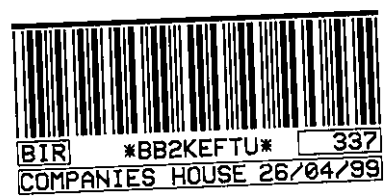


Chamberlain Hotels Limited

Directors' report and financial statements

For the year ended 31 October 1998

Registered number 2307261



Directors' report and financial statements

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Directors' report

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

Principal activity, business review and future developments

The principal activity of the company and its subsidiary is that of hoteliers. The company owns and operates the Chamberlain Park Hotel, Birmingham.

On 9 April 1998, the legal and beneficial interest of the property now known as the Chamberlain Tower Hotel and other assets and liabilities held by the subsidiary, Chamberlain Broad Street Limited, were transferred to Chamberlain Hotels Limited. Following the transfer, the subsidiary ceased its operations.

Operational and financial review

During the year, Chamberlain Hotels Limited procured additional funding for the development of the Chamberlain Tower Hotel. In light of this, the directors consider the following results for the year to be satisfactory:

	1998	1997
	£	£
Profit for the financial year before exceptional items	589,784	296,532
Exceptional items	(712,631)	-
	<hr/>	<hr/>
(Loss)/profit for financial year	(122,847)	296,532
	<hr/> <hr/>	<hr/> <hr/>

Dividends

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

Directors and directors' interests

The directors of the company throughout the year and their beneficial interests in the ordinary share capital of the company were:

	Ordinary shares of £1 each	
	1998	1997
AR Fitzpatrick	1,225,000	1,225,000
E Jefferson	125,000	125,000
RA Nicol	-	-
	<hr/>	<hr/>

Of the 1,350,000 ordinary shares in issue, the 1,100,000 held by AR Fitzpatrick are £1 non-voting shares.

The directors are not required to retire by rotation.

No rights to subscribe for shares in, or debentures of the company were granted to any of the other directors or their immediate families, or exercised by them during the financial year.

Charitable donations

The company made donations to UK charities of £4,386.

Directors' report *(continued)*

Year 2000

The year 2000 potentially has wide ranging financial and operational consequences. The group has carried out reviews to identify areas where year 2000 compliance is necessary. Where problems have been identified, rectification work will be carried out in order to minimise the level of year 2000 risk to which the group is exposed.

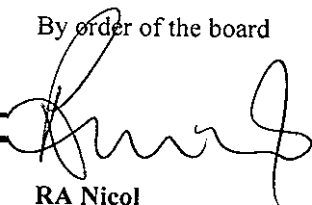
The group has undertaken an extensive review of the implications of the year 2000 for the standard financial and operational systems and equipment. The board has authorised expenditure on new financial and operational systems for the group which are year 2000 compliant. The total estimated cost is £148,581 and is being co-ordinated by the directors.

During the construction of the Chamberlain Tower Hotel, care has been taken to ensure that expenditure on operational and financial systems are year 2000 compliant.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG as auditors of the company is to be proposed at the forthcoming annual general meeting.

By order of the board



RA Nicol
Secretary

245 Broad Street
Birmingham
B1 2HQ

10 March 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 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 company will continue in business.

The directors are responsible for keeping 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.



2 Cornwall Street
Birmingham
B3 2DL

Report of the auditors to the members of Chamberlain Hotels Limited

We have audited the financial statements on pages 5 to 17.

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 the company's affairs 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.

KPMG
Chartered Accountants
Registered Auditors

10 March 1999

Profit and loss account

for the year ended 31 October 1998

	Note	Before exceptional items £	1998 Exceptional items (note 4) £	Total £	1997 £
Turnover - continuing operations	2	4,607,158	-	4,607,158	3,991,022
Cost of sales		(613,224)	-	(613,224)	(574,319)
Gross profit		3,993,934	-	3,993,934	3,416,703
Administrative expenses		(3,138,739)	(374,959)	(3,513,698)	(2,890,421)
Other operating income		53,466	-	53,466	73,588
Operating profit/(loss) - continuing operations		908,661	(374,959)	533,702	599,870
Interest receivable	7	78,904	-	78,904	105,494
Interest payable and similar charges	8	(397,781)	(337,672)	(735,453)	(408,832)
(Loss)/profit on ordinary activities before taxation	3	589,784	(712,631)	(122,847)	296,532
Tax on (loss)/profit on ordinary activities	9	-	-	-	-
(Loss)/profit on ordinary activities after taxation, being the (loss)/profit for the financial year and amount transferred (from)/to reserves		589,784	(712,631)	(122,847)	296,532
Retained profit brought forward				300,399	3,867
Retained profit carried forward				177,552	300,399

In both the current and preceding year, there was no material difference between the result reported in the profit and loss account and the result on an unmodified historical cost basis.

