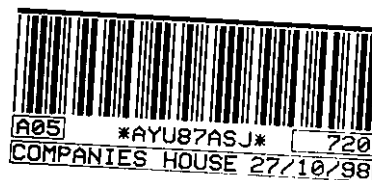


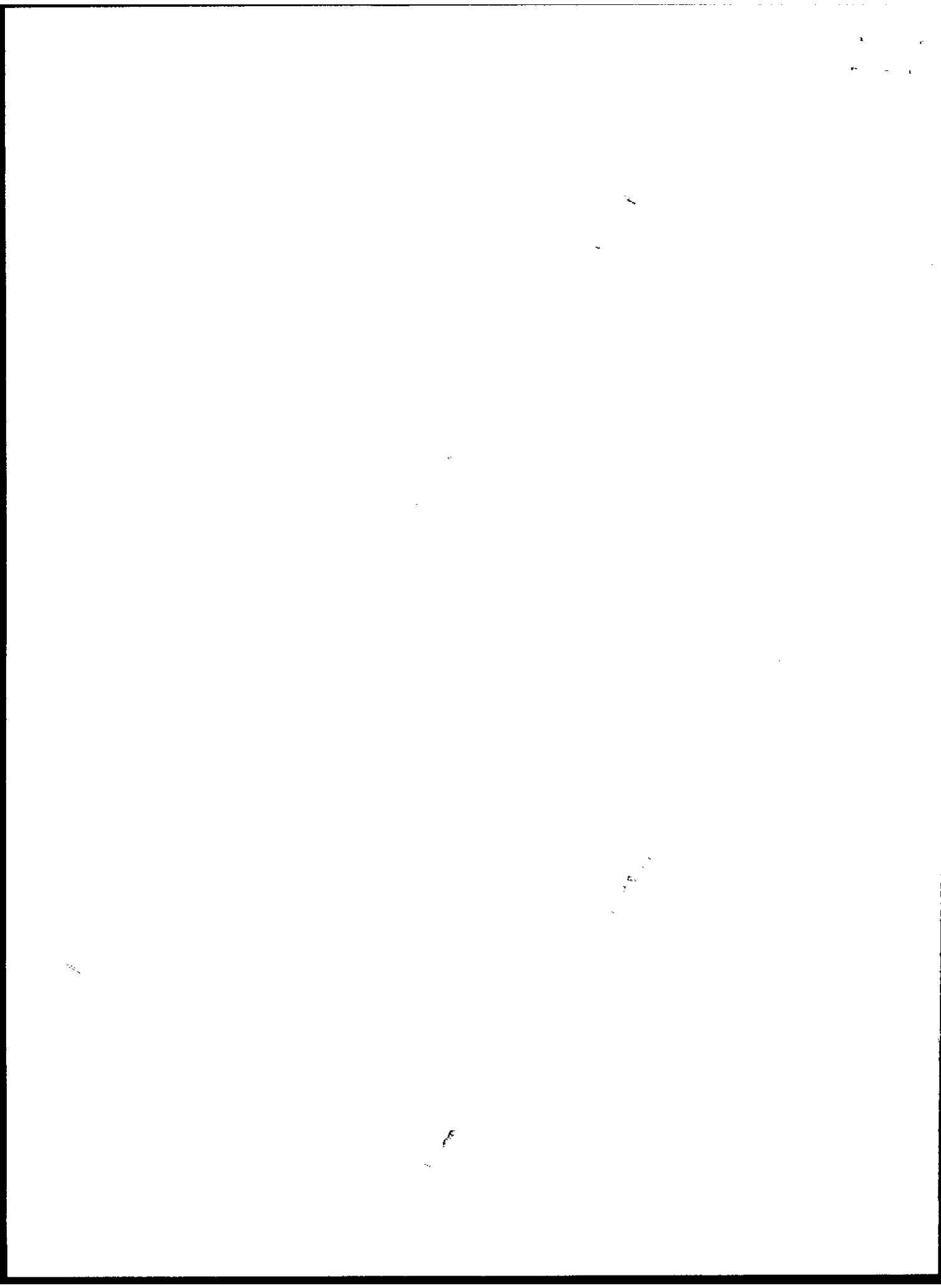
AUDLEY GROUP LIMITED

**Directors' report and
financial statements**

31 December 1997

Registered Number 01823605





Audley Group Limited

Registered Number 01823605

Directors' report and financial statements
for the year ended 31 December 1997

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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 1997.

