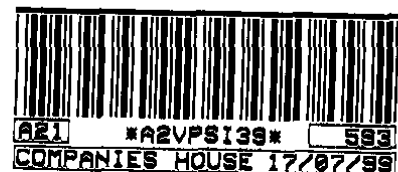


Audley Group Limited

**Directors' report
and financial statements**

31 December 1998

Registered Number 01823605



Audley Group Limited

Registered Number 01823605

Directors' report and financial statements
for the year ended 31 December 1998

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Audley Group Limited

Directors' report

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

Principal activities

During the year, the group continued to own and manage The Dorchester Hotel, Park Lane, London, The Beverly Hills Hotel in Los Angeles, Hotel Meurice in Paris and four commercial properties in the United States of America.

The group has embarked on a major renovation programme of Hotel Meurice, which has been temporarily closed since 18th March 1999.

Business review

The consolidated profit on ordinary activities after taxation is £16,899,000 (1997: £18,375,000). The directors consider the results for the year to be satisfactory.

Proposed dividend and transfer to reserves

The directors do not recommend the payment of a dividend (1997: £ nil). The retained profit of £16,899,000 (1997: £18,375,000) was transferred to reserves.

Year 2000

The Year 2000 issue is the risk posed by computer based technologies that do not properly recognise the year 2000 as valid. The group has been proactive in minimising the effect of the Year 2000 date change through a programme that encompasses ensuring compliance of both internal systems and our external supply chain. The Programme is on course for completion by September 1999.

Despite this programme it is recognised however that because of the nature of the year 2000 issue, the group, in common with others, is unable to give absolute assurance that its business will be unaffected by the transition to the new millennium.

The anticipated cost of ensuring Year 2000 compliance is estimated at £524,000 of which £386,000 has already been incurred. The cost of compliance relates to costs incurred by the group that are identifiable as being necessarily incurred for the purpose of achieving compliance, albeit often with enhancements over the systems being replaced. This expenditure excludes internal costs associated with managing the compliance programme.

Directors and directors' interests

The details of the directors of the company who have served during the year are as follows:

Current directors:

Haji Muhammad Syaippudin Haji Abdullah (Chairman)	(appointed 16 th July 1998)
Pengiran Mohd Yusof Pengiran Haji Jeludin	(appointed 11 th November 1998)
Hj Suhaimi Dato Hj Hashim	(appointed 15 th June 1999)

Audley Group Limited

Directors' report (*continued*)

Other directors who served during the year:

POKPS Haji Abdul Aziz bin Abdul Rahman	(resigned 16 th July 1998)
Haji Mohamad Arbi Haji Abdul Hamid	(resigned 16 th July 1998)
Pengiran Haji Mumin bin PLW Pengiran Haji Yussof	(resigned 16 th July 1998)
Haji Awang Kassim	(resigned 7 th April 1998)
Awang Haji Shukri bin Haji Abang Taha	(resigned 7 th April 1998)
Haji Ghani Abdul Hamid	(resigned 7 th April 1998)
Suriati Haji Mohamad Taib	(resigned 7 th April 1998)
Anil Tanna	(resigned 26 th November 1998)
Riccardo Obertelli	(resigned 26 th November 1998)
Pengiran Haji Airudin Pengiran Haji Mohamad	(resigned 15 th June 1999)
Haji Muhammad Begawan Mudim Haji Wasli	(appointed 11 th November 1998, resigned 15 th June 1999)

The directors do not have any beneficial interests in the share capital of the company or its subsidiary undertakings.

According to the register of directors' interests, no rights to subscribe for shares in or debentures of the company or any other group company were granted to any of the directors or their immediate families, or exercised by them, during the financial year.

Employees

It is the group's continuing policy and practice to involve staff by providing and receiving information relevant to the progress, development and performance of the company. Matters of concern to staff as employees were communicated through briefing by executives and heads of departments, a newsletter and training courses. Consultation with staff on matters affecting their interests and the general efficiency of the group took place in various ways; one of these was through the elected staff representatives on a consultative committee which met regularly during the year.

