

JARVIS HOTELS LTD
(formerly Jarvis Hotels plc)
(Company No: 2486634)

Directors' Report - Year Ended 27 March 2004

The directors have pleasure in presenting their report and the audited accounts of the Company for the year ended 27 March 2004.

Principal activities

The principal activity of the Company during the year was the ownership and management of hotels.

Review of the business

The year to 27 March 2004 was a challenging year for the Company with hotel trading profit before exceptional items of £15.3m (2003: £20.2m). Including exceptional items there was a trading loss of £26.7m (2003: £20.2 profit). The directors expect the current level of activity will be sustained for the coming year on a like for like basis. A number of the properties are currently being marketed for sale.

On 11 December 2003, the Independent Directors of Jarvis Hotels plc announced that they had agreed terms of an Offer by Kayterm plc to acquire the entire issued share capital of Jarvis Hotels plc at 145 pence per share by means of a scheme of arrangement under section 425 of the Companies Act. The Scheme became effective on 6 February 2004 and the shares in Jarvis Hotels plc were de-listed on 9 February 2004. The Company re-registered as a private company on 24 February 2004.

Financial results and dividends

The profit and loss account for the year ended 27 March 2004 is set out on page 5 and shows an operating profit before interest, tax and exceptional items of £7.2m (2003: £12.1m) and profit before tax and exceptional items of £5.2m (2003: £73.9m). Including exceptional items operating loss before interest and tax was £43.0m (2003: £4.4m profit) and loss before tax was £45.0m (2003: £61.8m profit). The directors do not recommend the payment of a dividend (2003: £6.0m).

Since the year end the Company has disposed of freehold interests in four hotels and surrendered a lease on one hotel. These disposals realised £20.6m net of costs.

Directors

The directors of the Company at 27 March 2004, all of whom have been directors for the whole of the year ended on that date unless otherwise stated, are shown below.

John Jarvis	
David Thomas	(resigned 21 July 2004)
Richard Thomason	
Carl Donnelly	(resigned 10 October 2003)
Charles Prew	(resigned 11 September 2003)
John Clement	(resigned 6 February 2004)
Stephen Curran	(resigned 30 July 2003)
James Joll	(resigned 6 February 2004)
Tony Illsley	(appointed 31 July 2003; resigned 6 February 2004)
David Andrews	(appointed 6 February 2004)
Michael Tunney	(appointed 6 February 2004)
Steve Hebborn	(appointed 8 September 2004)



JARVIS HOTELS LIMITED
Directors' Report - Year Ended 27 March 2004

Directors' interests

The interests of the directors in the shares of the Company are as follows:

	Shares		Share options			
	At 27.3.04	At 30.3.03	At 30.3.03	Exercised	Lapsed	At 27.3.04
J Jarvis	-	1,989,985	1,350,572	685,579	664,993	-
D Thomas	-	527,549	864,546	449,306	415,240	-
R Thomason	-	98,076	607,074	372,038	235,036	-

John Jarvis, Richard Thomason, David Andrews, Michael Tunney and Steve Hebborn are also directors of the ultimate parent company, Kayterm plc, and their interests in that company are shown in the annual report of that company.

Fixed assets

Fixed assets are included at cost less accumulated depreciation. The directors consider that the market value of the hotels is in excess of book value.

Employee involvement

The Company has a keen awareness of the need to attain and maintain high standards of customer care and service. It encourages employees to promote the Company's interests and to suggest ways in which customer satisfaction can be achieved and improved.

Employees are kept informed of the performance and objectives of the Company through regular newsletters and management briefings. In addition, directors and senior management regularly visit hotels and discuss with employees matters of interest and concern to the business. Those employees who are eligible can also become involved in the Company's performance through participation in the Company bonus scheme.

Disabled persons

It is Group policy to give full and fair consideration to applications made by disabled persons and to provide opportunities for the training and career development of disabled employees. If any employee becomes disabled it is standard practice, in almost all but the most extreme circumstances, to offer an alternative job and to provide re-training where necessary.

Directors' Responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss of the Company for that year.