Principal activities

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

On 29th April 1997 the group acquired the whole of the issued share capital of Abbot Fields International SpA, owner of Hotel Meurice, Paris for a sum of £67.9m. The group has embarked on a major renovation programme of Hotel Meurice, which is expected to be completed in the autumn of 1999. The hotel will remain open, albeit on a reduced room inventory. The renovation programme is expected to cost £40m.

Business review

The consolidated profit on ordinary activities after taxation is £18,375,000 (1996: £15,770,000). 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 (1996: £ nil). The retained profit of £18,375,000 (1996: £15,770,000) was transferred to reserves.

Significant changes in fixed assets

The movement in tangible fixed assets is outlined in note 8 to the financial statements. Of the increase in net values of £61.9m, £60.9m is due to the acquisition of Hotel Meurice.

Directors and directors' interests

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

Current directors:

POKPS Haji Abdul Aziz bin Abdul Rahman (Chairman)
Haji Mohamad Arbi Haji Abdul Hamid
Pengiran Haji Mumin bin PLW Pengiran Haji Yussof
Pengiran Haji Airudin Pengiran Haji Mohamad
Anil Tanna
Riccardo Obertelli

Other directors who served during the year:

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)

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.

Audley Group Limited

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 £1,000 (1996: £1,000) for charitable purposes. There were no political donations.

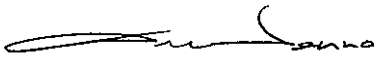
Creditors

It is the group's policy that payments to suppliers are made in accordance with supplier's terms, provided that suppliers also comply with all relevant terms and conditions.

Auditors

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

By order of the Board


A Tanna
Secretary

3 Tilney Street
London W1Y 5LE
Date: 29th May 1998

Audley Group Limited

Statement of directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial period 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 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 22.

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 1997 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:

7th August, 1998

Audley Group Limited

Consolidated profit and loss account for the year ended 31 December 1997

	Notes	1997 £000	1996 £000
Turnover			
Continuing Operations		79,248	77,224
Acquisitions		8,832	-
Total turnover		<u>88,080</u>	<u>77,224</u>
Cost of sales		<u>(39,882)</u>	<u>(35,560)</u>
Gross profit		<u>48,198</u>	<u>41,664</u>
Operating Expenses		<u>(25,140)</u>	<u>(23,726)</u>
Operating profit			
Continuing Operations		21,800	17,938
Acquisitions		1,258	-
Total operating profit		<u>23,058</u>	<u>17,938</u>
Interest receivable and similar income	5	1,324	1,145
Interest payable and similar charges	6	(5,632)	(3,751)
Profit on ordinary activities before taxation	2	<u>18,750</u>	<u>15,332</u>
Tax on profit on ordinary activities	7	<u>(375)</u>	<u>438</u>
Retained profit for the financial year	16	<u>18,375</u>	<u>15,770</u>

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

Consolidated statement of total recognised gains and losses Year ended 31 December 1997


	1997 £000	1996 £000
Profit for the financial year	18,375	15,770
Foreign exchange translation differences	3,635	(18,966)
Total recognised gains and losses relating to the year	<u>22,010</u>	<u>(3,196)</u>


Audley Group Limited

Consolidated balance sheet at 31 December 1997

	Note	1997 £000	1996 £000
Fixed assets			
Tangible assets	8	417,549	355,675
Current assets			
Stocks	10	2,468	2,280
Debtors	11	13,223	15,011
Cash at bank and in hand	12	26,124	44,142
		<u>41,815</u>	<u>61,433</u>
Creditors: amounts falling due within one year	13	<u>(18,056)</u>	<u>(10,641)</u>
Net current assets		23,759	50,792
Total assets less current liabilities		<u>441,308</u>	<u>406,467</u>
Creditors: amounts falling due after more than one year	14	(170,834)	(159,390)
Provision for liabilities and charges	15	(2,341)	(954)
Net assets		<u>268,133</u>	<u>246,123</u>
Capital and reserves			
Called up share capital	17	120,009	120,009
Share premium account		182,711	182,711
Other reserves		72,668	72,668
Profit and loss account		(107,255)	(129,265)
Equity shareholders' funds		<u>268,133</u>	<u>246,123</u>