In relation to the employment of disabled persons, the hotel's policy is to give the same consideration to disabled people as to other people, in regard to applications for employment, continuation of employment, training, career development and promotion, having regard to their particular aptitudes and abilities.

Political and charitable contributions

During the year, the group donated £5,000 (1997: £1,000) for charitable purposes. There were no political donations.

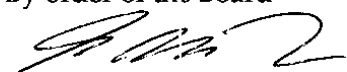
The single European currency

We continue to monitor the expected entry date for the United Kingdom and will be ensuring that our systems will be prepared if the United Kingdom enters monetary union. The costs of this transition have not yet been quantified but are not expected to be significant at this stage.

Auditors

KPMG will continue in office pursuant to an elective resolution dated 26th November 1991.

By order of the Board



K MacRae
Secretary

3 Tilney Street
London W1Y 5LE
Date: 25th June 1999

Audley Group Limited

Statement of directors' responsibilities

The directors are required by UK company law 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 maintaining proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 1985. In addition, the directors 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.

Audley Group Limited

Report of the auditors KPMG to the members of Audley Group Limited

We have audited the financial statements on pages 5 to 20.

Respective responsibilities of directors and auditors

As described on page 3, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 of the Company and the Group as at 31st December 1998 and of the profit for the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

London
Date: 5th July, 1999

Audley Group Limited

Consolidated profit and loss account for the year ended 31 December 1998

	Notes	1998 £000	1997 £000
Continuing Operations			
Turnover		88,652	88,080
Cost of sales		(39,731)	(39,882)
Gross profit		<u>48,921</u>	<u>48,198</u>
Operating Expenses		(27,649)	(25,140)
Operating profit		<u>21,272</u>	<u>23,058</u>
Interest receivable and similar income	5	1,766	1,324
Interest payable and similar charges	6	(6,042)	(5,632)
Profit on ordinary activities before taxation	2	<u>16,996</u>	<u>18,750</u>
Tax on profit on ordinary activities	7	(97)	(375)
Retained profit for the financial year	16	<u>16,899</u>	<u>18,375</u>

The historical cost results are the same as the reported results.

Consolidated statement of total recognised gains and losses Year ended 31 December 1998

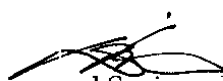
	1998 £000	1997 £000
Profit for the financial year	16,899	18,375
Foreign exchange translation differences	818	3,635
Total recognised gains and losses relating to the year	<u>17,717</u>	<u>22,010</u>


Audley Group Limited

Consolidated balance sheet at 31 December 1998

	Note	1998 £000	1997 £000
Fixed assets			
Tangible assets	8	421,603	417,549
Current assets			
Stocks	10	3,082	2,468
Debtors	11	12,353	13,223
Cash at bank and in hand	12	40,174	26,124
		<u>55,609</u>	<u>41,815</u>
Creditors: amounts falling due within one year	13	<u>(23,992)</u>	<u>(18,056)</u>
Net current assets		31,617	23,759
Total assets less current liabilities		<u>453,220</u>	<u>441,308</u>
Creditors: amounts falling due after more than one year	14	(163,873)	(170,834)
Provision for liabilities and charges	15	(3,497)	(2,341)
Net assets		<u>285,850</u>	<u>268,133</u>
Capital and reserves			
Called up share capital	16,17	120,009	120,009
Share premium account	16	182,711	182,711
Other reserves	16	72,668	72,668
Profit and loss account	16	(89,538)	(107,255)
Equity shareholders' funds		<u>285,850</u>	<u>268,133</u>

These financial statements were approved by the board of directors on 25th June 1999 and were signed on its behalf by:


Haji Muhammad Syaippudin Haji Abdullah
Chairman



Pengiran Mohd Yusof Pengiran Haji Jeludin
Director

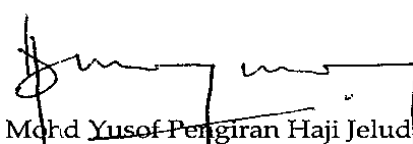
Audley Group Limited

Company Balance Sheet at 31 December 1998

	Note	1998 £000	1997 £000
Fixed assets			
Investments	9	319,481	319,483
Current assets			
Debtors: amounts falling due within one year	11	27,384	25,218
Debtors: amounts falling due after more than one year	11	47,085	56,624
		<u>74,469</u>	<u>81,842</u>
Cash at bank and in hand	12	20,794	8,011
		<u>95,263</u>	<u>89,853</u>
Creditors: amounts falling due within one year	13	(6,409)	(4,185)
		<u></u>	<u></u>
Net current assets		<u>88,854</u>	<u>85,668</u>
Total assets less current liabilities		<u>408,335</u>	<u>405,151</u>
Creditors: amounts falling due after more than one year	14	(96,852)	(95,173)
		<u></u>	<u></u>
Net assets		<u>311,483</u>	<u>309,978</u>
Capital and reserves			
Called up share capital	16,17	120,009	120,009
Share premium account	16	182,711	182,711
Profit and loss account	16	8,763	7,258
		<u></u>	<u></u>
Equity shareholders' funds		<u>311,483</u>	<u>309,978</u>

These financial statements were approved by the board of directors on 25th June 1999 and were signed on its behalf by:


Haji Muhammad Syaippudin Haji Abdullah
Chairman


Pengiran Mohd Yusof Pengiran Haji Jeludin
Director

Audley Group Limited

Consolidated cash flow statement for the year ended 31 December 1998

	Note	1998	1997
		£000	£000
Net cash inflow from operating activities	21	28,853	32,698
Return on investments and servicing of finance			
Interest received		1,737	1,288
Interest paid		(3,631)	(10,549)
Loan arrangement fees paid		-	(123)
Net cash outflow from returns on investments and servicing of finance		(1,894)	(9,384)
Taxation		(148)	(246)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(7,772)	(2,706)
Sale of tangible fixed assets		148	19
Net cash outflow from capital expenditure and financial investment		(7,624)	(2,687)
Acquisitions and disposals			
Purchase of subsidiary undertakings		-	(67,889)
Cash acquired with subsidiary undertakings		-	7,467
Net cash outflow for acquisitions and disposals		-	(60,422)
Management of liquid resources			
Cash placed on short term deposits		(21,022)	(5,054)
Net cash outflow before financing		(1,835)	(45,095)
Financing			
New bank loans		-	27,455
Repayments of bank loans		(5,409)	(1,402)
Drawdown of other loans		-	33,296
Repayments of other loans		-	(37,000)
Net cash (outflow) / inflow from financing activities		(5,409)	22,349
Decrease in cash in the year	23	(7,244)	(22,746)

Audley Group Limited

Notes

(forming part of the financial statements)

1. Accounting policies

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules modified to include the revaluation of certain assets.

There have been no changes to accounting policies during the year.

Basis of consolidation

The group accounts consolidate the accounts of the Audley Group Limited and subsidiary undertakings. The group was formed in 1995 by the merger of two groups of companies, which were under common ownership and was accounted for accordingly.

The results of subsidiary undertakings acquired during the year are included in the profit and loss account from the effective date of acquisition. Accounting standards require that the assets and liabilities of subsidiary undertakings acquired are brought into the group accounts at their fair values at the acquisition date.

All of the subsidiary undertakings make up accounts to 31st December 1998.

Fixed assets and depreciation

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

Commercial property freehold land and buildings	-	2.5% to 3.2% per annum
Leasehold land and buildings	-	life of lease
Plant, machinery, fixtures, fittings and tools	-	7% to 20% per annum
Motor vehicles	-	25% per annum

No depreciation is provided on freehold land or buildings relating to hotels owned by the group. It is the group's policy to maintain these assets in a continual state of sound repair and to make improvements thereto from time to time. Accordingly, the directors consider that the lives of these assets are so long and residual values at the time of acquisition so high that their depreciation is insignificant. Provision is made for any diminution in value of fixed assets to the extent that it is considered permanent.