Balance sheet
at 31 October 1998

	Note	1998	1997
		£	£
Fixed assets			
Tangible assets	10	20,059,646	9,974,165
Investments	11	2	2
		<hr/>	<hr/>
		20,059,648	9,974,167
Current assets			
Stock	12	17,196	26,814
Debtors	13	652,885	3,333,091
Cash at bank and in hand		5,413	8,357
		<hr/>	<hr/>
		675,494	3,368,262
Creditors: Amounts falling due within one year	14	(14,103,987)	(1,519,780)
		<hr/>	<hr/>
Net current (liabilities)/assets		(13,428,493)	1,848,482
		<hr/>	<hr/>
Total assets less current liabilities		6,631,155	11,822,649
		<hr/>	<hr/>
Creditors: Amounts falling due after more than one year	15	(6,353)	(5,075,000)
		<hr/>	<hr/>
Net assets		6,624,802	6,747,649
		<hr/>	<hr/>
Capital and reserves			
Called up share capital:			
Ordinary voting	18	250,000	250,000
Ordinary non-voting	18	1,100,000	1,100,000
Revaluation reserve	19	5,097,250	5,097,250
Profit and loss account	19	177,552	300,399
		<hr/>	<hr/>
Equity shareholders' funds		6,624,802	6,747,649
		<hr/>	<hr/>

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

AR Fitzpatrick

E Jefferson
Directors

Cash flow statement

for the year ended 31 October 1998

	<i>Note</i>	1998 £	1997 £
Net cash outflow from operating activities	22	(16,197)	(2,246,956)
Returns on investments and servicing of finance	23	(658,365)	(291,134)
Capital expenditure	23	(5,369,909)	(51,052)
Net cash outflow before financing		(6,044,471)	(2,589,142)
Financing	23	5,763,619	2,801,254
(Decrease)/increase in cash in the year		(280,852)	212,112

Reconciliation of net cash flow to movement in net debt

		1998 £	1997 £
(Decrease)/increase in cash in the year		(280,852)	212,112
Cash inflow from increase in debt financing	23	(5,763,619)	(2,801,254)
Change in net debt resulting from cash flows		(6,044,471)	(2,589,142)
New hire purchase contracts		(14,995)	-
Movement in net debt in the year		(6,059,466)	(2,589,142)
Net debt at start of the year		(5,857,542)	(3,268,400)
Net debt at the end of the year	24	(11,917,008)	(5,857,542)

Statement of total recognised gains and losses
for the year ended 31 October 1998

	1998 £	1997 £
(Loss)/profit for the financial year	(122,847)	296,532
Unrealised surplus on revaluation of properties	-	2,248,448
	<hr/>	<hr/>
Total recognised gains and losses relating to the financial year	(122,847)	2,544,980
	<hr/>	<hr/>

Reconciliation of movements in shareholders' funds
for the year ended 31 October 1998

	1998 £	1997 £
(Loss)/profit for the financial year	(122,847)	296,532
Increase in the revaluation reserve	-	2,248,448
	<hr/>	<hr/>
Net (deduction)/addition to shareholders' funds	(122,847)	2,544,980
Opening shareholders' funds	6,747,649	4,202,669
	<hr/>	<hr/>
Closing shareholders' funds	6,624,802	6,747,649
	<hr/>	<hr/>

Notes

(forming part of the financial statements)

Accounting policies

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

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 land and buildings.

The company is exempt by virtue of s248 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

Depreciation

Depreciation is provided to write off the cost less estimated residual values of all fixed assets, except freehold land and buildings, over their expected useful lives. It is calculated on the original cost of the assets at the following rates:

Fixtures, fittings and equipment	-	refurbishment reserve
Computer equipment	-	25% per annum
Motor vehicles	-	25% per annum

No depreciation is provided on freehold or long leasehold buildings. It is the company's policy to maintain hotel properties in such condition that their value is not diminished by the passage of time and the relevant expenditure is charged to profit before taxation in the year in which it is incurred. Therefore, any element of depreciation is considered to be immaterial and no provision is made.