These financial statements were approved by the board of directors on 29th May 1998 and were signed on its behalf by:


POKPS Haji Abdul Aziz bin Abdul Rahman
Chairman

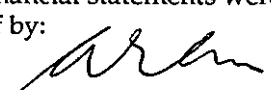

Haji Mohamad Arbi Haji Abdul Hamid
Director


Audley Group Limited

Company Balance Sheet at 31 December 1997

	Note	£000	1997 £000	£000	1996 £000
Fixed assets					
Investments	9		319,483		258,221
Current assets					
Debtors: amounts falling due within one year	11	25,218		26,120	
Debtors: amounts falling due after more than one year	11	56,624		-	
		<u>81,842</u>		<u>26,120</u>	
Cash at bank and in hand	12	8,011		38,326	
		<u>89,853</u>		<u>64,446</u>	
Creditors: amounts falling due within one year	13	(4,185)		(6,029)	
Net current assets			85,668		58,417
Total assets less current liabilities			<u>405,151</u>		<u>316,638</u>
Creditors: amounts falling due after more than one year	14		(95,173)		(8,337)
Net assets			<u>309,978</u>		<u>308,301</u>
Capital and reserves					
Called up share capital	17		120,009		120,009
Share premium account			182,711		182,711
Profit and loss account			7,258		5,581
Equity shareholders' funds			<u>309,978</u>		<u>308,301</u>

These financial statements were approved by the board of directors on 29th May 1998 and were signed on its behalf by:


POKPS Haji Abdul Aziz bin Abdul Rahman
Chairman


Haji Mohamad Arbi Haji Abdul Hamid
Director

Audley Group Limited

Consolidated cash flow statement for the year ended 31 December 1997

	Note	1997 £000	1996 £000
Net cash inflow from operating activities	21	32,698	21,251
Return on investments and servicing of finance			
Interest received		1,288	1,068
Interest paid		(10,549)	(3,312)
Loan arrangement fees paid		(123)	-
Net cash outflow from returns on investments and servicing of finance		(9,384)	(2,244)
Taxation		(246)	(50)
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(2,706)	(2,857)
Sale of tangible fixed assets		19	8
Distributions from companies liquidated during merger		-	211
Net cash outflow from capital expenditure and financial investment		(2,687)	(2,638)
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		(5,054)	-
Net cash (outflow) / inflow before financing		(45,095)	16,319
Financing			
New bank loans		27,455	39,107
Repayments of bank loans		(1,402)	(21,746)
Drawdown of other loans		33,296	-
Repayments of other loans		(37,000)	(3,000)
Net cash inflow from financing activities		22,349	14,361
(Decrease)/increase in cash in the year	23	(22,746)	30,680

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 1997.

Goodwill

Goodwill arising on consolidation is written off directly to reserves in the year in which it arises.

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.

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.

Audley Group Limited

Notes (continued)

Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw material 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

	1997 £000	1996 £000
<i>Profit on ordinary activities before taxation is stated</i>		
<i>after charging</i>		
Auditors' remuneration		
Audit	121	73
Other services	97	254
Depreciation and other amounts written off tangible and intangible fixed assets	5,614	5,439
Hire of plant and machinery	86	30
Other operating leases	158	162
<i>after crediting</i>		
Rents receivable from property	9,357	9,723
Profit on sale of tangible fixed assets	12	3
Exchange gain	1	72

The consolidated result for the financial year includes a profit of £1,677,000 (1996: £3,101,000) 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.

3. Remuneration of directors

	1997 £000	1996 £000
Directors' emoluments:		
Remuneration as executives	371	310
Amounts receivable under long term incentive schemes	37	-
	<hr/> 408	<hr/> 310
Amounts paid to ultimate parent company in respect of directors' services	318	95
	<hr/> 726	<hr/> 405

Audley Group Limited

Notes (continued)

The aggregate of emoluments and amounts receivable under long term incentive schemes, excluding pension contributions, of the chairman were £nil (1996: £nil) and of the highest paid director were £204,000 (1996: £157,000). The highest paid director is a member of a defined benefits scheme, under which his accrued pension at the year end was £57,000 (1996: £43,000). The transfer value of the increase is £175,000 (1996: £70,000).