Capital expenditure on major projects is recorded separately within fixed assets as capital work in progress. Once the project is complete the balance is transferred to the appropriate fixed asset categories. Capital work in progress is not depreciated.

Foreign currencies

Overseas companies' results are translated into sterling at average exchange rates and their balance sheets at year end exchange rates. Exchange differences arising from the translation of the opening balance sheets and results of overseas companies are dealt with through reserves. Exchange differences on transactions in foreign currencies are included in the profit and loss account.

Pension costs

The group operates three pension schemes, two providing benefits based on final pensionable pay and one based on the contributions made to the scheme. The assets of all schemes are held separately from those of the group in independently administered funds. Contributions to the defined benefits schemes are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the group. Contributions to the defined contribution scheme are charged to the profit and loss account as they become payable.

Audley Group Limited

Notes (continued)

1. Accounting policies (continued)

Stocks

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

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Turnover

Turnover represents the amounts (excluding taxes) derived from the provision of goods and services to customers during the year

2. Profit on ordinary activities before taxation

	1998	1997
	£000	£000
Profit on ordinary activities before taxation is stated		
<i>after charging</i>		
Auditors' remuneration		
Audit	169	121
Other services	123	97
Depreciation and other amounts written off tangible and intangible fixed assets	5,498	5,614
Hire of plant and machinery	116	86
Other operating leases	213	158
Exchange loss / (gain)	21	(1)
<i>after crediting</i>		
Rents receivable and similar income from property	10,144	9,357
Profit on sale of tangible fixed assets	116	12

The consolidated result for the financial year includes a profit of £1,505,000 (1997: £1,677,000) dealt with in the accounts of the company. In accordance with the exemption conferred by section 230 of the Companies Act 1985, the company has not published its own profit and loss account.

All of the Group's turnover except for rents receivable and similar income from property, disclosed above, is derived from hotel operations.

Audley Group Limited

Notes (continued)

3. Remuneration of directors

	1998 £000	1997 £000
Directors' emoluments:		
Remuneration as executives	318	371
Amounts (surrendered) / receivable under long term incentive schemes	(37)	37
	<hr/> 281	<hr/> 408
Amounts paid to ultimate parent company		
In respect of directors' services	209	318
Amounts charged in prior year but waived by ultimate parent company	(90)	-
	<hr/> 400	<hr/> 726

The aggregate of emoluments and amounts surrendered under long term incentive schemes, excluding pension contributions of the highest paid director were £209,000 (1997: £204,000). The highest paid director is not a member of a pension scheme.

The two directors remunerated as executives resigned during the year.

During the year retirement benefits accrued to two (1997: two) directors under a defined benefits scheme. No directors received benefits under money purchase schemes.

4. Staff numbers and costs

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

	Number of Employees	
	1998	1997
Operations	1,120	1,074
Sales and Marketing	24	20
Administration	146	142
	<hr/> 1,290	<hr/> 1,236

The aggregate payroll costs of the group were as follows:

	1998 £000	1997 £000
Wages and salaries	22,984	22,474
Social security costs	4,702	4,525
Other pension costs (see note 19)	724	541
	<hr/> 28,410	<hr/> 27,540

5. Interest receivable and similar income

	1998 £000	1997 £000
On bank deposits	1,759	1,315
Other	1	9
Foreign exchange movements	6	-
	<hr/> 1,766	<hr/> 1,324

Audley Group Limited

Notes (continued)

6. Interest payable and similar charges

	1998 £000	1997 £000
On bank loans and overdrafts	2,908	2,732
To group undertakings	3,134	2,879
Other interest payable	-	2
Foreign exchange movements	-	19
	<u>6,042</u>	<u>5,632</u>

7. Taxation

A corporation tax provision is not required (1997: £nil) due to the availability of tax losses.
During the year, the groups charge for overseas taxation amounted to £97,000 (1997: 375,000).

