ARTHUR ANDERSEN

Edinburgh George Hotel Limited

Accounts 31 December 1997

together with directors' and auditors' reports

Registered number: SC024663

in

Directors' report

For the year ended 31 December 1997

The directors present their annual report on the affairs of the company, together with the accounts and auditors' report, for the year ended 31 December 1997.

Principal activity

The company's principal activity is operating the hotel known as the George Inter-Continental Edinburgh, located at George Street, Edinburgh.

Results and dividends

The company made a profit after taxation for the year of £5,994,000 (1996 - £25,000).

No dividends were proposed or paid during the year (1996 - £nil).

Directors and their interests

The directors who served during the year and up to the date of this report are as follows:

P. J. Travers	(resigned 19 December 1997)
H. Haarmann	(appointed 19 December 1997)
T. Hosono	(appointed 19 December 1997, resigned 26 March 1998)
A. J. Pucciarelli	
T. R. Oliver	(appointed 26 March 1998)
T. Arasi	(appointed 26 March 1998)

None of the directors had an interest in the shares of the company, which is required to be disclosed under Paragraph 2 Schedule 7 of the Companies Act 1985.

Directors' responsibilities

Company law requires the directors to prepare accounts 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 year. In preparing those accounts, 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 accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

Directors' report (continued)

Directors' responsibilities (continued)

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 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.

21 George Street
Edinburgh
EH2 2PE

By order of the Board,

Haarmann

H. Haarmann

Director

30 September 1998

Auditors' report

London

To the Shareholders of Edinburgh George Hotel Limited:

We have audited the accounts on pages 4 to 14 which have been prepared under the historical cost convention as modified by the revaluation of land and buildings and the accounting policies set out on pages 6 and 7.

Respective responsibilities of directors and auditors

As described on pages 1 and 2 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the company's affairs as at 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Arthur Andersen

Arthur Andersen
Chartered Accountants and Registered Auditors

18 Charlotte Square
Edinburgh
EH2 4DF

30 September 1998

Profit and loss account

For the year ended 31 December 1997

	Notes	1997 £'000	1996 £'000
Turnover	2	7,631	7,042
Operating costs		(5,933)	(5,727)
Trading profit		1,698	1,315
Investment income	3	15	12
Interest payable and similar charges	4	(1,374)	(1,282)
Revaluation of property	8	5,760	-
Profit on ordinary activities before taxation	5	6,099	45
Tax on profit on ordinary activities	7	(105)	(20)
Profit for the financial year		5,994	25
Accumulated deficit, beginning of year		(7,147)	(7,172)
Accumulated deficit, end of year		(1,153)	(7,147)

The current year results have been derived wholly from continuing operations.

The company has no recognised gains or losses in either year other than the profit for each year.

The reported profit on ordinary activities after taxation is not materially different from the historical cost profit.

The reconciliation of movements in shareholders' funds is included as note 14.

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

Balance sheet

31 December 1997

	Notes	1997 £'000	1996 £'000
Fixed assets			
Tangible assets	8	17,500	14,025
Current assets			
Stocks	9	137	145
Debtors	10	445	1,210
Cash at bank and in hand		120	164
		702	1,519
Creditors: Amounts falling due within one year	11	(1,664)	(2,455)
Net current liabilities		(962)	(936)
Total assets less current liabilities		16,538	13,089
Creditors: Amounts falling due after more than one year	12	(16,999)	(17,015)
Net liabilities		(461)	(3,926)
Equity capital and reserves			
Called-up equity share capital	13	547	547
Share premium account	14	145	145
Revaluation reserve	14	-	2,529
Profit and loss account	14	(1,153)	(7,147)
Equity Shareholders' funds	14	(461)	(3,926)

The accounts on pages 4 to 14 were approved by the Board of Directors on 30 September 1998 and signed on its behalf by:-

Haarmann

H. Haarmann Director

30 September 1998

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

Notes to accounts

31 December 1997

1 Accounting policies

A summary of the principal accounting policies all of which have been applied consistently throughout the year and the preceding year, is set out below.

a) Basis of accounting

The accounts are prepared under the historical cost convention modified to include the revaluation of freehold land and buildings, and have been prepared in accordance with applicable accounting standards.

b) Tangible fixed assets

Land and buildings are shown at original historical cost or subsequent valuation as set out in note 8. Other fixed assets are shown at cost net of depreciation.

Depreciation is not provided on freehold land and buildings. The directors believe that the company's plans for the periodic repair and refurbishment of the hotel ensure that its useful economic life and residual disposal value, based on prices prevailing at the time of acquisition or subsequent valuation, are such that depreciation, as required by the Companies Act 1985 and accounting standards, would not be material.

