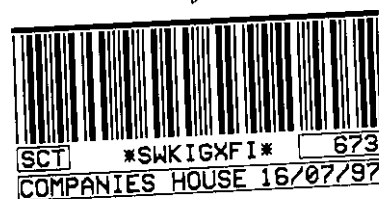


**THE TOWN HOUSE COMPANY LIMITED
(FORMERLY CHANNINGS HOTEL LIMITED)**

REPORT AND FINANCIAL STATEMENTS

YEAR ENDED 31 OCTOBER 1996

**Rutherford Manson Dowds
Chartered Accountants
25 Melville Street
Edinburgh
EH3 7PE**



THE TOWN HOUSE COMPANY LIMITED
REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 OCTOBER 1996

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THE TOWN HOUSE COMPANY LIMITED
OFFICERS AND PROFESSIONAL ADVISERS

DIRECTOR: Peter J Taylor

SECRETARY: Mhairi J Taylor

**REGISTERED
OFFICE:** 12 -16 South Learmonth Gardens
Edinburgh
EH4 1EZ

AUDITORS: Rutherford Manson Dowds
Chartered Accountants
25 Melville Street
Edinburgh
EH3 7PE

BANKERS: Bank of Scotland
38 St Andrew Square
Edinburgh
EH2 2YR

SOLICITORS: Bell & Scott WS
16 Hill Street
Edinburgh
EH2 3LD

**COMPANY
NUMBER:** SC118669

THE TOWN HOUSE COMPANY LIMITED

DIRECTOR'S REPORT

The director presents his report and the audited financial statements for the year ended 31 October 1996.

1 ACTIVITIES

The principal activities of the company are hotel management and catering.

2 RESULTS, DEVELOPMENTS AND FUTURE PROSPECTS

The profit for the year after taxation amounted to £323,199 (1995 - £143,722).

The director does not recommend payment of a dividend and recommends that the sum of £323,199 (1995 - £143,722) be transferred to reserves.

At the start of the year the company purchased a hotel as heritable property. After the year end, the investment property purchased last year was sold and another hotel was purchased as heritable property.

On the 17 January 1996 the company changed its name to The Town House Company Limited.

The director is confident of maintaining profitable operations in the future and continues to seek appropriate trading opportunities for the company.

3 DIRECTOR

The present membership of the board is set out on page 1.

The interest of the director in office at 31 October 1996 and 31 October 1995 in the shares of the company were as follows:

	Ordinary Shares of £1	
	31.10.96	31.10.95
Peter J Taylor	100,000 =====	100,000 =====

4 CLOSE COMPANY

The company is a close company within the terms of the Income and Corporation Taxes Act 1988.

5 AUDITORS

A resolution to re-appoint Rutherford Manson Dowds as auditors will be proposed at the Annual General Meeting.

BY ORDER OF THE BOARD

20 January 1997

Mhairi Taylor

Secretary

THE TOWN HOUSE COMPANY LIMITED

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

Company law requires the director 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 director is required to

- select suitable accounting policies and then apply them consistently.
- make judgements and estimates that are reasonable and prudent.
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The director is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable him to ensure that the financial statements comply with the Companies Act 1985. He is 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.



**Rutherford
Manson
Dowds**

Chartered Accountants

25 Melville Street
Edinburgh EH3 7PE
Telephone 0131 225 4727
Facsimile 0131 220 1663

**AUDITORS' REPORT TO THE SHAREHOLDERS
OF**

**THE TOWN HOUSE COMPANY LIMITED
(FORMERLY CHANNINGS HOTEL LIMITED)**

We have audited the financial statements set out on pages 5 to 14 which have been prepared under the accounting policies set out on page 8.

Respective Responsibilities of Director and Auditors

As described on page 3 the company's director is 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 director 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 1996 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

2 Queens Terrace
Aberdeen AB10 1XL
Telephone 01224 625 888
Facsimile 01224 625 025

17 Blythswood Square
Glasgow G2 4AD
Telephone 0141 248 5532
Facsimile 0141 248 6001

34 Grosvenor Gardens
Belgravia
London SW1W 0DH
Telephone 0171 730 6092
Facsimile 0171 730 6098

**Chartered Accountants
Registered Auditors**

Represented throughout Europe,
North and South America, Asia,
Pacific and all major commercial
centres worldwide through
I A International

