

ARTHUR ANDERSEN

The Cliveden Town House Limited

Financial statements to 31 December 1998
together with directors' and auditors' reports

Registered number: 2492037



Directors' report

For the period ended 31 December 1998

The directors present their annual report on the affairs of the company, together with the financial statements and auditors' report, for the fourteen months ended 31 December 1998. During the period Cliveden Limited (formerly 'Cliveden PLC'), the immediate holding company, was acquired by Destination Europe Limited. The Cliveden Town House Limited changed its financial year end to 31 December 1998 in line with its parent company reporting requirements.

Principal activity

The principal activity of the company which has remained unchanged during the period was that of operating The Cliveden Town House, London.

Review of activities and future developments

Following a major refurbishment programme during the prior year, rooms were available for the whole of the financial period and there was an improvement in company's operating profit. The company made a profit of £26,000 (31 October 1997 - £181,000) for the period. The directors anticipate that the company will continue to improve its performance in future years.

Directors and their interests

The directors of the company who served during the period are as follows:

J C S Tham
C X Castelino

No director had any interests in the shares of the company during the period. The interests of J C S Tham and C X Castelino in the shares of the immediate parent company are disclosed in that company's financial statements. None of the directors had any interests in the shares of Destination Europe Limited.

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; and

Directors' report (continued)

Directors' responsibilities (continued)

- 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 enable them to ensure that the accounts 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.

Year 2000

The period to Year 2000 presents companies using any form of electronic system incorporating a calendar with the opportunity to ensure they are not vulnerable to potentially significant problems which could arise if steps are not taken ahead of time to eliminate the risk that systems will malfunction when the last two digits of the year roll over to '00'.

The Group has been reviewing and updating its systems so that they are "Year 2000 compliant". Where changes are still necessary, we are installing software packages from software houses who are committed to delivering compliant systems. Separable costs related to the preparation for the Year 2000 are forecast to be approximately £68,280 of capital, being new equipment and system enhancements. The estimate is based on quotation received for the installation of the new software and on current prices of equipment.

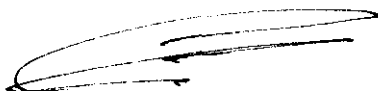
Auditors

Deloitte & Touche resigned as auditors on 18 February 1999 and Arthur Andersen were appointed as auditors on that date.

The directors will place a resolution before the annual general meeting to appoint Arthur Andersen as auditors for the ensuing year.

By order of the Board,

Hill House
1 Little New Street
London
EC4A 2TR



C X Castelino
Secretary

29 October 1999

Auditors' report

London

To the Shareholders of The Cliveden Town House Limited

We have audited the financial statements on pages 4 to 14 which have been prepared under the historical cost convention, modified to include the revaluation of long leasehold hotel premises, and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on pages 1 and 2, the company's directors are responsible for the preparation of the 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.

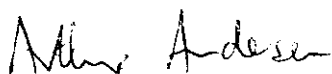
Basis of opinion

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 circumstances of the company, 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 December 1998 and of its profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Arthur Andersen

Chartered Accountants and Registered Auditors

1 Surrey Street
London
WC2R 2PS

29 October 1999

Profit and loss account

For the 14 month period ended 31 December 1998

	Notes	Period ended 31 December 1998 £'000	Year ended 31 October 1997 £'000
Turnover	2	2,494	1,343
Cost of sales		<u>(1,752)</u>	<u>(818)</u>
Gross profit		742	524
Administrative expenses		<u>(219)</u>	<u>(90)</u>
Operating profit	3	523	434
Interest payable	4	<u>(497)</u>	<u>(253)</u>
Profit on ordinary activities before taxation		26	181
Tax on profit on ordinary activities	6	-	-
Profit on ordinary activities after taxation and retained profit for the period	14	<u>26</u>	<u>181</u>

The accompanying notes are an integral part of this profit and loss account.