8. Tangible fixed assets

	Land and buildings £000	Plant and machinery £000	Fixtures and fittings tools and equipment £000	Capital work in progress £000	Total £000
Cost					
At beginning of year	433,575	12,481	18,567	516	465,139
Foreign exchange translation differences	1,270	26	6	204	1,506
Additions	832	897	445	5,598	7,772
Transfers	-	7	-	(7)	-
Disposals	(23)	(15)	(129)	-	(167)
At end of year	<u>435,654</u>	<u>13,396</u>	<u>18,889</u>	<u>6,311</u>	<u>474,250</u>
Depreciation and diminution in value					
At beginning of year	27,054	8,078	12,458	-	47,590
Foreign exchange translation differences	(298)	4	(23)	-	(317)
Charge	2,086	1,524	1,888	-	5,498
Disposals	(2)	(12)	(110)	-	(124)
At end of year	<u>28,840</u>	<u>9,594</u>	<u>14,213</u>	<u>-</u>	<u>52,647</u>
Net book value					
At 31 December 1998	<u>406,814</u>	<u>3,802</u>	<u>4,676</u>	<u>6,311</u>	<u>421,603</u>
At 31 December 1997	<u>406,521</u>	<u>4,403</u>	<u>6,109</u>	<u>516</u>	<u>417,549</u>

Audley Group Limited

Notes (continued)

8. Tangible fixed assets (continued)

The net book value of land and buildings comprises:

	1998 £000	1997 £000
Freehold	406,648	406,352
Long leasehold	166	169
	<u>406,814</u>	<u>406,521</u>

Land and buildings with a net book value of £331,592,000 (1997: £325,342,000) are not depreciated.

9. Fixed asset investments

Company	1998 £000	1997 £000
Investment in subsidiary undertakings at cost	136,770	136,772
Investment by means of share for share exchange	182,711	182,711
	<u>319,481</u>	<u>319,483</u>

The companies in which the company's interest is more than 10% are as follows:

Subsidiary undertakings	Principal activity	Class and percentage of shares held
United Kingdom		
Dorchester Hotel Limited	Hotel	Ordinary 100%
The Dorchester Limited	Private members club	Ordinary 100% Preference 100%
Audley Hotels and Resorts Europe Limited	Hotel management	Ordinary 100%
Audley Hotels and Resorts Services Limited	Hotel management	Ordinary 100%
Meurice Limited	Hotel investment	Ordinary 100%
Dorchester Jewellers Limited	Not trading	Ordinary 100%
New London Dorchester Jewellers Limited	Not trading	Ordinary 100%

All the above companies are incorporated in the United Kingdom, registered in England and Wales and included within these financial statements. The shares of Dorchester Hotel Limited, Audley Hotels and Resorts Europe Limited, Audley Hotels and Resorts Services Limited and Meurice Limited are held directly by the company. The shares of the remaining subsidiaries are held by Dorchester Hotel Limited.

Dorchester Jewellers Limited and New London Dorchester Jewellers Limited continue to remain dormant. As neither company is to re-commence trading in the future, applications to strike off both companies have been lodged with the Registrar of Companies.

United States of America

Sajahtera Inc, incorporated in USA	Hotel	Common stock 100%
Aman Inc, incorporated in USA	Commercial property	Common stock 100%
Raqib Inc, incorporated in USA	Commercial property	Common stock 100%

The shares of Sajahtera Inc are held directly by the company. The shares of Aman Inc and Raqib Inc are held by Sajahtera Inc.

Audley Group Limited

Notes (continued)

9. Fixed asset investments (continued)

	Principal Activity	Class and percentage of shares held
Italy		
Meurice SpA, incorporated in Italy	Hotel	Common stock 100%

13% of the shares of Meurice SpA are held by the company in trust on behalf of Meurice Limited, with Meurice Limited directly holding the remaining 87%.

