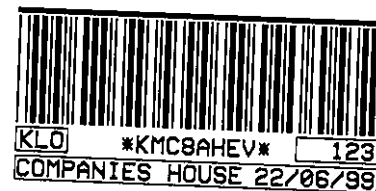


Woodhouse Securities Limited

Directors' report and financial statements

31 October 1998

Registered number 2133343



Directors' report and financial statements

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Directors' report

The directors have pleasure in presenting their annual report and the audited financial statements for the year ended 31 October 1998.

Principal activity

The principal activity is that of hotel proprietor.

Results for the year and transfer to reserves

The results for the year are as presented on page 5 of the financial statements. The loss retained for the year is £366,619 (1997: loss of £312,879).

Review of the business

This year includes 11 eleven months of trading of Buxted Park Hotel, which was purchased on 1st December 1997. Like for like operating profits have risen by £258,834 showing yet again the underlining strength of the business, however interest charges have risen due to the purchase of Buxted Park. The directors are currently examining the future strategic options for the company, including the potential sale of the hotels.

The directors consider the state of affairs at the balance sheet date to be satisfactory.

Directors

The directors who served throughout the year were as follows:

C J D Crathorne
W M F Herriot
STM Murphy

None of the directors had an interest in the shares of the company at the end of the financial year.

Fixed assets

Details of fixed asset movements are given in notes 8 and 9 to the financial statements. Although the directors have not procured a formal valuation of the hotels owned by the company they believe that in current market conditions market values are significantly in excess of the carrying values contained in the accounts.

Dividends

The directors do not recommend the payment of a dividend (1997: £Nil).

Directors' report

Year 2000 compliance

The Year 2000 issue may create business disruption through non compliance of the company's own business systems and from interaction with suppliers and customers.

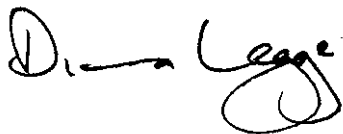
Virgin Hotels Group Limited has carried out an assessment of the potential risks which face the various companies under its control, and actions are being taken accordingly. The Group has allocated a budget of £100,000 for the rectification of non-compliance issues, but no specific budget has been allocated to the company.

Whilst there can be no assurances that the Year 2000 projects will be fully resolved without disruption, notably in areas involving third party suppliers, the directors believe that appropriate steps are in hand to ensure that the company's operations will not be materially affected.

Auditors

In accordance with section 385 of the Companies Act 1985, a resolution for the reappointment of KPMG as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board

A handwritten signature in black ink, appearing to read 'D Legge', with a stylized flourish at the end.

D Legge

10 June 1999

Secretary

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and 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 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 Company 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. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.



PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Report of the auditors to the members of Woodhouse Securities Limited

We have audited the financial statements on pages 5 to 14.

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 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 affairs of the Company as at 31 October 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink, appearing to be 'KPMG' or a similar stylized mark.

KPMG
Chartered Accountants
Registered Auditors

17 June 1999

Profit and loss account

for the year ended 31 October 1998

	<i>Note</i>	1998 £	1997 £
Turnover	<i>1(b)</i>	9,108,802	6,728,932
Cost of sales		(4,768,907)	(3,499,229)
Gross profit		4,339,895	3,229,703
Administration expenses		(3,629,669)	(2,954,582)
Operating profit		710,226	275,121
Other interest receivable and similar income	<i>5</i>	171,522	83,330
Interest payable and similar charges	<i>6</i>	(1,143,277)	(727,291)
Loss on ordinary activities before taxation	<i>2</i>	(261,529)	(368,840)
Tax on loss on ordinary activities	<i>7</i>	(105,090)	55,961
Loss retained for the financial year		(366,619)	(312,879)

The notes on pages 7 to 14 form part of these financial statements.

The operating loss of the Company arose solely from continuing activities.

There is no difference between the reported loss and the loss based on historical cost for either current or prior years.

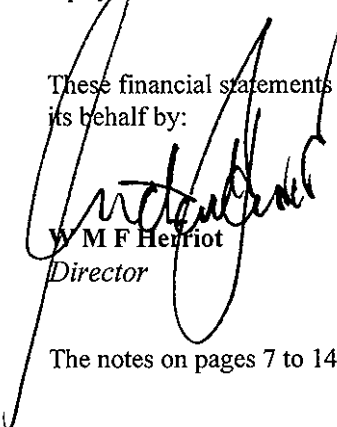
There were no recognised gains or losses in the year other than those disclosed in the profit and loss account above, and there are no movements in shareholders' funds other than the loss retained for the year.

