR

Registered Auditors

PricewaterhouseCoopers

32 London Bridge Street

London

SE1 9SY

Bankers

Midland Bank Plc

27 - 32 Poultry

London

EC2P 2BX

**Directors' report
for the period 1st January 1998 to 19th October 1998**

The directors present their report and the audited financial statements for the period ended 19 October 1998.

Profit and dividends

The company's profit before taxation amounted to £2,157,000 (1997: £1,966,000). Details are contained in the profit and loss account on page 7.

An interim dividend of £6,196,000 was paid during the period. No final dividend is proposed (1997: £962,000).

Principal activity

There has been no significant change in the principal activity of the company which throughout the period has been daytime family entertainment.

Review of the business and future developments

The directors are satisfied that the financial statements give a fair review of the development of the business of the company during the period and of its position at the period end.

The company continues to look for opportunities to extend its activities.

Share capital

The company is a wholly owned subsidiary of Tussauds Limited. The ultimate parent company is The Tussauds Group Limited, which is a company incorporated in England.

Accounting reference date

As a consequence of the sale of the immediate holding company on 19th October 1998, the accounting reference date of Warwick Castle Limited was changed from 31st December to 19th October.

Directors

The present directors of the company are listed on page 1. M G Jolly, J Britton, A R Hollingsworth, P A Tansley, P B Taylor and P R Wells served as directors throughout the period. R Roger was appointed on 17th June 1998. G W Chittick resigned on 6th March 1998.

Directors' interests

At 19th October 1998 the directors and their families had no interests in the share and loan capital of the ultimate parent company, The Tussauds Group Limited.

Fixed assets

In the opinion of the directors, the value of the freehold property of the company is not less than the net book value at which it is included in the financial statements.

The company is committed to maintain its fixed assets to preserve the castle and ensure public safety and incurs ongoing expenditure on repairs and renewals in respect of them.

Payment of creditors

The company aims to pay all its suppliers within a reasonable period of their invoices being received and in any case within the suppliers' own payment periods. Trade creditors at 19th October 1998 were equivalent to 29 days of purchases during the period ended on that date.

Disabled persons

Applications for employment from disabled persons are given full and fair consideration in the light of the abilities and aptitudes of the applicant and the requirements of the post for which application has been made.

In the event of employees becoming disabled, every reasonable effort is made to facilitate their continuing employment by the company.

It is company policy that disabled employees should, as far as possible, have the same training, career development and promotion opportunities as other members of staff.

Employee consultation and information

At each company location, employees are systematically informed on matters of concern to them through briefings by departmental managers, individual written notification or use of staff notice boards or by any combination of these three methods.

Consultation takes place with groups of employees during departmental meetings or with employees individually during day to day contact. In 1998 the company continued its significant investment in training for staff at all levels and a management development programme. The form of the company training seminars and the wider use of staff appraisal systems have increased the opportunities for consultation. Great importance is attached to the quality of direct contact between managers and employees during frequent informal face to face communication.

Every permanent employee is now entitled to a performance-related annual bonus. The Chief Executive communicates with each employee in a variety of ways to explain the group's goals and to summarise the financial and economic factors that affect the performance of the different businesses.

The Tussauds Group News and other internal newspapers are published at various times during the period.

Year 2000

Warwick Castle Limited is very aware of the need for its services and systems, as well as those of its suppliers and customers, to be Year 2000 compliant and is engaged in a thorough Year 2000 programme. A Year 2000 programme manager has been appointed to co-ordinate the activities of the site based project managers.

Planned activities cover all aspects of the Year 2000 issue, including understanding any legal implications, dealing with the embedded chip issue as it relates to all equipment and understanding the situation of key suppliers and customers. The company aims to have all systems compliant by the end of March 1999.

Costs associated with the company's Year 2000 project are not expected to exceed £20,000.

Auditors

In accordance with Section 386 of The Companies Acts 1985-1989, an elective resolution, dated 9th August 1996, was made to dispense with the obligation to appoint auditors annually.

Following the merger of Price Waterhouse and Coopers & Lybrand, Price Waterhouse resigned as auditors on 5 August 1998. The casual vacancy thus arising was filled by the appointment of the merged firm of PricewaterhouseCoopers.

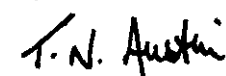
Accounts and reports

In accordance with Section 252 of The Companies Acts 1985-1989, an elective resolution, dated 9th August 1996, was made to dispense with the laying of accounts and reports before the company in general meeting.

Annual general meetings

In accordance with Section 366A of The Companies Acts 1985-1989, an elective resolution, dated 9th August 1996, was made to dispense with the holding of annual general meetings.