Retirement benefits are accruing to two (1996: 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	
	1997	1996
Operations	1,074	970
Sales and Marketing	20	15
Administration	142	135
	<u>1,236</u>	<u>1,120</u>

The aggregate payroll costs of the group were as follows:

	1997	1996
	£000	£000
Wages and salaries	22,474	20,260
Social security costs	4,525	3,241
Other pension costs (see note 19)	541	474
	<u>27,540</u>	<u>23,975</u>

5. Interest receivable and similar income

	1997	1996
	£000	£000
On bank deposits	1,315	1,057
Other	9	16
Foreign exchange movements	-	72
	<u>1,324</u>	<u>1,145</u>

6. Interest payable and similar charges

	1997	1996
	£000	£000
On bank loans and overdrafts	2,732	1,085
To group undertakings	2,879	2,667
Other interest payable	2	-
Foreign exchange movements	19	-
	<u>5,632</u>	<u>3,752</u>

Audley Group Limited

Notes (continued)

7. Taxation

A corporation tax provision is not required (1996: *£nil*) due to the availability of tax losses

During the year, the group charge for overseas taxation amounted to £375,000 (1996: *credit of £438,000*).

8. Tangible fixed assets

	Land and buildings £000	Plant and machinery £000	Fixtures and fittings tools and equipment £000	Property in the course of construction £000	Total £000
Cost					
At beginning of year	363,775	11,532	21,778	20	397,105
Foreign exchange translation differences	4,037	33	411	(22)	4,459
Additions	674	723	1,153	156	2,706
Transfers	5,021	(2)	(4,998)	(21)	-
Acquisitions	60,068	195	271	383	60,917
Disposals	-	-	(48)	-	(48)
At end of year	433,575	12,481	18,567	516	465,139
Depreciation and diminution in value					
At beginning of year	24,250	6,397	10,783	-	41,430
Foreign exchange translation differences	756	6	97	-	859
Charge	2,048	1,393	1,901	-	5,342
Transfer	-	282	(282)	-	-
Disposals	-	-	(41)	-	(41)
At end of year	27,054	8,078	12,458	-	47,590
Net book value					
At 31 December 1997	406,521	4,403	6,109	516	417,549
At 31 December 1996	339,525	5,135	10,995	20	355,675

The net book value of land and buildings comprises:

	1997 £000	1996 £000
Freehold	406,352	339,353
Long leasehold	169	172
	406,521	339,525

Land and buildings with a net book value of £325,342,000 (1996: £ 268,141,000) are not depreciated.

Audley Group Limited

Notes (continued)

9. Fixed asset investments

	1997	1996
<i>Company</i>	£000	£000
Investment at cost in subsidiary undertakings at cost	136,772	75,510
Investment by means of share for share exchange	182,711	182,711
	<u>319,483</u>	<u>258,221</u>

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

	Principal activity	Class and percentage of shares held
Subsidiary undertakings		
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.

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.

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 balance sheet.

On 29th April 1997 the Group acquired the entire share capital of Meurice SpA, owner of Hotel Meurice, Paris for a cash consideration of £67,889,000. The acquisition has been accounted for by the acquisition method of accounting.

Audley Group Limited

Notes (continued)

9. Fixed asset investments (continued)

The following tables reflect the adjustments made to the acquisition balance sheet of Meurice SpA:

	Book values at acquisition £000	Fair value adjustment £000	Fair value to the Group £000
Intangible fixed assets	2,115	(2,115)	-
Tangible fixed assets	31,965	28,952	60,917
Stock	297	-	297
Debtors	1,222	-	1,222
Cash at bank and in hand	7,467	-	7,467
Creditors < one year	(1,878)	-	(1,878)
Creditors > one year	(25)	-	(25)
Provisions	(111)	-	(111)
Net assets	<u>41,052</u>	<u>26,837</u>	<u>67,889</u>
			£000
Book values at acquisition			41,052
Revaluation of property			26,837
			<u>67,889</u>

The summarised profit and loss account of Meurice SpA using its previous accounting policies is as follows:

	4 month period to 29 th April 1997 £000	year to 31 st December 1996 £000
Turnover	<u>3,452</u>	<u>9,892</u>
Operating profit / (loss)	3,309	(271)
Interest receivable and similar income	94	381
Interest payable and similar charges	<u>(1)</u>	<u>(2)</u>
Profit before taxation	3,402	108
Taxation	(59)	(8)
Retained profit for the period	<u>3,343</u>	<u>100</u>

The operating profit of £3,309,000 for the 4 month period to 29th April 1998 includes an amount of £3,655,000 relating to the recovery of a bad debt, previously written off.