Balance sheet

at 31 October 1998

	Note	1998		1997	
		£	£	£	£
Fixed assets					
Tangible fixed assets	8		13,085,706		9,947,422
Investments	9		4		4
			<hr/>		<hr/>
			13,085,710		9,947,426
Current assets					
Stocks	10	202,850		168,928	
Debtors	11	1,378,651		2,093,249	
Cash at bank and in hand		1,032,206		1,351,043	
		<hr/>		<hr/>	
		2,613,707		3,613,220	
Creditors: amounts falling due within one year	12	(13,289,722)		(10,698,714)	
		<hr/>		<hr/>	
Net current liabilities			(10,676,015)		(7,085,494)
			<hr/>		<hr/>
Total assets less current liabilities			2,409,695		2,861,932
Provisions for liabilities and charges	13		(119,461)		(205,079)
			<hr/>		<hr/>
Net assets			2,290,234		2,656,853
			<hr/>		<hr/>
Capital and reserves					
Called up share capital	14		14,180,170		14,180,170
Profit and loss account	15		(11,889,936)		(11,523,317)
			<hr/>		<hr/>
Equity shareholders' funds			2,290,234		2,656,853
			<hr/>		<hr/>

These financial statements were approved by the board of directors on 10 June 1999 and signed on its behalf by:


W M F Herriot
Director

The notes on pages 7 to 14 form part of these financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

The following significant accounting policies have been consistently applied in dealing with items which are considered material in relation to the Company's financial statements:

a) *Basis of preparation*

The financial statements have been prepared under the historical cost convention, in accordance with applicable accounting standards, and on a going concern basis in view of a letter of support from Virgin Hotels Group Limited, the ultimate holding company, which undertakes to provide or procure such support as is necessary to enable the Company to continue to trade for the foreseeable future.

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. The financial statements present information about the company as an individual undertaking and not about its group.

Under Financial Reporting Standard 1 (Revised) the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking.

b) *Turnover*

Turnover, which excludes value added tax, represents the sales value of goods and services.

c) *Depreciation*

Depreciation of fixed assets is provided for on a straight line basis applied to original cost at rates estimated to write off each asset over its remaining useful life. For the purpose of calculating depreciation, the effective annual rates for the classes of assets currently held are as follows:

Fixtures and fittings	10% - 15%
Plant and equipment	10% - 25%

It is the Company's practice to maintain hotel properties in a continual state of sound repair and to extend and make improvements thereto from time to time. Accordingly, the directors consider that the lives of these assets are so long and residual values, based on prices prevailing at the time of acquisition, or subsequent valuations are so high that their depreciation is insignificant. Any impairment in the value of such properties is charged to the profit and loss account as appropriate.

e) *Stocks*

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

f) *Capitalisation of interest*

Interest incurred on borrowings to finance specific capital projects is capitalised.

Notes *(continued)*

1 Accounting policies (continued)

g) *Deferred tax*

Deferred tax, using the liability method is provided on all timing differences except those which it is considered will continue for the foreseeable future.

h) *Operating leases*

Rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

i) *Pension costs*

The company is a member of a defined contribution pension scheme operated by Virgin Management Limited, a related company. The assets of the scheme are held separately in an independently administered fund. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

j) *Related party transactions*

Under Financial Reporting Standard 8 the company is exempt from the requirement to disclose intercompany related party transactions on the grounds that it is wholly owned subsidiary of a parent undertaking which prepares and publishes consolidated financial statements.

2 Loss on ordinary activities before taxation

	1998	1997
	£	£
<i>Loss on ordinary activities before taxation is stated after charging</i>		
Hire of plant and equipment	64,200	46,127
Depreciation of tangible fixed assets	443,265	512,506
Auditors remuneration:		
- for audit services	12,000	11,950
- for non audit services	-	11,428
Director's remuneration for services as a director	8,248	7,561
	<u> </u>	<u> </u>

All turnover and loss before taxation is derived in the United Kingdom from the operation of hotels.

3 Directors' emoluments

One of the directors received remuneration of £8,248 (1997: £8,250). The other directors did not receive any remuneration from the company.

Notes (continued)

4 Staff number and costs

The average number of persons employed by the group (including directors) during the year was 340 (1997: 238) of which 56 (1997: 41) were engaged in administrative duties, and the remainder in selling and distribution.

	1998	1997
	£	£
Wages and salaries	2,797,771	1,966,169
Social security costs	191,012	123,742
Pension costs	27,031	15,573
	<hr/>	<hr/>
	3,015,814	2,105,484
	<hr/> <hr/>	<hr/> <hr/>

5 Interest receivable

	1998	1997
	£	£
Amounts receivable from group undertakings	90,134	67,180
Other	81,388	16,150
	<hr/>	<hr/>
	171,522	83,330
	<hr/> <hr/>	<hr/> <hr/>

6 Interest payable and similar charges

	1998	1997
	£	£
On bank loans and overdrafts	8,184	1,602
Amounts payable to group undertakings	1,135,093	725,689
	<hr/>	<hr/>
	1,143,277	727,291
	<hr/> <hr/>	<hr/> <hr/>

Notes (continued)