The directors confirm that suitable accounting policies have been used and applied consistently and that reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 27 March 2004. The directors also confirm that applicable Accounting Standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records that 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 are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

JARVIS HOTELS LIMITED
Directors' Report - Year Ended 27 March 2004

Creditor payment policy

The Company's current policy concerning the payment of its trade creditors is to:

- a) ensure that suppliers are made aware of the terms of payment
- b) pay in accordance with those terms of payment

The number of creditor days was 27 days (2003: 28 days).

Auditors

PricewaterhouseCoopers LLP have indicated their willingness to be re-appointed as auditors and a resolution to re-appoint them as auditors of the Company will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD



D J G BEVERIDGE
COMPANY SECRETARY

14 December 2004

Independent auditors' report to the members of Jarvis Hotels Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the accounting policies and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit 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.

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the basis of preparation. The financial statements have been prepared on a going concern basis which, because the company acts as guarantor of the bank facilities agreement held by the ultimate holding company, depends on the group's banks continuing their support should a breach of the facilities agreement occur. In view of this uncertainty, we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 27 March 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors, London
14 December 2004

Jarvis Hotels Ltd.
Profit and loss account
for the year ended 27 March 2004

	Notes	2004			2003		
		Before exceptional items £000's	Exceptional items (Note 3) £000's	Total £000's	Before exceptional items £000's	Exceptional items (Note 3) £000's	Total £000's
Turnover - continuing operations	1	128,084	-	128,084	131,718	-	131,718
Cost of sales		(112,820)	(41,922)	(154,742)	(111,490)	-	(111,490)
Hotel trading profit/(loss)		15,264	(41,922)	(26,658)	20,228	-	20,228
Net operating expenses		(8,102)	(8,280)	(16,382)	(8,579)	(7,727)	(16,306)
Other net operating income		-	-	-	449	-	449
Operating profit/(loss) - continuing operations	2	7,162	(50,202)	(43,040)	12,098	(7,727)	4,371
Exceptional items : profit/(loss) on sale of hotels	3	-	345	345	-	(4,357)	(4,357)
Interest receivable	7	2,501	-	2,501	3,106	-	3,106
Interest payable and similar charges	8	(4,515)	(291)	(4,806)	(6,546)	-	(6,546)
Income from shares in subsidiary undertakings		-	-	-	65,244	-	65,244
Profit/(loss) on ordinary activities before taxation		5,148	(50,148)	(45,000)	73,902	(12,084)	61,818
Taxation on profit/(loss) on ordinary activities	9	(2,955)	7,087	4,132	(436)	(995)	(1,431)
Profit/(loss) on ordinary activities after taxation		2,193	(43,061)	(40,868)	73,466	(13,079)	60,387
Dividends	10	-	-	-	(5,958)	-	(5,958)
Retained profit/(loss) for the year	20	2,193	(43,061)	(40,868)	67,508	(13,079)	54,429

The Company has no recognised gains or losses other than those included in the profit/(loss) above, and therefore no separate statement of recognised gains or losses has been presented.

There is no difference between the profit/(loss) on ordinary activities before taxation and the profit/(loss) stated above, and their historical cost equivalents.

Jarvis Hotels Ltd.
Balance sheet
as at 27 March 2004

	Notes	2004 £000's	2003 £000's
Fixed assets			
Tangible assets	11	172,733	207,378
Investments	13	33,182	44,029
		<u>205,915</u>	<u>251,407</u>
Current assets			
Stocks	14	823	881
Debtors: amounts falling due after one year	15	42,458	42,458
Debtors: amounts falling due within one year	15	13,070	14,890
Cash at bank and in hand		4,993	3,516
		<u>61,344</u>	<u>61,745</u>
Creditors: amounts falling due within one year	16	(36,240)	(46,632)
Net current assets		<u>25,104</u>	<u>15,113</u>
Total assets less current liabilities		<u>231,019</u>	<u>266,520</u>
Creditors : amounts falling after one year	17	(61,884)	(66,437)
Provisions for liabilities and charges	18	(12,466)	(6,072)
Net assets		<u>156,669</u>	<u>194,011</u>
Capital and reserves			
Called up share capital	19	5,621	5,446
Share premium account	20	132,605	129,254
Capital redemption reserve	20	44,912	44,912
Profit and loss account	20	(26,469)	14,399
Total shareholder's funds		<u>156,669</u>	<u>194,011</u>

The financial statements on pages 5 to 18 were approved by the Board of Directors
on 14 December 2004 and signed on its behalf by:


Director

Jarvis Hotels Ltd.