Refurbishment reserve

An annual provision is made for refurbishment costs which relate to fixtures, fittings and equipment to maintain the standards and operational qualities of the hotel.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis.

Taxation

The charge for taxation is based on the result 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.

Advance corporation tax recoverable by deduction from future corporation tax is carried forward within deferred taxation or as ACT recoverable within debtors as appropriate.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Pensions

The company pays contributions into the personal pension plans of the directors. These contributions are charged to the profit and loss account as incurred.

Notes (continued)

Turnover

Turnover represents sales to customers at invoiced amounts exclusive of VAT and is attributable to the company's principal activity within the United Kingdom.

(Loss)/profit on ordinary activities before taxation

	1998 £	1997 £
<i>(Loss)/profit on ordinary activities before taxation is stated</i>		
<i>after charging</i>		
Hire of other assets:		
Operating leases:		
Plant and machinery	114,350	106,327
Land and buildings	41,498	-
Depreciation:		
Computer equipment	30,861	24,764
Motor vehicles	5,199	1,450
Auditors' remuneration	9,065	8,800
<i>after crediting</i>		
Management charges	53,466	73,588
	<hr/>	<hr/>

Exceptional items

	1998 £	1997 £
Pre-trading expenses on Chamberlain Tower Hotel	374,959	-
Interest payable on development loan	337,672	-
	<hr/>	<hr/>
	712,631	-
	<hr/>	<hr/>

The above items have been treated as exceptional as they relate to costs incurred on the Chamberlain Tower Hotel which was still undergoing redevelopment work at the year end.

Remuneration of directors

	1998 £	1997 £
Remuneration for management services	642,970	525,212
Contributions to money purchase pension scheme	6,720	-
	<hr/>	<hr/>
	649,690	525,212
	<hr/>	<hr/>
Highest paid director:		
Total remuneration	247,157	200,067
	<hr/>	<hr/>
Number of directors who are members of:	Number	
Money purchase pension schemes	1	-
	<hr/>	<hr/>

Notes (continued)

Remuneration of directors (continued)

The directors, E Jefferson and AR Fitzpatrick both control third party companies, which during the year charged the company fees of £247,157 and £237,742 respectively for their services. These amounts are included in the above.

Staff numbers and costs

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

	Number of employees	
	1998	1997
Office and management	157	165

The aggregate payroll costs of these persons were as follows:

	£	£
Wages and salaries	1,471,580	1,270,272
Social security costs	125,881	90,394
Other pension costs	6,720	-
	<u>1,604,181</u>	<u>1,360,666</u>

Interest receivable

	1998 £	1997 £
Receivable from group undertaking	<u>78,904</u>	<u>105,494</u>

Interest payable and similar charges

	1998 £	1997 £
On bank loans and overdrafts	397,289	408,832
Exceptional bank loan interest	337,672	-
Hire purchase interest	492	-
	<u>735,453</u>	<u>408,832</u>

Taxation

No corporation tax arises on these financial statements due to the availability of trading losses at 31 October 1998 which, subject to agreement with HMIC, amounted to £2,177,904 (1997: £1,255,661).

Had the company been in a tax paying position, the full amount of the exceptional items of £712,631 would have reduced corporation tax payable by £149,653.

Notes (continued)

Tangible assets

	Freehold land and buildings	Leasehold land and buildings	Fixtures, fittings and equipment	Computer equipment	Motor vehicles	Total
	£	£	£	£		£
Cost or valuation						
At beginning of year	8,857,487	-	1,059,464	99,058	5,800	10,021,809
Additions	-	4,419,114	716,910	24,385	14,995	5,175,404
Transfers	-	4,600,782	344,425	2,234	-	4,947,441
At end of year	8,857,487	9,019,896	2,120,799	125,677	20,795	20,144,654
At valuation	8,857,487	-	1,056,791	85,722	-	10,000,000
Cost	-	9,019,896	1,064,008	39,955	20,795	10,144,654
	8,857,487	9,019,896	2,120,799	125,677	20,795	20,144,654
Depreciation						
At beginning of year	-	-	-	46,194	1,450	47,644
Charge for the year	-	-	-	30,861	5,199	36,060
Transfers	-	-	-	1,304	-	1,304
At end of year	-	-	-	78,359	6,649	85,008
Net book value						
At 31 October 1998	8,857,487	9,019,896	2,120,799	47,318	14,146	20,059,646
At 31 October 1997	8,857,487	-	1,059,464	52,864	4,350	9,974,165

Included in the above assets capitalised under hire purchase contracts are motor vehicles with a net book value of £11,246 (1997: £Nil). Depreciation charged upon these assets was £3,749 (1997: £Nil).