Statement of total recognised gains and losses

For the 14 month period ended 31 December 1998

	Notes	Period ended 31 December 1998 £'000	Year ended 31 October 1997 £'000
Profit on ordinary activities after taxation and dividends		26	181
Unrealised surplus on revaluation of long leasehold hotel premises	7	<u>597</u>	<u>-</u>
Total recognised gains relating to the period		<u>623</u>	<u>181</u>

Note of historical cost profits and losses

For the 14 month period ended 31 December 1998

	Notes	Period ended 31 December 1998 £'000	Year ended 31 October 1997 £'000
Retained profit on ordinary activities before taxation		26	181
Difference between a historical cost depreciation charge of the year calculated on the revalued amount	14	<u>41</u>	<u>-</u>
Historical cost profit on ordinary activities before taxation		<u>67</u>	<u>181</u>
Historical cost profit for the period retained after taxation		<u>67</u>	<u>181</u>

The accompanying notes are an integral part of these financial statements.

Balance sheet

31 December 1998

	Notes	31 December 1998 £'000	31 October 1997 £'000
Fixed assets			
Tangible assets	7	<u>11,134</u>	<u>9,938</u>
Current assets			
Stocks	8	40	121
Debtors	9	390	234
Cash at bank and in hand		<u>8</u>	<u>28</u>
		438	383
Creditors: Amounts falling due within one year	10	<u>(4,047)</u>	<u>(3,317)</u>
Net current liabilities		<u>(3,609)</u>	<u>(2,934)</u>
Total assets less current liabilities		7,525	7,004
Creditors: Amounts falling due after more than one year	11	<u>(4,777)</u>	<u>(4,879)</u>
Net assets		<u>2,748</u>	<u>2,125</u>
Capital and reserves			
Called-up share capital	13	-	-
Revaluation reserve	14	3,971	3,415
Profit and loss account	14	<u>(1,223)</u>	<u>(1,290)</u>
Equity shareholders' funds		<u>2,748</u>	<u>2,125</u>

Signed on behalf of the Board



J.C.S. Tham
Director

29 October 1999

The accompanying notes are an integral part of this balance sheet.

Notes to the financial statements

31 December 1998

1 Principal accounting policies

The principal accounting policies, which have been applied consistently throughout the period and the preceding year, are set out below.

a) Basis of accounting

The financial statements have been prepared under the historical cost convention modified to include the revaluation of long leasehold hotel premises, and in accordance with applicable accounting standards.

b) Accounting period

The company has changed its accounting period to end on 31 December. The financial statements are prepared for a fourteen month period from 1 November 1997 to 31 December 1998. Prior year comparatives are provided for the twelve months to 31 October 1997.

Going concern

At 31 December 1998, the company had net current liabilities of approximately £3,609,000 (31 October 1997 – approximately £2,934,000) and accordingly is reliant on support from its parent companies.

Destination Europe Limited has confirmed its intention to provide continuing financial support to enable the company to meet its liabilities as they fall due for a period of at least 12 months from the date of these financial statements.

d) Turnover

Turnover represents amounts receivable by the company in respect of goods sold and services rendered during the period, net of trade discounts, VAT and other sales related taxes.

e) Tangible fixed assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment.

Depreciation is provided at rates calculated to write off the cost or valuation less estimated residual value of each asset over the expected useful life as follows:

Individual freehold and long leasehold hotel premises are revalued periodically with the surplus or deficit on book value being transferred to the revaluation reserve, except that a deficit which is in excess of any previously recognised surplus over depreciated cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the profit and loss account. A deficit which represents a clear consumption of economic benefits is charged to the profit and loss account regardless of any such previous surplus. Where depreciation charges are increased following a revaluation, an amount equal to the increase is transferred annually from the revaluation reserve to the impairment of a revalued fixed asset, any related balance remaining in the revaluation reserve is also transferred to the profit and loss account as a movement on reserves.

In connection with the acquisition of the Cliveden Limited group by Destination Europe Limited, the estimated useful economic life of long leasehold hotel premises has been revised to 40 years.

Notes to the financial statements (continued)

1 Accounting policies (continued)

e) *Tangible fixed assets (continued)*

Long leasehold hotel premises - over 40 years

Furniture, fixtures and fittings - various rates between 2.5% and 25% according to the asset type on a straight line basis.

Long leasehold hotel premises are revalued periodically with the surplus or deficit on book value being transferred to the revaluation reserve, except that a deficit which is in excess of any previously recognised surplus over depreciated cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the profit and loss account.

f) *Stocks*

Stocks are valued on a first in, first out basis at the lower of cost and net realisable value. Cost includes all expenditure incurred in the normal course of business in bringing stocks to their present location and condition.