Accounting policies

Principal accounting policies

The financial statements have been prepared in accordance with the applicable Accounting Standards in the United Kingdom. FRS 17 – Retirement benefits has been adopted during the year. A summary of the more important group accounting policies is set out below.

Basis of preparation

Jarvis Hotels Limited is part of the Kayterm plc group of which Kayterm plc is the ultimate holding company.

The auditors of Kayterm plc issued an unqualified opinion on the Kayterm plc group accounts, for the year ended 27 March 2004, which were prepared on a going concern basis, on 14 December 2004. In their opinion on the Kayterm group accounts, the auditors noted that there was uncertainty over the Kayterm group's ongoing compliance with its Bank Facilities Agreement and sale of properties from within the Kayterm group.

Jarvis Hotels Limited is a guarantor of the Bank Facilities Agreement held by Kayterm plc., and consequently in the event of breach of the terms of the Agreement may be required to provide funds to Kayterm plc. Under Kayterm plc's Bank Facilities Agreement, the Kayterm group is subject to measurement against a number of performance covenants. The directors of Kayterm plc have prepared a trading forecast for the period to March 2006 which is based on a number of key assumptions including turnover growth. Based on these assumptions, the Kayterm directors do not currently forecast a breach of financial covenants. The Kayterm group conducts regular reviews of its performance covenants with its banks and believe that should a performance covenant be breached, agreement would be reached in order for the facilities to remain in place.

The Bank Facilities Agreement requires the group to enter into an exchange of contracts in respect of the sale of the Ramada Plaza, Regents Park hotel in 2005 the proceeds of such sale to be applied to repay a £40m bank facility which expires on 6 June 2005. The Kayterm group is currently actively marketing a number of properties including the Ramada Plaza, Regents Park and believe that the property disposals will be made within the required timescale to meet the facility repayment.

The Directors of Jarvis Hotels Limited recognise the inherent uncertainty of the assumptions in the group's trading forecast and the timing of the hotel sales. However they believe it remains appropriate for the accounts of Jarvis Hotels Limited to be prepared on a going concern basis.

Basis of accounting

The financial statements have been prepared under the historical cost convention in accordance with applicable accounting standards.

Turnover

Turnover represents the amounts receivable for goods sold and services provided, excluding VAT. Leisure club membership fees are recognised on a straight line basis over the membership period.

Professional costs

Professional costs incurred are only capitalised to the extent that the relevant project is expected to be completed. All other professional costs are written off as incurred.

Investments

Investments are held at cost less provision for impairment.

Fixed assets

All tangible fixed assets are included in the balance sheet at cost plus subsequent additions at cost less accumulated depreciation and impairments.

No depreciation is provided on freehold land. Depreciation is provided on the cost of all other tangible fixed assets on a straight line basis at over their estimated remaining life. Those parts of each property which have significantly different useful lives are separated for depreciation purposes.

- Freehold and long leasehold buildings
 - :Core (structure) – 2% p.a.
 - :Non Core (surface finishes and services) – 4%p.a.
- Short leasehold properties – remaining term of lease.
- Plant, machinery, fixtures and fittings – between 7.5% and 10%p.a.
- Computer equipment – between 14.3% and 33.3%p.a.
- Motor vehicles – between 20% and 33.3%p.a.

No depreciation is provided on work in progress. On completion, the assets are re-classified into their relevant asset category and depreciated accordingly.

Leased assets

Rental payments under operating leases are charged to the profit and loss account in accordance with the guidance in UITF 28. The benefit of any lease incentive is recognised as a reduction of rental expense and allocated over the term of the lease.

Pension scheme arrangements

The Company is part of both a defined benefits scheme ("JPP") and a defined contributions scheme ("J3P").

The JPP is funded by Company and employee contributions. Company contributions are determined on an actuarial basis so that the annual charge is a substantially level percentage of current and expected future pensionable payroll. The level of contributions is assessed on the advice of qualified actuaries.

The Company is unable to identify its share of the underlying assets of the Plan on a consistent and reasonable basis and a charge equal to the Company's contributions to the Plan during the accounting period is made against profit and there will be no balance sheet item.

Contributions to the J3P are charged to the profit and loss account as incurred.