Audley Group Limited

Notes (continued)

10. Stocks

	1997 £000	1996 £000
Group		
Consumables	1,668	1,716
Goods for resale	800	564
	<u>2,468</u>	<u>2,280</u>

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

11. Debtors

	1997 £000	1996 £000
Group		
Trade debtors	11,374	14,135
Other debtors	629	372
Prepayments and accrued income	1,220	504
	<u>13,223</u>	<u>15,011</u>
Company		
Loans to subsidiary undertakings at floating rates	25,215	25,215
Loans to subsidiary undertakings free of interest	56,624	-
Interest receivable on group loans	-	882
Other debtors	3	23
	<u>81,842</u>	<u>26,120</u>

Debtors of £56,624,000 (1996: £nil) are due after one year.

12. Cash at bank and in hand

	1997 £000	1996 £000
Group		
Short term deposits	5,054	-
Cash	21,070	44,142
	<u>26,124</u>	<u>44,142</u>
Company		
Short term deposits	-	-
Cash	8,011	38,326
	<u>8,011</u>	<u>38,326</u>

Audley Group Limited

Notes (continued)

13. Creditors: Amounts falling due within one year

	1997 £000	1996 £000
Group		
Bank loans and overdrafts	5,438	-
Trade creditors	5,465	3,204
Taxation and social security		
- VAT and other sales taxes	1,418	1,695
- PAYE and other payroll taxes	1,003	727
- Other taxes	443	489
Other creditors	1,411	238
Accruals and deferred income	2,878	4,288
	<u>18,056</u>	<u>10,641</u>
	1997 £000	1996 £000
Company		
Trade creditors	-	64
Amounts owed to subsidiary undertakings	3,834	5,579
Other creditors	198	-
Accruals and deferred income	153	386
	<u>4,185</u>	<u>6,029</u>

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

	1997 £000	1996 £000
Group		
Bank loans	53,276	32,999
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, subordinated and not repayable before 1999 and 2014		
- interest free	41,633	45,337
- at floating rates	37,526	37,508
Accrued interest	13,433	18,551
Other creditors	166	195
	<u>170,834</u>	<u>159,390</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*)

	1997 £000	1996 £000
Loans maturing between		
1 to 2 years amount to	56,397	5,500
2 to 5 years amount to	10,876	83,558
over 5 years amount to	103,395	70,137
	<u>170,668</u>	<u>159,195</u>
<i>Company</i>		
	1997 £000	1996 £000
Bank loan	26,085	-
Loan from subsidiary undertaking	27,455	-
Loan from fellow subsidiary undertaking	41,633	8,337
	<u>95,173</u>	<u>8,337</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

<i>Group</i>	1997 £000	1996 £000
Pension contributions (see note 19)	770	828
Property tax assessment	1,262	-
Deferred taxes	130	126
Other	179	-
	<u>2,341</u>	<u>954</u>
	1997 £000	1996 £000
Deferred taxes		
At the beginning of the year	126	791
Effect of foreign exchange rates	4	(83)
Release of provision	-	(438)
Transfer to creditors	-	(144)
At the end of the year	<u>130</u>	<u>126</u>

Deferred taxes, which arise principally from temporary differences between reporting periods in which certain income and expenses are recognised for financial reporting purposes and the period in which they affect taxable income, are included in the amounts provided for income taxes.

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 1997 £000	Total 1996 £000
The Group						
Balance at beginning of year	120,009	182,711	72,668	(129,265)	246,123	249,108
Profit retained for year	-	-	-	18,375	18,375	15,770
Foreign exchange translation differences	-	-	-	3,635	3,635	(18,966)
Distribution from companies liquidated during merger	-	-	-	-	-	211
Balance at end of year	<u>120,009</u>	<u>182,711</u>	<u>72,668</u>	<u>(107,255)</u>	<u>268,133</u>	<u>246,123</u>
The Company						
Balance at beginning of year	120,009	182,711	-	5,581	308,301	305,200
Profit retained for year	-	-	-	1,677	1,677	3,101
Balance at end of year	<u>120,009</u>	<u>182,711</u>	<u>-</u>	<u>7,258</u>	<u>309,978</u>	<u>308,301</u>

17. Called up share capital

Group	1997 £000	1996 £000
Authorised Ordinary shares of £1 each	<u>200,000</u>	<u>200,000</u>
Allotted, called up and fully paid Ordinary shares of £1 each	<u>120,009</u>	<u>120,009</u>

Audley Group Limited

Notes (continued)

18. Financial commitments

Group

Capital commitments at the end of the financial year for which no provision has been made.