On 22 May 1997, the freehold property and the trade furnishings, fixtures, fittings and equipment were valued on an existing use basis by independent surveyors, Christie & Co.

The valuation was carried out in accordance with the RICS Statements of Asset Valuation Practice and Guidance Notes.

If stated on a historical cost basis the value of the freehold property, fixture, fittings and equipment and computer equipment would be as follows:

	Freehold land and buildings	Fixtures, fittings and equipment	Computer equipment	Total
	£	£	£	£
Historical cost of revalued assets	3,760,237	1,059,464	99,058	4,918,759
Depreciation	-	-	(70,959)	(70,959)
Historical net book value	3,760,237	1,059,464	28,099	4,847,800

Notes (continued)

Investments (held as fixed assets)

	1998 £	1997 £
At beginning of year	2	-
Investment in subsidiary undertaking at cost	-	2
	<hr/>	<hr/>
At end of year	2	2
	<hr/>	<hr/>

The subsidiary undertaking in which the company's interest at the year end is more than 20% is as follows:

Subsidiary undertaking	Principal activity during the year	% of ordinary shares held	Aggregate of capital and reserves at 31 October 1998	profit for the year ended 31 October 1998
		%	£	£
Chamberlain Broad Street Limited	Hotelier, ceased operations from 9 April 1998	100	303,679	143,896
		<hr/>	<hr/>	<hr/>

Stock

	1998 £	1997 £
Food and liquor	17,196	26,814
	<hr/>	<hr/>

Debtors

	1998 £	1997 £
Trade debtors	301,459	313,681
Amounts owed by subsidiary undertaking	-	2,976,646
Tax and social security	224,411	-
Other debtors	88,704	5,274
Prepayments and accrued income	38,311	37,490
	<hr/>	<hr/>
	652,885	3,333,091
	<hr/>	<hr/>

Notes (continued)

Creditors: Amounts falling due within one year

	1998 £	1997 £
Bank loans (secured - see note 15)	11,422,796	580,000
Bank overdraft (secured - see note 15)	488,807	210,899
Obligations under hire purchase contracts (secured - see note 15)	4,465	-
Trade creditors	1,363,401	153,917
Taxation and social security	33,149	198,808
Amounts owed to subsidiary undertaking	303,679	-
Corporation tax	32,000	-
Other creditors	200,029	9,203
Accruals and deferred income	255,661	366,953
	<hr/> 14,103,987 <hr/>	<hr/> 1,519,780 <hr/>

Creditors: Amounts falling due after more than one year

	1998 £	1997 £
Bank loans (secured)	-	5,075,000
Obligations under hire purchase contracts (secured)	6,353	-
	<hr/>	<hr/>

Of the bank loans, £Nil (1997: £2,755,000) is payable after more than five years. (This was based upon the assumption of fixed quarterly repayment instalments of £145,000 and an interest rate of 2.5% above LIBOR).

The bank loans and overdraft are secured by legal charges over the company's freehold and long leasehold land and buildings and a debenture on the bank's form dated 27 June 1997 incorporating a fixed and floating charge over the company's present and future property and assets.

Hire purchase contracts are secured against the assets to which they relate and are repayable within five years.

Transfer of company's assets and liabilities

On 9 April 1998, the assets and liabilities of Chamberlain Broad Street Limited were transferred to Chamberlain Hotels Limited, at their net book values with the resultant balance remaining in inter company loan accounts. The assets and liabilities transferred were as follows:

	£
Fixed assets	
Debtors	4,946,137
Cash at bank and in hand	21,800
Creditors	474
	(36,798)
	<hr/>
Net assets transferred	4,931,613 <hr/>

Notes (continued)

Provisions for liabilities and charges

Deferred tax

	1998		1997	
	Provided £	Unprovided £	Provided £	Unprovided £
Difference between accumulated depreciation and amortisation on capital allowances	653,371	44,274	392,591	73,946
Losses	(653,371)	-	(392,591)	-
On revaluation of land and buildings	-	1,702,438	-	1,745,765
	<hr/>	<hr/>	<hr/>	<hr/>
	-	1,746,712	-	1,819,711
	<hr/>	<hr/>	<hr/>	<hr/>

No provision has been made in respect of the potential chargeable gain on the revaluation of the land and buildings as the directors have no present intention to dispose of the property.