Operating stocks purchased by the hotel are written off at the time of purchase.

g) *Taxation*

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation is calculated on the liability method. It is provided to the extent that it is considered with reasonable probability that a liability will become payable within the foreseeable future.

g) *Operating leases*

Rentals under operating leases are charged to the profit and loss account on a straight line basis over the lease term even if payments are not made on such a basis.

2 Turnover and company result

The turnover and profit of the company for the period derive from operating the Cliveden Town House hotel. The turnover of the company arises in the United Kingdom.

Notes to the financial statements (continued)

3 Operating profit

Operating profit is after charging:

	Period ended 31 December 1998 £'000	Year ended 31 October 1997 £'000
Operating lease charges:		
Land and buildings	96	80
Plant and machinery	12	8
Auditors' remuneration - audit fees	10	5
Depreciation	<u>211</u>	<u>57</u>

4 Interest payable

	Period ended 31 December 1998 £'000	Year ended 31 October 1997 £'000
Interest on bank loans	<u>497</u>	<u>253</u>

5 Staff costs

	Period ended 31 December 1998 £'000	Year ended 31 October 1997 £'000
Wages and salaries	517	348
Social security payments	<u>48</u>	<u>24</u>
	<u>565</u>	<u>372</u>

Directors' emoluments

	Period ended 31 December 1998 £'000	Year ended 31 October 1997 £'000
Staff costs include the following emoluments in respect of directors	<u>-</u>	<u>27</u>

The company did not pay any pension contributions on behalf of the directors.

Notes to the financial statements (continued)

5 Staff costs (continued)

The average monthly number of employees during the period including part time staff was:

	Period ended 31 December 1998 Number	Year ended 31 October 1997 Number
Office and management	3	3
Hotel operations	28	21
	<u>31</u>	<u>24</u>

6 Taxation

The tax charge for the year is £nil due to the utilisation of tax losses brought forward (1997 - £nil).

The company has tax losses available to carry forward against future trading profits of approximately £507,000 (1997 - £712,000).

7 Tangible fixed assets

	Long leasehold hotel premises £'000	Furniture, fixtures and fittings £'000	Total £'000
Cost or valuation			
At 1 November 1997	9,452	573	10,025
Additions	672	138	810
Surplus on revaluation	597	-	597
At 31 December 1998	<u>10,721</u>	<u>711</u>	<u>11,432</u>
Depreciation			
At 1 November 1997	-	87	87
Charge for the period	111	99	211
At 31 December 1998	<u>111</u>	<u>186</u>	<u>298</u>
Net book value			
At 31 December 1998	<u>10,609</u>	<u>525</u>	<u>11,134</u>
At 1 November 1997	<u>9,452</u>	<u>486</u>	<u>9,938</u>

The revaluation reflects the directors' estimate of the fair values of fixed assets at the time of the acquisition of the Cliveden Limited group by Destination Europe Limited.

Notes to the financial statements (continued)

7 Tangible fixed assets (continued)

If long leasehold premises had not been revalued they would have been included at the following amounts:

	31 December 1998 £'000	31 October 1997 £'000
Cost	6,708	6,036
Depreciation	(70)	-
Net book value	<u>6,638</u>	<u>6,036</u>

8 Stocks

	31 December 1998 £'000	31 October 1997 £'000
Hotel stocks	<u>40</u>	<u>121</u>

9 Debtors

	31 December 1998 £'000	31 October 1997 £'000
Amounts falling due within one year:		
Trade debtors	278	117
Amounts due from group undertakings	64	72
Other debtors	3	33
Prepayments	<u>45</u>	<u>12</u>
	<u>390</u>	<u>234</u>

10 Creditors: Amounts falling due within one year

	31 December 1998 £'000	31 October 1997 £'000
Bank loans and overdraft (see note 11)	365	149
Trade creditors	139	82
Amounts owed to group undertakings	3,460	2,943
Other creditors	-	6
Accruals and deferred income	<u>83</u>	<u>137</u>
	<u>4,047</u>	<u>3,317</u>

Notes to the financial statements (continued)

11 Creditors: Amounts falling due after more than one year

	31 December 1998 £'000	31 October 1997 £'000
Bank loans falling due:		
- One to five years	1,558	2,857
- After five years	3,219	2,022
	<u>4,777</u>	<u>4,879</u>

11 Creditors: Amounts falling due after more than one year (continued)

£2,678,785 (31 October 1997 - £2,678,787) of the bank loans bears interest at the rate of 8.62% until 25 July 2001 and the rate thereafter is at LIBOR plus 1.1%. This element of the long term debt is to be repaid in instalments by 25 October 2010.