Stocks

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

Onerous leases

Leases are considered to be onerous if the unavoidable costs of meeting the obligations under the lease exceed the economic benefits expected to be received under it. Onerous leases are measured at the least net discounted cost of fulfilling the lease or of exiting the lease. Where it is not possible to determine the least net cost of exiting a lease, the cost of fulfilling the lease is used.

Deferred taxation

In accordance with FRS 19 'Deferred Tax', full provision is made for deferred tax arising from timing differences between the differing treatment of certain items for taxation and accounting purposes. The provision is calculated at the rates of taxation at which it is estimated the liability will arise and is not discounted. No provision is made in respect of timing differences arising from the sale or revaluation of fixed assets at the balance sheet date. Deferred tax assets are recognised only to the extent that the directors consider there to be suitable taxable profits from which the underlying timing differences can be deducted.

Cash flow statement

The Company is a wholly owned subsidiary of Kayterm plc. The cash flows of the Company are included in the consolidated cash flow of Kayterm plc and consequently the Company is exempt under the terms of FRS 1 (as revised) from preparing a cash flow statement.

Consolidation exemption

Consolidated financial statements are not presented as the Company is a wholly owned subsidiary of Kayterm plc, a company registered in England.

Jarvis Hotels Ltd
Notes to the financial statements
27 March 2004

1. SEGMENTAL ANALYSIS

The Company's turnover, profit before taxation and net assets are derived from its principal activity within the UK which is the ownership and management of hotels, and as such no segmental information has been disclosed.

2. OPERATING PROFIT

	<u>2004</u>	<u>2003</u>
	<u>£000's</u>	<u>£000's</u>
Operating profit is stated after charging:		
Auditors' remuneration – audit	156	103
Auditors' remuneration – other	35	29
Depreciation of tangible fixed assets (including exceptional items)	41,463	15,091
Hire of plant and machinery	3,075	3,114
Other operating leases	20,633	11,089
Loss on fixed asset disposals	23	22

Net operating expenses before exceptional items include £5.2m (2003: £5.7m) for administration and £2.9m (2003: £2.9m) for selling costs. Auditors' remuneration is borne by the Company for the Group.

3. EXCEPTIONAL ITEM

a. Operating costs

The exceptional operating items of £50.2m (2003: £7.7m) relates to accelerated depreciation in respect of certain properties in accordance with FRS11 – Impairment of fixed assets and goodwill of £34.5m (2003:£6.0m); a provision for onerous leases £10.2m (2003: £nil); legal and professional costs relating to the takeover of the Company by Kayterm plc £3.4m (2003: £nil); the write off of professional fees in respect of deferred development and capital projects £nil (2003:£1.7m); the write off of pension prepayment £0.8m (2003: £nil) and the termination costs relating to the restructure of the central support operation £1.3m (2003: £nil).

b. Profit on sale of hotels

The Company sold two hotels during the year for a total consideration (net of costs of sale) of £4.3m and a profit of £0.3m. The exceptional item in the prior year relates to the cost of disposal of hotels sold under the sale and leaseback transaction in that year.

c. Interest payable and similar charges

The £20m First Mortgage Debenture Stock 2004 which was due for redemption on 31 December 2004, was redeemed at par in March 2004 following the acquisition by Kayterm plc. An exceptional charge of £0.3m (2003: £nil) was made in respect of the appropriation in order to increase the value to £20m.

d. Tax effect of exceptional items

The accelerated depreciation on the properties noted above creates a deferred tax credit of £4.2m. The provision for onerous leases creates a deferred tax credit of £2.9m. The restructure costs are tax deductible as is the charge in respect of the debenture. In the previous year the calculation included the benefits of £10m capital gains roll over relief based upon the estimated level of qualifying expenditure. The Company has reviewed this level of expenditure and consequently provided an additional £0.7m in respect of additional capital gains tax.

Jarvis Hotels Ltd
Notes to the financial statements
27 March 2004

4. DIRECTORS' REMUNERATION

	<u>2004</u>	<u>2003</u>
	£000's	£000's
Executive directors		
Salaries and other benefits	1,046	1,418
Bonus	210	-
Pension contributions	275	488
Termination payments made to former directors	760	-
	<u>2,291</u>	<u>1,906</u>
Non-executive directors		
Fees	160	80
	<u>2,451</u>	<u>1,986</u>

Five (2003: nil) directors exercised share options during the year. Four (2003: five) directors were members of the Jarvis Pension Plan, a defined benefit scheme.