7 Taxation

	1998 £	1997 £
Amounts payable/(receivable) in respect of group relief at 31% (1997: 31%)	105,090	(30,617)
Over/(under) provision in respect of prior years	-	(25,344)
	<u>105,090</u>	<u>(55,961)</u>

8 Tangible fixed assets

	Freehold land and buildings £	Fixtures and fittings £	Plant and equipment £	Total £
<i>Cost</i>				
At 1 November 1997	11,807,933	2,674,470	1,064,396	15,546,799
Additions	3,220,205	102,080	259,264	3,581,549
	<u>15,028,138</u>	<u>2,776,550</u>	<u>1,323,660</u>	<u>19,128,348</u>
<i>Depreciation</i>				
At 1 November 1997	2,677,287	1,988,571	933,519	5,599,377
Charge for the Year	-	271,479	171,786	443,265
	<u>2,677,287</u>	<u>2,260,050</u>	<u>1,105,305</u>	<u>6,042,642</u>
<i>Net book value</i>				
At 31 October 1998	12,350,851	516,500	218,355	13,085,706
	<u>9,130,646</u>	<u>685,899</u>	<u>130,877</u>	<u>9,947,422</u>

Freehold land and buildings includes £21,372 (1997: £21,372) in respect of capitalised interest.

Notes (continued)

9 Investments

Ordinary £1 shares in
subsidiary undertakings
£

At 31 October 1997 and 31 October 1998

4

Subsidiaries:	Country of Incorporation	Ownership %	Nature of business
Rhinefield Time Share Limited	England	100	Development and sale of timeshare apartments
Rhinefield Time Share Management Limited	England	100	Management of timeshare apartments

10 Stocks

	1998 £	1997 £
Finished goods and goods for resale	202,850	168,928

11 Debtors: amounts falling due in within one year

	1998 £	1997 £
Trade debtors	597,784	373,236
Amounts owed by parent and fellow subsidiary undertakings	15,596	588,749
Amounts owed by subsidiary undertakings	250,174	693,796
Amounts owed to related parties	-	9,463
Group relief receivable	326,634	326,634
Other debtors	54,357	13,464
Prepayments and accrued income	134,106	87,907
	<u>1,378,651</u>	<u>2,093,249</u>

Notes (continued)

12 Creditors: amounts falling due within one year

	1998	1997
	£	£
Bank loans and overdrafts	17,392	625,730
Trade creditors	912,297	285,413
Amounts due to parent and fellow subsidiary undertakings	11,752,405	9,114,238
Amounts due to subsidiary undertakings	-	89,711
Other creditors including tax and social security comprise:		
other creditors	346,891	221,781
Accruals	260,737	361,841
	<u>13,289,722</u>	<u>10,698,714</u>

13 Provisions for liabilities and charges

	£
Balance at 1 November 1997	205,079
Utilised during the year	(85,618)
	<u>119,461</u>
Balance at 31 October 1998	<u>119,461</u>

The provision relates to amounts set aside for repairs and refurbishment.

14 Share capital

	1998	1997
	£	£
<i>Authorised:</i>		
Ordinary shares of £1 each	20,000,000	20,000,000
<i>Issued, called up and fully paid:</i>		
Ordinary shares of £1 each	14,180,170	14,180,170

15 Profit and loss reserve

	£
Balance at 1 November 1997	(11,523,317)
Loss for year	(366,619)
	<u>(11,889,936)</u>
Balance at 31 October 1998	<u>(11,889,936)</u>

Notes (continued)

16 Capital commitments

As at 31 October 1998 there were no capital commitments either authorised or contracted (1997: £nil).

17 Leasing commitments

Annual commitments under non-cancellable operating leases are as follows:

	1998	1997
	Other £	Other £
Operating leases which expire: In the second to fifth year inclusive	4,916	4,916
	<u> </u>	<u> </u>

18 Related party disclosure

At 31 October 1998, the Company's ultimate parent company was Virgin Hotels Group Limited, whose principal shareholders are certain trusts, none of which individually has a controlling interest in Virgin Hotels Group Limited. The principal beneficiaries of those trusts are RCN Branson and his immediate family. The shareholders of Virgin Hotels Group Limited have interests directly or indirectly in certain other companies which are considered to give rise to related party disclosures under Financial Reporting Standard No. 8.

The following is a summary of those transactions and balances between the Company and the related parties which are required to be disclosed under Financial Reporting Standard 8.

	Related undertakings
Turnover	£62,307
Payments for pension purposes	£27,031

Turnover and purchases are undertaken on normal commercial terms.

The related undertakings with whom the Company transacted during the year were Virgin Cola Limited, Virgin Atlantic Airways Limited, Virgin Freeway Limited, Virgin Vouchers Limited, Virgin Direct Limited, Virgin Management Limited.

Notes *(continued)*

19 Holding company

The company is a wholly owned subsidiary undertaking of Virgin Hotels Group Limited, a company registered in England and Wales, in whose financial statements the results of the company are consolidated.

These consolidated accounts are available to the public and may be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF4 3HZ.