In the opinion of the directors the investments in the company's subsidiary undertakings are worth at least the amounts at which they are stated in the company's balance sheet.

10. Stocks

	1998	1997
<i>Group</i>	£000	£000
Consumables	2,329	1,668
Goods for resale	753	800
	<u>3,082</u>	<u>2,468</u>

There is no material difference between the replacement cost of stocks and their balance sheet amounts.

11. Debtors

	1998	1997
<i>Group</i>	£000	£000
Trade debtors	9,858	11,374
Other debtors	904	629
Prepayments and accrued income	1,591	1,220
	<u>12,353</u>	<u>13,223</u>

Debtors of £818,000 (1997: £510,000) are due after one year.

	1998	1997
<i>Company</i>	£000	£000
Loans to subsidiary undertakings at floating rates	25,215	25,215
Loans to subsidiary undertakings free of interest	47,085	56,624
Interest receivable on group loans	2,106	-
Other debtors	63	3
	<u>74,469</u>	<u>81,842</u>

Debtors of £47,085,000 (1997: £56,624,000) are due after one year.

12. Cash at bank and in hand

	1998	1997
<i>Group</i>	£000	£000
Short term deposits	26,254	5,054
Cash	13,920	21,070
	<u>40,174</u>	<u>26,124</u>

Audley Group Limited

Notes (continued)

12. Cash at bank and in hand (continued)

	1998	1997
<i>Company</i>	£000	£000
Short term deposits	20,700	-
Cash	94	8,011
	<u>20,794</u>	<u>8,011</u>

13. Creditors: Amounts falling due within one year

	1998	1997
<i>Group</i>	£000	£000
Bank loans and overdrafts	10,761	5,438
Trade creditors	6,555	5,465
Taxation and social security		
- VAT and other sales taxes	1,140	1,418
- PAYE and other payroll taxes	967	1,003
- Other taxes	140	443
Other creditors	1,668	1,411
Accruals and deferred income	2,761	2,878
	<u>23,992</u>	<u>18,056</u>

	1998	1997
<i>Company</i>	£000	£000
Trade creditors	277	-
Amounts owed to subsidiary undertakings	5,902	3,834
Other creditors	203	198
Accruals and deferred income	27	153
	<u>6,409</u>	<u>4,185</u>

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

	1998	1997
<i>Group</i>	£000	£000
Bank loans	43,905	53,276
Loan from parent undertaking.		
The loan is unsecured, subordinated, interest free and not repayable before 2014.	24,800	24,800
Loans from fellow subsidiary undertakings.		
The loans are unsecured and subordinated.		
- interest free	41,633	41,633
- at floating rates	37,520	37,526
Accrued interest	15,567	13,433
Other creditors	448	166
	<u>163,873</u>	<u>170,834</u>

Bank loans are secured and subject to interest at floating rates linked to interbank rates of the country in which currency the loans are denominated, plus a premium ranging between 0.2% - 0.5%.

Audley Group Limited

Notes (continued)

14. Creditors: amounts falling due after more than one year (continued)

	1998	1997
	£000	£000
Loans maturing between		
1 to 2 years amount to	10,761	56,397
2 to 5 years amount to	5,381	10,876
over 5 years amount to	147,283	103,395
	<u>163,425</u>	<u>170,668</u>

	1998	1997
	£000	£000
<i>Company</i>		
Bank loan	27,764	26,085
Loan from subsidiary undertaking	27,455	27,455
Loan from fellow subsidiary undertaking	41,633	41,633
	<u>96,852</u>	<u>95,173</u>

The bank loan is secured and subject to interest at a floating rate linked to the inter-bank rate of the country in which currency the loan is denominated, plus a premium of 0.5% and repayable in 2004.

The loan from the subsidiary undertaking is unsecured, subordinated, interest free and not repayable within one year.