During the year, Mr Donnelly left the Company. Mr Donnelly had a service contract with the Company terminable by the Company on one years' notice. The Company has agreed to pay Mr Donnelly, as compensation for loss of office, an amount approximately equivalent to one year's salary and other benefits. This amount was £354,618 which is subject to the deduction of tax and includes a sum of £234,811 in respect of Mr Donnelly's pension arrangements.

During the year, Mr Prew left the Company. Mr Prew had a service contract with the Company terminable by the Company on one years' notice. The Company has agreed to pay Mr Prew, as compensation for loss of office, an amount approximately equivalent to one year's salary and other benefits. This amount was £405,371 which is subject to the deduction of tax and includes a sum of £388,983 in respect of Mr Prew's pension arrangements.

Highest paid director	<u>2004</u>	<u>2003</u>
	£000's	£000's
Aggregate emoluments and benefits (excluding gains on exercise of share options and value of shares received) under long-term incentive schemes	371	539
Company pension contributions to money purchase scheme	-	-
Defined benefit scheme:		
Accrued pension at end of year	44	21
Accrued lump sum at end of year	-	-

The highest paid director exercised share options during the year.

5. EMPLOYEE INFORMATION

The average number of persons employed by the Company (including executive directors) during the year was:

	<u>2004</u>	<u>2003</u>
Full time	1,680	1,725
Part time	2,463	2,637
	<u>4,143</u>	<u>4,362</u>

Employment costs of all employees included above:

	<u>2004</u>	<u>2003</u>
	£000's	£000's
Gross wages and salaries	41,902	40,592
Employer's national insurance and state pension contributions	2,555	2,209
Employer's pension costs	2,172	2,526
	<u>46,629</u>	<u>45,327</u>

Jarvis Hotels Ltd
Notes to the financial statements
27 March 2004

6. PENSION SCHEME

The Company operates the Jarvis Pension Plan ("The Plan"), the Jarvis Personal Pension Plan ("J3P") and FURBS. The Plan is contracted-out of the state earnings related pension scheme and provides benefits based upon final pensionable earnings and years of service at retirement. It is funded and the assets are held separately and invested independently of the Group. Since April 2002 new employees are not entitled to join The Plan. Instead new employees are offered membership of the J3P, a defined contribution scheme.

The charge to the profit and loss account in respect of the J3P in the year was £71,946. At the year end, creditors included £6,500 in respect of contributions to be paid.

The Company has adopted FRS 17 - Retirement benefits. As the Company is unable to identify its share of the underlying assets of the Plan on a consistent and reasonable basis, each participating employer is exposed to actuarial risks associated with the current and former employees of the other employers participating in the Plan, paragraph 9(b) of FRS17 allows that in this case, the pension cost equal to the Company's contributions to the Plan during the accounting period and there will be no balance sheet item.

The pension charge for the year was £2.2m (2003: £2.5m).

7. INTEREST RECEIVABLE

	<u>2004</u> £000's	<u>2003</u> £000's
Bank interest receivable	170	235
Interest on inter company loans	2,331	2,871
	<u>2,501</u>	<u>3,106</u>

8. INTEREST PAYABLE AND SIMILAR CHARGES

	<u>2004</u> £000's	<u>2003</u> £000's
On bank loans and overdrafts		
Interest payable on bank loans and overdrafts	2,390	4,893
Interest payable on other loans	1,569	1,653
Interest on inter company loans	556	-
	<u>4,515</u>	<u>6,546</u>
Exceptional item: Additional appropriation of Debenture interest	291	-
	<u>4,806</u>	<u>6,546</u>

9. TAXATION

	<u>2004</u> £000's	<u>2003</u> £000's
The taxation charge in the Group profit and loss account comprises:		
UK corporation tax at 30% (2003: 30%)		
Current year charge	-	9,962
(Over)/under provision in previous years	(311)	(206)
	<u>(311)</u>	<u>9,756</u>
Deferred tax (Note 18)	(3,821)	(8,325)
	<u>(4,132)</u>	<u>1,431</u>