	1997 £000	1996 £000
Contracted	3,090	60
Authorised but not contracted	34,681	1,940
	<u>37,771</u>	<u>2,000</u>

At 31st December 1997 the company had no financial commitments (1996: *£nil*).

At 31st December 1997 the group had annual commitments under non-cancellable operating leases as set out below:

	1997		1996	
	Land & buildings £000	Other £000	Land & buildings £000	Other £000
Operating leases which expire:				
Within one year	195	55	202	11
In the second to fifth years inclusive	-	38	-	30
Over five years	7	-	6	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

At 31st December 1997 the company had no operating lease commitments (1996: *£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. As a result of this valuation contributions from the company will rise to 12.5% from 12.4% of employee pensionable earnings, from 6th April 1998. Contributions from employees remain at 4% of earnings. Contributions are based on pension costs across the group as a whole.

Audley Group Limited

Notes (continued)

The combined pension charge for the period was £303,000 (1996: £342,000). A provision of £770,000 (1996: £828,000) 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 £183,000 (1996: £131,000).

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 includes Bruneian citizens holding office within Brunei and its government.

The group provided hotel services to these related parties amounting to £10,652,000 (1996: £13,351,000). Amounts owed for these services as at 31st December 1997 amounted to £4,022,000 (1996: £6,721,000).

The group also occupies a building in London owned by a fellow subsidiary undertaking, on an annually renewable agreement at a rent of £130,000 (1996: £130,000). It is estimated that the market rent of the building occupied is £298,620. Amounts owed for the rental, associated rates and services as at 31st December 1997 amounted to £29,000 (1996: £81,000).

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	1997 £000	1996 £000
Operating profit	23,058	17,938
Depreciation charges	5,342	5,439
Amortisation charges	12	-
Profit on sale of tangible fixed assets	(12)	(3)
Decrease / (increase) in stocks	107	(272)
Decrease / (increase) in debtors	2,902	(1,822)
Increase / (decrease) in creditors	1,290	(29)
Exchange gain	(1)	-
Net cash inflow from operating activities	<u>32,698</u>	<u>21,251</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 1997 £000	Cash flow £000	Other non cash movements £000	Translation differences £000	At 31 st December 1997 £000
Cash in hand and at bank	44,142	(22,746)	-	(326)	21,070
Short term deposits	-	5,054	-	-	5,054
Debt due within 1 year	-	-	(5,438)	-	(5,438)
Debt due after 1 year	(159,195)	(14,349)	2,559	317	(170,668)
Total	(115,053)	(32,041)	(2,879)	(9)	(149,982)

23. Reconciliation of net cashflow to movement in net debt

	1997 £000	1996 £000
(Decrease) / increase in cash in the period	(22,746)	30,680
Cash inflow from increase in liquid funds	5,054	-
Cash outflow from decrease in net debt	(14,349)	(12,280)
Change in debt resulting from cashflows	(32,041)	18,400
Interest on debt accrued during period	(2,879)	(2,667)
Translation differences	(9)	2,504
Movement in net debt during period	(34,929)	18,237
Net debt at 1 st January 1997	(115,053)	(133,290)
Net debt at 31 st December 1997	(149,982)	(115,053)

24. Purchase of subsidiary undertakings

Details of cash flows relating to acquisitions can be found in note 9 to the financial statements.

The subsidiary undertaking acquired during the year contributed £1,954,000 to the Group's operating cash flows, received £254,000 in respect of net returns on investments and servicing of finance, paid £54,000 in respect of taxation and utilised £506,000 for capital expenditure.

Audley Group Limited

Notes (continued)

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

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

The largest and the smallest group in which the results of the company are consolidated is that headed by Audley Group Limited, a company registered in England and Wales. The consolidated accounts of Audley Group Limited are available to the public and may be obtained from the Registrar of Companies, Department of Trade and Industry, Companies House, Crown Way, Maindy, Cardiff CF4 3UZ.