By order of the board.



T N Austin
Secretary

11th February 1999

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 as at the end of the year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to select suitable accounting policies and apply them consistently and make judgements and estimates that are reasonable and prudent.

The directors must also state whether applicable accounting standards have been followed and disclose and explain any material departures in the financial statements which must be prepared on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for the maintenance of adequate accounting records in compliance with the Companies Act 1985, for safeguarding the assets of the company, and for preventing and detecting fraud and other irregularities.

**Report of the auditors to the members of
Warwick Castle Limited**

We have audited the financial statements on pages 7 to 16, which have been prepared under the historical cost convention and the accounting policies set out on pages 9 and 10.

Respective responsibilities of directors and auditors

As described on page 5, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 19th October 1998 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
32 London Bridge Street
London
SE1 9SY

11th February 1999

Profit and loss account
for the period from 1st January 1998 to 19th October 1998

	Notes	Period ended 19 th October 1998 £'000	Year ended 31 st December 1997 £'000
Turnover	2	7,499	8,450
Cost of sales		(1,341)	(1,591)
Gross profit		<u>6,158</u>	<u>6,859</u>
Administration expenses		(4,001)	(4,893)
Operating profit on ordinary activities before taxation	3	<u>2,157</u>	<u>1,966</u>
Tax on profit on ordinary activities	5	(708)	(362)
Profit on ordinary activities after taxation		<u>1,449</u>	<u>1,604</u>
Dividends	6	(6,196)	(962)
Retained profit for the period	14	<u>(4,747)</u>	<u>642</u>

All of the above results derive from continuing operations.


The company has no recognised gains or losses other than the profits for the period.

There is no material difference between the profit on ordinary activities before taxation and the retained profit for the period stated above and their historical cost equivalents.

Balance sheet
at 19th October 1998

	Notes	19 th October 1998 £'000	31 st December 1997 £'000
Fixed assets			
Tangible assets	7	7,565	7,425
Current assets			
Stocks	8	484	404
Debtors	9	2,846	2,929
Cash at bank and in hand		343	4,699
		<u>3,673</u>	<u>8,032</u>
Creditors: amounts falling due within one year	10	(9,046)	(8,568)
Net current liabilities		<u>(5,373)</u>	<u>(536)</u>
Total assets less current liabilities		<u>2,192</u>	<u>6,889</u>
Creditors: amounts falling due after more than one year	11	(403)	(361)
Provision for liabilities and charges	12	(968)	(960)
Net assets		<u>821</u>	<u>5,568</u>
Capital and reserves			
Called up share capital	13	-	-
Share premium	14	52	52
Profit and loss account	14	769	5,516
Shareholders' funds (including non-equity interests)	15	<u>821</u>	<u>5,568</u>

The financial statements on pages 7 to 16 were approved by the board of directors on 11th February 1999 and were signed on its behalf by:

M G Jolly	)	
R Roger	)	Directors
)	

**Notes to the financial statements
for the period ended 19th October 1998**

1. Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important company accounting policies, which have been applied consistently, is set out below.

Basis of accounting

As in previous years the financial statements of the company are prepared in accordance with the historical cost convention.

Fixed assets

Fixed assets are stated at cost less accumulated depreciation. Apart from freehold land and assets in the course of construction, fixed assets are depreciated over their estimated economic lives in equal annual amounts.

The principal estimated economic lives are:

Castle freehold buildings	1000 years
Freehold buildings	20 years to 100 years
Chattels	100 years
Plant and equipment	3 years to 20 years

Stocks

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

Repairs, renewals and maintenance of buildings

Expenditure is written off as incurred.

Deferred taxation

Provision is made, by the liability method, at the expected applicable rates for taxation deferred in respect of all timing differences between accounting and taxation treatment, except when tax effects of such deferrals are expected to continue for the foreseeable future.

Interest capitalised

Gross borrowing costs incurred in relation to new projects are capitalised during the construction period.

1. Principal accounting policies (continued)

Cash flow statement

The cash flows of the company are included in the consolidated group cash flow statement of Tussauds Limited, the immediate holding company. Consequently, the company is exempt under the terms of Financial Reporting Standard No 1 from publishing a cash flow statement.

Pension costs

The company is a member of The Pearson Group Pension Plan, which is primarily a funded defined benefit scheme. Expected costs are charged to the profit and loss account in order to apportion the cost of pensions over the service lives of employees in the scheme. Variations arising from a significant reduction in the number of employees are adjusted in the profit and loss account to the extent that the expected pension cost, reduced by other variations, exceeds contributions payable for that period. Other variations from cost are apportioned over the expected service lives of current employees in the scheme.