Jarvis Hotels Ltd

Notes to the financial statements

27 March 2004

The difference between the current tax for the period and the standard rate of corporation tax in the UK (30%) is explained below:

	2004 £000's	2003 £000's
Profit on ordinary activities before tax, exceptional items and income from shares in subsidiary undertakings	5,148	8,658
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%)	1,544	2,597
Effects of:		
- Expenses not deductible for tax purposes	15	12
- Capital allowances in excess of depreciation	(471)	(2,047)
- Group relief	(660)	(470)
	428	92
Exceptional items	(428)	9,870
Current tax charge	-	9,962

10. DIVIDENDS

	2004 £000's	2003 £000's
Equity shares		
Ordinary shares – interim	-	1,916
Ordinary shares – final	-	4,042
	-	5,958

11. TANGIBLE FIXED ASSETS

	Land and buildings			Furniture, fittings and Equipment	Motor Vehicles	Work-in Progress	Total
	Freehold	Leasehold					
		Long	Short				
	£000's	£000's	£000's	£000's	£000's	£000's	£000's
Cost							
At 30 March 2003	114,630	89,856	5,692	47,787	1,298	104	259,367
Additions	2,439		44	1,504	211	744	4,942
Inter Group transfer	-	-	-	6,998	-	-	6,998
Reclassification	584		-	250	-	(834)	-
Disposals	(5,973)	-	-	(1,198)	(476)	-	(7,647)
At 27 March 2004	111,680	89,856	5,736	55,341	1,033	14	263,660
Accumulated depreciation							
At 30 March 2003	18,613	5,181	2,100	25,368	727	-	51,989
Charge for year	3,481	23,428	2,963	11,387	204	-	41,463
Disposals	(1,340)	-	-	(838)	(347)	-	(2,525)
At 27 March 2004	20,754	28,609	5,063	35,917	584	-	90,927
Net book value							
At 27 March 2004	90,926	61,247	673	19,424	449	14	172,733
At 29 March 2003	96,017	84,675	3,592	22,419	571	104	207,378

Depreciation charge for the year includes exceptional items relating to the accelerated depreciation of £34.5m (2003: £7.7m) in respect of the provision for FRS 11 – Impairment of fixed assets and goodwill. The provision for impairment on certain hotels was calculated in accordance with the requirements of FRS11 on a value in use basis. A discount rate of 12% was used for this purpose.

Jarvis Hotels Ltd
Notes to the financial statements
27 March 2004

12. CAPITAL COMMITMENTS

	<u>2004</u> £000's	<u>2003</u> £000's
Amounts contracted but not invoiced	1,313	518

13. INVESTMENTS

	<u>2004</u> £000's	<u>2003</u> £000's
Investment in Group undertakings	33,182	41,291
Investment in own shares	-	2,738
	<u>33,182</u>	<u>44,029</u>

Analysis of movement in investment in Group undertakings

	<u>2004</u> £000's
At 30 March 2003	41,291
Provision	(8,109)
At 27 March 2004	<u>33,182</u>

- (a) The investment in Group undertakings represents the original cost of the investment less any provision for diminution in value.
- (b) Interests in own shares in 2003 represented the cost of 2,562,558 of the Company's ordinary shares (nominal value of £128,128) purchased by a Trust using funds provided by Jarvis Hotels Ltd to satisfy options granted to employees. All of the options were exercised during the current year and any remaining shares held by the trust were sold at £1.45 per share.

14 STOCKS

All stocks relate to food, beverage and consumables.

15. DEBTORS

	<u>2004</u> £000's	<u>2003</u> £000's
Amounts falling due after more than one year		
Amounts owed by Group companies	42,458	42,458
Amounts falling due within one year		
Trade debtors	7,897	7,842
Other debtors	1,112	1,777
Prepayments and accrued income	4,061	5,271
	<u>13,070</u>	<u>14,890</u>

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16. CREDITORS: amounts falling due within one year

	2004	2003
	£000's	£000's
Bank loans	-	3,000
Trade creditors	3,926	4,210
Amounts due to Group companies	13,414	10,415
Corporation tax	2,285	7,767
Other taxation and social security	1,568	2,008
Other creditors	4,698	4,975
Accruals and deferred income	10,349	10,215
Dividends payable	-	4,042
	36,240	46,632