Depreciation on other fixed assets is provided at rates calculated to write off the cost less estimated residual value of each asset on a straight line basis over its expected useful life as follows:

Plant and machinery	5 to 25 years
Fixtures, fittings and equipment	10 years

c) Stocks

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

d) Taxation

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

The taxation liabilities of certain group companies are reduced wholly or in part by the surrender of losses by fellow group companies. The tax benefits arising from group relief are recognised in the accounts of both the surrendering and recipient companies, being paid at a rate of 31.5% of the losses surrendered.

Deferred taxation, which arises from differences in the timing of the recognition of certain items in the accounts by the tax authorities, has been calculated on the liability method. Deferred tax is provided on timing differences which will probably reverse, at the rates of tax likely to be in force at the time of reversal. Deferred tax is not provided on timing differences which, in the opinion of the directors, will probably not reverse.

Notes to accounts (continued)

31 December 1997

1 Accounting policies (continued)

e) Pension costs

The company provides pensions to certain employees through the Inter-Continental Hotels Group's defined benefit pension scheme.

The expected cost of providing pensions is charged to the profit and loss account so as to spread the cost of pension benefits over the service lives of those employees in the company's scheme. Variations from the regular cost are spread over the remaining service lives of current scheme members.

Further information on pension costs is provided in note 16.

f) Foreign currencies

Transactions denominated in foreign currencies are recorded in the local currency at actual exchange rates as of the date of each transaction. Monetary assets and liabilities denominated in foreign currencies at the year end are reported at the rates of exchange prevailing at the year end. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the profit and loss account.

g) Turnover

Turnover comprises the value of sales (excluding VAT) of services in the normal course of business.

h) Cash flow statement

Under the provisions of Financial Reporting Standard No. 1 Revised, the company has not prepared a cash flow statement because its ultimate parent company, Saison Holdings B.V., which is incorporated within the European Community, has prepared consolidated accounts which include the accounts of the company for the period and which contain an appropriate cash flow statement.

2 Turnover

Turnover and profit on ordinary activities before taxation were wholly attributable to hotel and catering operations within the United Kingdom.

3 Investment income

	1997 £'000	1996 £'000
Bank interest receivable	15	12

Notes to accounts (continued)

31 December 1997

4 Interest payable and similar charges

	1997 £'000	1996 £'000
Interest on loans from parent company	1,299	1,199
Bank overdraft	75	83
	1,374	1,282

5 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging (crediting):

	1997 £'000	1996 £'000
a) Staff costs (see note 6)	2,505	2,475
b) Depreciation and amounts written off tangible fixed assets		
- owned	198	277
- held under finance leases	14	14
c) Auditors' remuneration		
- audit fees	15	16
- other services	6	5
d) Revaluation of property	(5,760)	-

6 Staff costs

Particulars of employees (including executive directors) are shown below:

Employee costs during the year amounted to:	1997 £'000	1996 £'000
Wages and salaries	2,283	2,249
Social security costs	163	147
Other pensions costs (see note 16)	59	79
	2,505	2,475

The average monthly number of persons employed by the company during the year was 151 (1996 - 143)

Directors remuneration:

The directors received no remuneration in respect of services to the company during the year (1996 - £nil).

7 Tax on profit on ordinary activities

The tax charge is based on the profit for the year and comprises:

	1997 £'000	1996 £'000
Corporation tax @ 31.5% (1996 - 33%)	105	13
Adjustment of current taxation in respect of prior years	-	7
	105	20

Had the company provided the full amount of potential deferred taxation, the deferred tax liability would have been as follows:.

	1997 £'000	1996 £'000
Capital allowances	554	518
Other timing differences	1,304	1,366
Revaluation reserve	-	835
	1,858	2,719

8 Tangible fixed assets

The movement in the year was as follows:

	Freehold land and buildings £'000	Plant and machinery £'000	Fixtures fittings and equipment £'000	Total £'000
Cost or valuation				
Beginning of year	12,633	764	3,116	16,513
Additions	72	35	349	456
Revaluation	3,231	-	-	3,231
Disposals	-	(173)	(267)	(440)
End of year	15,936	626	3,198	19,760
Depreciation				
Beginning of year	-	407	2,081	2,488
Charge for the year	-	36	176	212
Disposals	-	(173)	(267)	(440)
End of year	-	270	1,990	2,260
Net book value				
Beginning of year	12,633	357	1,035	14,025
End of year	15,936	356	1,208	17,500

As at 31 December 1997, the tangible fixed assets were valued by the directors at £17,500,000 on an open market basis. The net book value of the freehold land and buildings was adjusted to reflect this valuation. In 1992, a provision for diminution in value of the freehold land and buildings of £6,250,000 was charged to the profit and loss account and in 1994 a surplus of £2,529,000 arising as a result of another revaluation was credited to the revaluation reserve.

The directors having reviewed the 1994 valuation believe this now to be of a permanent nature and have therefore tranferred the surplus arising to the profit and loss account in the current year. The surplus arising on the revaluation in 1997 of £3,231,000 has also been credited to the profit and loss account on similar grounds.