Called up share capital

	1998 £	1997 £
<i>Authorised:</i>		
Ordinary shares of £1 each	900,000	900,000
Non-voting ordinary shares of £1 each	1,100,000	1,100,000
	<hr/>	<hr/>
<i>Allotted, called up and fully paid:</i>		
Ordinary shares of £1 each	250,000	250,000
Non-voting ordinary shares of £1 each	1,100,000	1,100,000
	<hr/>	<hr/>

Non-voting shareholders are not entitled to request, attend or vote at any general meeting. Neither are they entitled to receive more than the amount paid up. In all other respects, non-voting shares rank *pari passu* with ordinary shares.

Reserves

	Revaluation reserve £	Profit and loss account £
At beginning of year	5,097,250	300,399
Loss for the financial year	-	(122,847)
	<hr/>	<hr/>
At end of year	5,097,250	177,552
	<hr/>	<hr/>

For treatment for taxation purposes of the amount credited to the revaluation reserve see note 17.

Notes (continued)

Commitments

- (i) There were no capital commitments contracted for at the year end (1997: £Nil).
- (ii) Annual commitments under non-cancellable operating leases are as follows:

	1998		1997	
	Land and buildings £	Plant and machinery £	Land and buildings £	Plant and machinery £
Operating leases which expire:				
Within one year	-	2,680	-	-
In the second to fifth years inclusive	-	-	-	109,590
Over five years	46,750	38,333	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	46,750	41,013	-	109,590
	<hr/>	<hr/>	<hr/>	<hr/>

Related party transactions

During the year, the company charged its subsidiary, Chamberlain Broad Street Limited, £53,466 (1997: £73,588) in respect of management charges, and £78,904 (1997: £105,494) in respect of interest charges on the inter-company account.

The company also recharged £Nil (1997: £292,122) at cost in respect of various overheads paid for on behalf of Chamberlain Broad Street Limited. The amounts owed to Chamberlain Broad Street Limited at the year end are shown in note 14 of the financial statements.

Reconciliation of operating profit to net cash outflow from operating activities

	1998 £	1997 £
Operating profit	533,702	599,870
Depreciation charges	36,060	26,214
Decrease/(increase) in stocks	9,618	(403)
Decrease/(increase) in debtors	2,680,206	(2,944,281)
(Decrease)/increase in creditors	(3,275,783)	71,644
	<hr/>	<hr/>
Net cash outflow from continuing operating activities	(16,197)	(2,246,956)
	<hr/>	<hr/>

Notes (continued)

Analysis of cash flows

Returns on investments and servicing of finance

	1998 £	1997 £
Exceptional interest paid	(337,672)	-
Interest paid	(399,597)	(396,628)
Interest received	78,904	105,494
	<hr/>	<hr/>
Net cash outflow for returns on investments and servicing of finance	(658,365)	(291,134)
	<hr/>	<hr/>

Capital expenditure

	1998 £	1997 £
Purchase of tangible fixed assets	(5,369,909)	(51,052)
	<hr/>	<hr/>
Net cash outflow for capital expenditure	(5,369,909)	(51,052)
	<hr/>	<hr/>

Financing

	1998 £	1997 £
New long term loans	6,347,796	5,800,000
Repayment of amounts borrowed	(580,000)	(2,998,746)
Repayment of capital element of hire purchase agreement	(4,177)	-
	<hr/>	<hr/>
Net cash inflow for financing	5,763,619	2,801,254
	<hr/>	<hr/>

Analysis of changes in net debt

	At beginning of year £	Cash flows £	Other non cash changes £	At end of year £
Cash at bank and in hand	8,357	(2,944)	-	5,413
Bank overdrafts	(210,899)	(277,908)	-	(488,807)
	<hr/>	<hr/>	<hr/>	<hr/>
	(202,542)	(280,852)	-	(483,394)
Debt due within one year	(580,000)	(10,838,619)	(8,642)	(11,427,261)
Debt due after more than one year	(5,075,000)	5,075,000	(6,353)	(6,353)
	<hr/>	<hr/>	<hr/>	<hr/>
	(5,857,542)	(6,044,471)	(14,995)	(11,917,008)
	<hr/>	<hr/>	<hr/>	<hr/>

Material non cash transactions

As explained in note 16, assets and liabilities with a net value of £4,931,613 were transferred to the company during the year. This movement is included within the "decrease in creditors" in note 22.