The loan from the fellow subsidiary undertaking is unsecured, subordinated, interest free and not repayable before 2014.

15. Provision for liabilities and charges

	1998	1997
	£000	£000
<i>Group</i>		
Pension contributions (see note 19)	757	770
Property tax assessment	2,350	1,262
Deferred taxes	197	130
Other	193	179
	<u>3,497</u>	<u>2,341</u>

	1998	1997
	£000	£000
Deferred taxes		
At the beginning of the year	130	126
Effect of foreign exchange rates	(3)	4
Increase in provision	6	-
Transfer from debtors	64	-
At the end of the year	<u>197</u>	<u>130</u>

Audley Group Limited

Notes (continued)

16. Reconciliation of movements in equity shareholders' funds

	Share capital £000	Share Premium £000	Merger reserve £000	Profit and loss account £000	Total 1998 £000	Total 1997 £000
<i>Group</i>						
Balance at beginning of year	120,009	182,711	72,668	(107,255)	268,133	246,123
Profit retained for year	-	-	-	16,899	16,899	18,375
Foreign exchange translation differences	-	-	-	818	818	3,635
Balance at end of year	<u>120,009</u>	<u>182,711</u>	<u>72,668</u>	<u>(89,538)</u>	<u>285,850</u>	<u>268,133</u>
<i>Company</i>						
Balance at beginning of year	120,009	182,711	-	7,258	309,978	308,301
Profit retained for year	-	-	-	1,505	1,505	1,677
Balance at end of year	<u>120,009</u>	<u>182,711</u>	<u>-</u>	<u>8,763</u>	<u>311,483</u>	<u>309,978</u>

17. Called up share capital

<i>Group and company</i>	1998 £000	1997 £000
Authorised		
Ordinary shares of £1 each	200,000	200,000
Allotted, called up and fully paid		
Ordinary shares of £1 each	<u>120,009</u>	<u>120,009</u>

18. Financial commitments

<i>Group</i>		
Capital commitments at the end of the financial year for which no provision has been made.		
	1998 £000	1997 £000
Contracted	<u>15,214</u>	<u>3,090</u>

At 31st December 1998 the company had no financial commitments (1997: *£nil*).

Audley Group Limited

Notes (continued)

18. Financial commitments (continued)

At 31st December 1998 the group had annual commitments under non-cancellable operating leases as set out below:

	1998		1997	
	Land & buildings £000	Other £000	Land & buildings £000	Other £000
Operating leases which expire:				
Within one year	171	22	195	55
In the second to fifth years inclusive	-	51	-	38
Over five years	7	-	7	-
	<u>178</u>	<u>73</u>	<u>202</u>	<u>93</u>

At 31st December 1998 the company had no operating lease commitments (1997: *£nil*).

19. Pension scheme

The group operates two pension schemes in the United Kingdom, a defined contribution scheme and a defined benefit scheme. The assets of the schemes are held separately from those of the group in independently administered funds.

The defined benefit scheme provides benefits based on final pensionable pay. Contributions made by the group are being charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the group. The contributions are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The principal assumptions applied in the valuation calculation are those relating to the rate of return on investments and the rate of increase in salaries. It was assumed that the investment returns would exceed the average salary increases by 2% per annum.

The most recent actuarial valuation at 6th April 1997 showed that the market value of the defined benefit scheme's assets was £7.6m and that the actuarial value of those assets represented 117% of the benefits that had accrued to members, after allowing for expected future increases in earnings. From 6th April 1998 contributions from the company were 12.5% of employee pensionable earnings (1997: 12.4%). Contributions from employees remain at 4% of earnings. Contributions are based on pension costs across the group as a whole.

The combined pension charge for the period was £400,000 (1997: £303,000). A provision of £757,000 (1997: £770,000) is included in Provision for liabilities and similar charges, this being the excess of the accumulated pension cost over the amount funded.