If the revalued assets were stated on an historical cost basis, the land and buildings would be stated at £ 19,776,000 (1996 - £19,776,000)

Notes to accounts (continued)

31 December 1997

9 Stocks

The following amounts are included in the net book value of stocks:

	1997 £'000	1996 £'000
Food and beverage supplies	76	90
Other consumables and spares	61	55
	137	145

The replacement cost of the stocks is not materially different from the historical cost set out above.

10 Debtors

The following amounts are included in the net book value of debtors:

	1997 £'000	1996 £'000
Amounts falling due within one year:		
Trade debtors	373	404
Amounts owed by other group companies	-	740
Prepayments	53	47
Deferred tax on short term timing differences	19	19
	445	1,210

11 Creditors: Amounts falling due within one year

The following amounts are included in creditors falling due within one year:

	1997 £'000	1996 £'000
Bank overdraft	291	1,177
Trade creditors	263	266
Amounts owed to other group companies	366	281
Other creditors		
- VAT	219	220
- UK corporation tax payable	13	13
- social security and PAYE	48	41
- obligations under finance leases	21	26
- other creditors	443	431
	1,664	2,455

12 Creditors: Amounts falling due after more than one year

The following amounts are included in creditors falling due after more than one year:

	1997 £'000	1996 £'000
Amounts payable between two and five years:		
- obligations under finance leases	20	36
- amount owed to parent company	16,979	16,979
	16,999	17,015

The amount owed to parent company comprises a promissory note for £16,978,567, issued on 31 August 1994, which matures on 15 December 1999. Interest is charged at LIBOR plus 0.875 per cent.

13 Called-up equity share capital

	1997 £	1996 £
Authorised		
3,200,000 ordinary shares of 25p each	800,000	800,000
Allotted, called-up and fully-paid		
2,186,667 ordinary shares of 25p each	546,667	546,667

14 Reconciliation of movements in shareholders' funds

	Share capital £'000	Share premium account £'000	Revaluation reserve £'000	Profit and loss account £'000	Total £'000
Beginning of year	547	145	2,529	(7,147)	(3,926)
Profit for the year	-	-	-	5,994	5,994
Release of revaluation reserve	-	-	(2,529)	-	(2,529)
End of year	547	145	-	(1,153)	(461)

Notes to accounts (continued)

31 December 1997

15 Guarantees and other financial commitments

a) Capital commitments

There were no capital commitments at 31 December 1997 (1996 - £nil).

b) VAT

The company is registered for VAT purposes in a group of companies which share a common registration number. As a result, it has jointly guaranteed the VAT liability of the group, and failure by other members of the group would give rise to additional liabilities for the company. The directors are of the opinion that no liability is likely to arise from the failure of those companies.

c) Guarantees

The company has entered into a cross guarantee arrangement whereby the company has guaranteed overdrafts and other liabilities of other companies in the Saison Holdings B.V. group.

16 Pension scheme

Inter-Continental Hotels Group operates one defined benefit pension scheme covering the employees in its UK companies. Of the employees of this company, 25 are members of the scheme. The assets of the scheme are held in a separate trust administered fund.

The pension cost, for the purpose of Statement of Standard Accounting Practice 24, has been assessed in accordance with the advice of an independent professionally qualified actuary based on results of an actuarial review of the scheme as at 1 April 1997. The actuarial method used for this review was the projected unit method. The principal assumptions used for the calculations were that future investment returns would average 9% per year and salaries would increase at the rate of 7% per year.

At the date of the actuarial review the market value of the scheme's assets was £16,260,842, and the actuarial value for these assets represented 119% of the accrued benefits allowing for the expected future increases in salaries.

Company contributions of £59,000 were paid in the year ended 31 December 1997 (1996 - £79,000). Contributions were equivalent to the pension cost charged to the profit and loss account for the year.

17 Ultimate parent company

The company's UK parent is IHC Edinburgh (Holdings) Limited, and the company's ultimate parent company is Saison Holdings B.V., incorporated in The Netherlands. The smallest and largest group in which the results of the company are consolidated is that headed by Saison Holdings B.V.

As a wholly owned subsidiary of Saison Holdings B.V., the company has taken advantage of the exemption in Financial Reporting Standard No. 8 "Related party disclosures" not to disclose transactions with other members of the group headed by Saison Holdings BV.

The consolidated accounts of Saison Holdings B.V. are filed in the Trade Register of the Chamber of Commerce in The Netherlands and are available for inspection there.

Notes to accounts (continued)

31 December 1997

18 Continuing financial support

The liabilities of the company exceeds its assets. Saison Holdings B.V. has confirmed its intention to provide continuing financial support to the company through its intermediate holding companies.

Having considered the financial position of the company, including the above, the directors of the company have concluded that the company is able to meet its liabilities as they fall due. Accordingly, the accounts have been prepared on a going concern basis.

19 Subsequent Event

On 26 March 1998, the company's ultimate parent, Saison Holdings B.V. was acquired by Bass PLC.