2. Turnover

Turnover represents external sales arising in the United Kingdom and is stated net of value added tax.

3. Operating profit

	1998 £'000	1997 £'000
(a) This is stated after charging:		
Auditors' remuneration	5	5
Plant and machinery operating lease rentals	7	-
Depreciation of tangible fixed assets	541	616

(b) Directors' emoluments:

No fees or other emoluments were paid to the chairman or the other directors of the company during the period (1997: nil).

4. Employee information (including directors)

	1998 £'000	1997 £'000
Aggregate remuneration	1,713	1,998
Social security costs	102	116
Pension cost credit	-	(46)
	<u>1,815</u>	<u>2,068</u>

The average number of employees during the period was 257 (1997: 261).

4. Employee information (including directors) (continued)

Pension commitments

The company is a member of The Pearson Group Pension Plan, which is primarily a funded defined benefit scheme, details of which, including particulars of the latest actuarial valuation as at 1st January 1996, can be found in the Report and Accounts of Pearson plc (former ultimate holding company) for the year ended 31st December 1997. The pension costs relating to the group plan are assessed in accordance with the advice of an independent qualified actuary.

The valuation surplus on the group plan calculated by the actuary at 1st January 1996 is being apportioned over the expected service lives of the group's employees who are members of the scheme. As a result of the current surplus employer's contributions have been suspended for the time being. In 1997 the company's pension cost in accordance with the accounting policy is a credit to the profit and loss account of £46,000 (1997: nil). Details of pension provisions are given in note 12.

With effect from 1st January 1999, the company became a member of The Tussauds Group UK Pension Plan which is primarily a defined benefit scheme, which all permanent employees are eligible to join.

5. Tax on profit on ordinary activities

	1998 £'000	1997 £'000
UK corporation tax at 31 per cent (1997: 31.5 per cent):		
Current	700	597
Deferred	8	(5)
Prior year adjustments:		
Current	-	(234)
Deferred	-	4
	<u>708</u>	<u>362</u>

6. Ordinary dividends

	1998 £'000	1997 £'000
Interim dividend on ordinary shares fully paid (£61,960 per share)	6,196	-
Proposed dividend on ordinary shares (£9,620 per share)	-	962
	<u>6,196</u>	<u>962</u>

A dividend of £4 (1997: £4) was also proposed on the 4 per cent cumulative shares.

7. Tangible assets

	Freehold land and buildings £'000	Chattels £'000	Plant and equipment £'000	Payments on account and assets in course of construction £'000	Total £'000
Cost or as valued					
At 1 st January 1998	3,527	1,083	6,397	205	11,212
Transfers	-	-	87	(87)	-
Additions	-	216	125	373	714
Disposals	-	-	(137)	-	(137)
At 19th October 1998	3,527	1,299	6,472	491	11,789
Depreciation					
At 1 January 1998	528	106	3,153	-	3,787
Charge for the period	77	30	434	-	541
Disposals	-	-	(104)	-	(104)
At 19 October 1998	605	136	3,483	-	4,224
Net book value at 19 October 1998	2,922	1,163	2,989	491	7,565
Net book value at 31 December 1997	2,999	977	3,244	205	7,425

Interest capitalised

The net book value included in tangible assets for cumulative interest capitalised amounts to £68,000 for property and nil for plant and equipment. No interest was capitalised in 1998 or 1997.

8. Stocks

Stocks comprise finished goods for resale.

9. Debtors

	1998 £'000	1997 £'000
Amounts falling due within one year		
Trade debtors	234	90
Amounts owing by group undertakings	2,470	2,681
Other debtors	4	-
Prepayments and accrued income	138	158
	2,846	2,929

10. Creditors: amounts falling due within one year

	1998 £'000	1997 £'000
Trade creditors	135	265
Amounts owing to group undertakings	7,196	6,301
Corporation tax	856	506
Other taxation and social security	443	220
Other creditors	99	65
Accruals and deferred income	317	249
Dividends payable	-	962
	<u>9,046</u>	<u>8,568</u>

11. Creditors: amounts falling due after more than one year

	1998 £'000	1997 £'000
Amounts owing to holding company	350	350
Deferred income	53	11
	<u>403</u>	<u>361</u>

Amounts owing to the holding company represent a loan from Tussauds Limited which is unsecured and interest free and which is regarded as being long term finance for which no date of repayment is fixed.

12. Provisions for liabilities and charges

	Deferred taxation £'000	Total £'000
At 1 st January	960	960
Profit and loss account	8	-
At 19th October (1997: 31st December)	<u>968</u>	<u>960</u>

Details of pension commitments are shown in note 4.