£2,463,000 (31 October 1997 - approximately £2,349,000) of the bank loans bears interest at LIBOR plus 1.1%. The debt is to be repaid in instalments by 25 October 2010.

The bank loans are secured by a fixed charge over the company's leasehold interest in its hotel premises and by a floating charge over the general assets of the company and is repayable in equal annual instalments over thirteen years.

On 16 April 1999, as part of a re-organisation of the financing of the group, all the bank loans were fully repaid by a combination of new bank loans and shareholder provided by Destination Europe Limited. The assets of The Cliveden Town House Limited were secured against the new loans. Details are disclosed within the financial statements of Destination Europe Limited.

12 Provisions for liabilities and charges

There is no provision for deferred taxation in the financial statements (1997 - £nil).

Unprovided deferred taxation balances comprise:

	31 December 1998 £'000	31 October 1997 £'000
Capital allowances in excess of depreciation	66	88
Surplus on revaluation of property	1,145	1,059
Available tax losses	(152)	(216)
	<u>1,059</u>	<u>931</u>

Notes to the financial statements (continued)

13 Called up share capital

	31 December 1998 £'000	31 October 1997 £'000
<i>Authorised:</i>		
1,000 ordinary shares of £1 each	<u>1</u>	<u>1</u>
<i>Allotted, called up and fully paid:</i>		
100 ordinary shares of £1 each	<u>-</u>	<u>-</u>

14 Reserves and reconciliation of movements in equity shareholders' funds

	Share capital £'000	Revaluation reserve £'000	Profit and loss account £'000	Total share holders' funds £'000
Equity shareholders' funds as at 1 November 1997	-	3,415	(1,290)	2,125
Retained profit for the period	-	-	26	26
Revaluation of long leasehold hotel premises	-	597	-	597
Transfer of realised profits	<u>-</u>	<u>(41)</u>	<u>41</u>	<u>-</u>
Equity shareholders' funds as at 31 December 1998	<u>-</u>	<u>3,971</u>	<u>(1,223)</u>	<u>2,748</u>

15 Financial commitments

Capital expenditure of £nil (1997 - £200,000) had been contracted for by the company at 31 October 1998.

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

	31 December 1998 £'000	31 October 1997 £'000
Land and buildings		
Commitments expiring after five years	<u>82</u>	<u>80</u>

16 Contingent Liabilities

The company is contingently liable in respect of a Group VAT election for which the Group liability at 31 October 1998 was £165,255 (1997: £161,863).

The company has entered into certain cross guarantees with other group undertakings in respect of the new borrowing facilities entered into by the Destination Europe Limited as described in note 11, and accordingly is contingently liable for amounts outstanding under these facilities.

Notes to the financial statements (continued)

17 Related party transactions

The company has taken advantage of the exemption granted by paragraph 3(c) of Financial Reporting Standard 8 not to disclose related party transactions with Destination Europe Limited group companies.

18 Cashflow statement

The company has taken advantage of the provision in Financial Reporting Standard 1 (revised 1996), not to prepare a cashflow statement as it is a wholly owned subsidiary of Destination Europe Limited.

19 Ultimate controlling party

The company's immediate parent company is Cliveden Limited, (formerly 'Cliveden Plc'), registered in England and Wales. The company's ultimate parent company and controlling party is Destination Europe USA LLC, registered in Delaware.

The results of The Cliveden Town House Limited are included within the consolidated financial statements of Destination Europe Limited, being the smallest group in which its results are consolidated. The results are also consolidated in Destination Europe USA LLC, the largest group in which the results are consolidated. Destination Europe USA LLC is owned by Prometheus UK Hospitality LLC (65%), Lowe Destination Europe LLC (25%) and Cascade Investment, LLC (10%).

The financial statements of Destination Europe Limited may be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF4 3UZ.