17. CREDITORS: amounts falling due after more than one year

	2004	2003
	£000's	£000's
Amounts due to Group companies	61,884	-
Bank loans	-	47,000
First Mortgage Debenture Stock 2004	-	19,437
	61,884	66,437

**The maturity profile of bank, other borrowings and
Amounts due to group companies is as follows:**

	2004	2003
	£000's	£000's
Within one year	-	3,000
Between one and two years	-	23,437
Between two and five years	-	43,000
After more than five years	61,884	-
	61,884	69,437

(a) The £20m 3.80125% to 6.84225% stepped interest First Mortgage Debenture Stock was redeemed at par during the year.

(b) Following the take over of Jarvis Hotels plc on 6th February 2004, the bank loans were repaid.

18. PROVISIONS FOR LIABILITIES AND CHARGES

	Onerous leases		Deferred tax		Total	
	2004	2003	2004	2003	2004	2003
	£000's	£000's	£000's	£000's	£000's	£000's
30 March 2003	-	-	6,072	14,397	6,072	14,397
Charged/(credited) to the profit and loss account	10,215	-	(3,821)	(8,325)	6,394	(8,325)
27 March 2004	10,215	-	2,251	6,072	12,466	6,072

**Provision for deferred tax
comprises:**

	2004	2003
	£000's	£000's
Accelerated capital allowance	2,251	5,782
Other timing differences	-	290
	2,251	6,072

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Onerous leases

The onerous lease provision has been calculated by reference to the net present value of future cash flows from the relevant properties. The cost of exiting the leases has not been used as it is impossible to accurately estimate this amount. The onerous lease provision is expected to unwind over the period of the relevant leases, which are between 15 and 35 years.

Deferred tax

No provision has been made for deferred tax on gains on the sale of properties where potentially taxable gains have been rolled over into replacement assets.

Deferred tax is measured on a non discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based upon tax rates at the balance sheet date. A potential deferred tax asset of £2.9m (2003: £nil) in relation to timing differences has not been recognised as its recoverability is not sufficiently certain.

19. SHARE CAPITAL

	2004		2003	
	Number	£000's	Number	£000's
Authorised				
Ordinary shares of 5p each	250,000,000	12,500	250,000,000	12,500
Issued, called up and fully paid				
Ordinary shares of 5p each	112,422,638	5,621	108,930,845	5,446

- (a) During the year, 850,499 Ordinary shares of 5p each were issued to participants under the company share save scheme for an aggregate consideration of £720,279 and 2,641,294 Ordinary shares of 5p each were issued to participants of the company Share Option Scheme for an aggregate consideration of £2,804,558.
- (b) On 6 February 2004, Kayterm plc acquired the entire issued share capital for £163.6m by means of a Scheme of Arrangement under section 425 of the Companies Act. Under the Scheme:
- 1) 11,955,649 shares were transferred to Kayterm in respect of which elections to receive Loan Notes in Kayterm plc were received;
 - 2) 97,933,341 shares were cancelled and an equal number of new shares issued to Kayterm plc;
 - 3) 2,533,648 shares subsequently issued in respect of the share schemes were issued and transferred immediately to Kayterm plc.

20. SHAREHOLDER'S FUNDS

	Share Capital	Share Premium Account	Capital redemption reserve	Profit and Loss Account	Total
	£000's	£000's	£000's	£000's	£000's
At 30 March 2003	5,446	129,254	44,912	14,399	194,011
Allotted under share option schemes	175	3,351	-	-	3,526
Shares cancelled	(4,897)	-	-	-	(4,897)
New share issue	4,897	-	-	-	4,897
Retained profit for the year	-	-	-	(40,868)	(40,868)
At 27 March 2004	5,621	132,605	44,912	(26,469)	156,669

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**21. RECONCILIATION OF MOVEMENT
IN SHAREHOLDER'S FUNDS**

	2004	2003
	£000's	£000's
Profit for the financial year	(40,868)	60,387
Dividends	-	(5,958)
	(40,868)	54,429
Share capital issued	8,423	25
Shares cancelled	(4,897)	(84,998)
Net reduction to shareholder's funds	(37,342)	(30,544)
Opening equity shareholder's funds	194,011	224,555
	<u>156,669</u>	<u>194,011</u>
Closing equity shareholder's funds		