The above deferred tax provisions, which are also potential liabilities, are in respect of accelerated tax allowances.

Deferred tax as calculated by the liability method has been provided at the expected long term corporation tax rate of 31 per cent.

13. Share capital

	1998	1997
	£	£
Authorised, allotted, called up and fully paid		
100 ordinary shares of £1 each	100	100
100 4 per cent cumulative preference shares of £1 each	100	100
	<u>£200</u>	<u>£200</u>

The cumulative preference shares are non-redeemable, non-voting and have preferential right to return of capital on a winding up.

14. Reserves

	Share premium £'000	Profit and loss £'000
At 1 st January	52	5,516
Retained profit for the period	-	(4,747)
At 19th October (1997: 31st December)	<u>52</u>	<u>769</u>

15. Reconciliation of movements in shareholders' funds

	1998 £'000	1997 £'000
Profit for the financial period	1,449	1,604
Dividends	(6,196)	(962)
Net addition to shareholders' funds	<u>(4,747)</u>	<u>642</u>
Opening shareholders' funds	5,568	4,926
Closing shareholders' funds	<u>821</u>	<u>5,568</u>

Non-equity shareholders' funds accounts for £100 (1997: £100) of total shareholders' funds.

16. Capital commitments

	1998 £'000	1997 £'000
Capital commitments authorised and contracted for	-	-

17. Operating lease rentals

At 19th October 1998, the company had commitments under operating leases to make the following payments in the next financial year:

	Land and Buildings £'000	Other £'000
For leases expiring:		
Between two and five years	-	43
Total	<u>-</u>	<u>43</u>

18. Transactions with directors

No director had a material interest in any contract or arrangement with the company during the period.

19. Related party transactions

The company is a wholly owned subsidiary within Tussauds Limited and utilises the exemption contained in FRS 8 Related Party Disclosures not to disclose any transactions with entities that are part of the group. The address at which the Tussauds Limited consolidated financial statements are publicly available is York Court, Allsop Place, London, NW1 5LR.

20. Holding company

The company is a wholly owned subsidiary of Tussauds Limited (formerly The Tussauds Group Limited). The ultimate holding company and ultimate controlling party is The Tussauds Group Limited (formerly DMWSL 240 Limited).

21. Subsequent events

On 16th October 1998 a fund advised by Charterhouse Development Capital Limited, through a special purpose vehicle (Tussauds Holdings Limited, formerly DMWSL 239 Limited) acquired Tussauds Limited (formerly The Tussauds Group Limited) and The Tussauds Group Inc from Pearson plc for approximately £350 million with completion on 19th October 1998. The Tussauds Group Limited was renamed Tussauds Limited on 28th October 1998.

On 6th November 1998, Warwick Castle Limited, together with Tussauds Limited and Chessington World of Adventures Limited, entered into:

- (a) a deed of accession to the facilities agreement dated 12th October 1998 entered into between, among others, Tussauds Holdings Limited, Bankers Trust Company and Bankers Trust International plc, under which it became bound by the terms of this facilities agreement as an additional borrower.
- (b) a deed of accession to the facilities agreement dated 12th October 1998 entered into between, among others, Tussauds Holdings Limited, Bankers Trust Company and Bankers Trust International plc, under which it became bound by the terms of this facilities agreement as an additional guarantor.

21. Subsequent events (continued)

- (c) a deed of accession to a debenture and guarantee entered into between Tussauds Holdings Limited, The Tussauds Group Limited and Bankers Trust Company dated 12th October 1998, under which the company created fixed and floating charges over all its assets and undertaking by way of security for the secured liabilities.
- (d) a deed of accession to a priority agreement dated 12th October 1998 entered into by, *inter alios*, The Tussauds Group Limited, certain borrowers, intercompany debtors and Charterhouse General Partners (VI) Limited, under which the junior creditors, the investors and the obligors agreed to subordinate their claims against the obligors to those of the junior creditors. The company acceded to the priority agreement as an obligor.
- (e) an intercompany funding agreement between, *inter alios*, Tussauds Holdings Limited as borrower, and the company, Warwick Castle Limited and Chessington World of Adventures Limited as lenders under which the lenders made available to Tussauds Holdings Limited a credit facility of up to £700 million in aggregate to be used by Tussauds Holdings Limited and The Tussauds Group Limited in, *inter alia*, meeting their payment obligations, payments of its loan stock and costs and expenses associated with the acquisition.

Consequently, the company is potentially liable for an aggregate principal amount of approximately £240 million plus interest and costs, together with The Tussauds Group Limited, Tussauds Holdings Limited, Tussauds Limited and Chessington World of Adventures Limited.