The group operates a defined contribution scheme in the United States of America. The scheme allows individuals to make pre-tax income contributions and provides for a profit-sharing contribution plus a partial matching by the company for all eligible employees. The group contribution to this scheme for the period was £257,000 (1997: £183,000).

Audley Group Limited

Notes (continued)

20. Related party transactions

The company is a subsidiary undertaking of the Brunei Investment Agency, a statutory body incorporated in Brunei. Consequently, as a statutory body, related parties to the company include all Brunei government ministries, departments, agencies and their subsidiary undertakings and also include Bruneian citizens holding office within Brunei and its government.

The group provided hotel services to these related parties amounting to £4,385,000 (1997: £10,652,000). Amounts owed for these services as at 31st December 1998 amounted to £2,703,000 (1997: £4,022,000).

The group also occupies a building in London owned by a fellow subsidiary undertaking on an annually renewable agreement. During the year the group occupied additional space within the building. The total annual rent is £228,000 (1997: £130,000). It is estimated that the market rent of the building occupied is £456,000. Amounts owed for the rental, associated rates and services as at 31st December 1998 amounted to £165,000 (1997: £29,000).

During the year the cost of seconded staff charged to the group by its ultimate parent company amounted to £345,000 (1997: £235,000) amounts owed at 31st December 1998 amounted to £696,000 (1997: £339,000).

During the year the group wrote off debts amounting to £120,000 due from related parties. The amounts written off related to debts outstanding from PT Sajahtera Indoco (£101,000) and Audley Asia International PTE (£19,000). At 31st December 1998 a debt of £4,000 remained payable by PT Sajahtera Indoco.

With the exception of the rental of the property, all other material related party transactions are contracted on commercial terms.

For details of related party financing, please refer to note 14.

21. Reconciliation of operating profit to net cash inflow from operating activities

Continuing activities	1998 £000	1997 £000
Operating profit	21,272	23,058
Depreciation charges	5,498	5,342
Amortisation charges	18	12
Profit on sale of tangible fixed assets	(102)	(12)
(Increase) / decrease in stocks	(602)	107
Decrease in debtors	761	2,902
Increase in creditors	834	1,290
Increase in provisions	1,176	-
Exchange gain	(2)	(1)
Net cash inflow from operating activities	<u>28,853</u>	<u>32,698</u>

There were no discontinued activities during the year.

Audley Group Limited

Notes (continued)

22. Analysis of change in net debt

	At 1 st January 1998 £000	Cash flow £000	Other non cash movements £000	Translation differences £000	At 31 st December 1998 £000
Cash in hand and at bank	21,070	(7,244)	-	94	13,920
Short term deposits	5,054	21,022	-	178	26,254
Debt due within 1 year	(5,438)	5,409	(10,761)	29	(10,761)
Debt due after 1 year	(170,668)	1,000	7,610	(1,366)	(163,424)
Total	<u>(149,982)</u>	<u>20,187</u>	<u>(3,151)</u>	<u>(1,065)</u>	<u>(134,011)</u>

23. Reconciliation of net cashflow to movement in net debt

	1998 £000	1997 £000
Decrease in cash in the period	(7,244)	(22,746)
Cash outflow from increase in liquid funds	21,022	5,054
Cash outflow/(inflow) from decrease/(increase) in net debt	6,409	(14,349)
Change in debt resulting from cashflows	<u>20,187</u>	<u>(32,041)</u>
Interest on debt accrued during period	(3,134)	(2,879)
Amortisation of finance charges	(17)	-
Translation differences	(1,065)	(9)
Movement in net debt during period	<u>15,971</u>	<u>(34,929)</u>
Net debt at 1 st January 1998	(149,982)	(115,053)
Net debt at 31 st December 1998	<u>(134,011)</u>	<u>(149,982)</u>

24. Ultimate parent and controlling company and parent undertaking of which the company is a member

The company is a subsidiary undertaking of, and controlled by the Brunei Investment Agency, a statutory body incorporated in Brunei.