22. CONTINGENT LIABILITIES AND COMMITMENTS

- (a) Jarvis Hotels Limited is a guarantor of the Bank Facilities Agreement held by Kayterm plc. and there are fixed and floating charges over all of the assets of Jarvis Hotels Limited in favour of the Royal Bank of Scotland.
- (b) In order to cover obligations under the EU Directive on package holidays, the Company has placed £341,000 in a Trust account held with the Bank of Scotland. In the event of the Company's insolvency the monies would be used to refund customers.
- (c) The Company has entered into a number of contractual agreements in respect of the hire of plant and equipment installed and used at its hotel premises. There are a large number of agreements in respect of each hotel, of which some provide for accelerated payment of a percentage of outstanding rentals on early termination of the contract.
- (d) In addition to the minimum annual commitments set out in the table below under Land and Buildings, there is a continuing obligation to make additional annual payments under various agreements where specific turnover or profit levels are achieved. In the year to 27 March 2004 such additional costs were £311,000 (2003: £631,000).

At 27 March 2004 the Company had annual commitments under operating leases as set out below;

	Land and buildings		Other	
	2004	2003	2004	2003
	£000's	£000's	£000's	£000's
Operating leases which expire				
Within one year	-	-	300	619
In two to five years	-	-	743	547
Over five years	17,218	16,145	538	254
	<u>17,218</u>	<u>16,145</u>	<u>1,581</u>	<u>1,420</u>

23. POST BALANCE SHEET EVENTS

Since the year end, the Company has sold four freehold properties and surrendered an occupational lease. The proceeds from these transactions was £20.6m net of selling costs.

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24. RELATED PARTY TRANSACTIONS

Jarvis Hotels Limited currently has the benefit of occupational leases, negotiated on an arms length basis, on eight hotels owned by a consortium of investors. Lioncourt Capital Limited manage this investment on behalf of the investors. Two of the directors of Jarvis Hotels Limited are also directors of Lioncourt Capital Limited. At the period end, there was a balance of £0.2m of prepaid rents in respect of the leases. The charge to the profit and loss account in respect of these leases was £9.7m.

25. INTERESTS IN GROUP UNDERTAKINGS

The directors consider that to give full particulars of all subsidiary undertakings would lead to a statement of excessive length. The following information relates to those subsidiary undertakings whose results or financial position, in the opinion of the directors, principally effect the figures of the Company.

Name	Country of incorporation	Class of capital	% of class held
Jarvis Hotels - First Time Every Time Limited	Great Britain	Ordinary shares	100%
		Preference shares	100%
Jarvis Hotels - Creating the Difference Limited	Great Britain	Ordinary shares	100%
		Preference shares	100%
Jarvis Red Tin Shed Corporation Limited	Jersey	Ordinary shares	100%
		Preference shares	100%
Jarvis Hotels Bolton Limited	Great Britain	Ordinary shares	100%
Jarvis Hotels Ealing Limited	Great Britain	Ordinary shares	100%
Jarvis Hotels East Grinstead Limited	Great Britain	Ordinary shares	100%
Jarvis Hotels Farnham Limited	Great Britain	Ordinary shares	100%
Jarvis Hotels Gatwick Limited	Great Britain	Ordinary shares	100%
Jarvis Hotels Gloucester Limited	Great Britain	Ordinary shares	100%
Jarvis Hotels Hatfield Limited	Great Britain	Ordinary shares	100%
Jarvis Hotels Hemel Limited	Great Britain	Ordinary shares	100%
Jarvis Hotels Hyde Park Limited	Great Britain	Ordinary shares	100%
Jarvis Hotels Kensington Limited	Great Britain	Ordinary shares	100%
Jarvis Hotels Leatherhead Limited	Great Britain	Ordinary shares	100%
Jarvis Hotels Penns Hall Limited	Great Britain	Ordinary shares	100%
Jarvis Hotels Solihull Limited	Great Britain	Ordinary shares	100%
Jarvis Hotels Watford Limited	Great Britain	Ordinary shares	100%

26. PARENT UNDERTAKINGS

The Company's ultimate and immediate parent undertaking is Kayterm plc being incorporated in the United Kingdom and registered in England and Wales. Group accounts are only prepared at the Kayterm plc level.