20 January 1997

Partners: C Rutherford A G Manson C M Dowds C I Welsh S M Cowie J D Dryburgh
I Steele I Durie D M S Beveridge D J Crawford M C Pacitti

Registered to carry on audit work and authorised to carry on Investment Business
by the Institute of Chartered Accountants of Scotland

THE TOWN HOUSE COMPANY LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 OCTOBER 1996

	Note	£	1995 £
TURNOVER	2	2,229,348	1,526,053
Cost of sales		826,619	575,329
GROSS PROFIT		1,402,729	950,724
Other income	4	24,000	7,561
Administrative expenses		941,586	671,567
OPERATING PROFIT		485,143	286,718
Interest received	5	(45)	(1,226)
Interest payable and similar charges	6	133,989	77,207
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	7	351,199	210,737
Tax on profit on ordinary activities	8	28,000	67,015
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		323,199	143,722

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

The company made no recognised gains or losses in the year ended 31 October 1996 or the prior year other than those included in the profit and loss account.

THE TOWN HOUSE COMPANY LIMITED

BALANCE SHEET

AT 31 OCTOBER 1996

	Note	£	£	1995 £
FIXED ASSETS				
Tangible assets	9		5,206,840	5,014,268

CURRENT ASSETS				
Stocks	10	24,205		13,027
Debtors	11	287,661		116,913
Cash at bank and in hand		7,116		132,072
		-----		-----
		318,982		262,012
CREDITORS: Amounts falling due within one year	12	817,824		1,504,587
		-----		-----
NET CURRENT LIABILITIES			(498,842)	(1,242,575)
			-----	-----
TOTAL ASSETS LESS CURRENT LIABILITIES			4,707,998	3,771,693
CREDITORS: Amounts falling due in more than one year	13		2,508,793	1,946,687
PROVISION FOR LIABILITIES AND CHARGES	15		191,000	140,000
			-----	-----
			2,008,205	1,685,006
			=====	=====
CAPITAL AND RESERVES				
Called up share capital	16		100,000	100,000
Revaluation reserve	17		1,166,810	1,166,810
Profit and loss account	17		741,395	418,196
			-----	-----
EQUITY SHAREHOLDER FUNDS	18		2,008,205	1,685,006
			=====	=====

These financial statements were approved by the director on 20 January 1997.

.....Director

THE TOWN HOUSE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 OCTOBER 1996

1 ACCOUNTING POLICIES

a) Accounting Convention

The financial statements have been prepared under the historical cost convention as modified by the revaluation of heritable property.

b) Depreciation

No depreciation is provided on heritable property as it is carried at valuation and in the opinion of the director the property will maintain its value. The company follows a programme of regular refurbishment and maintenance of its heritable property, which includes the re-instatement of the fabric of the buildings, where necessary, in order to maintain them to a high standard.

This policy is not in accordance with The Companies Act 1985 or Statement of Standard Accounting Practice No. 12 (Accounting for Depreciation).

Investment property has not been revalued as required by SSAP19 as in the opinion of the director the current market value is not materially different to cost.

Depreciation is provided on all other tangible fixed assets at rates calculated to write off the cost of the assets over their expected useful lives as follows:

Furniture and equipment	10% per annum reducing balance
Motor vehicles	25% per annum reducing balance

c) Stock

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

d) Deferred Taxation

Deferred taxation is provided at the anticipated tax rates on differences arising from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements to the extent that it is probable that a liability or asset will crystallise in the future.

2 TURNOVER

Turnover arises wholly from the principal activities of the company from within the United Kingdom.

THE TOWN HOUSE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS - Continued
YEAR ENDED 31 OCTOBER 1996

3 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	£	1995 £
Wages and salaries	700,468	521,466
Social security costs	48,632	41,696
	-----	-----
	749,100	563,162
	=====	=====

	No	1995 No
Average number of persons employed	81	45
	-----	-----

Directors' emoluments during the year were as follows:

	£	1995 £
Emoluments	-	80,000
	-----	-----

	£	1995 £
Remuneration of Chairman and highest paid director	-	80,000
	-----	-----

4 OTHER INCOME

	£	1995 £
Rental income	24,000	7,561
	-----	-----

5 INTEREST RECEIVED

	£	1995 £
Bank interest	45	1,226
	-----	-----

6 INTEREST PAYABLE AND SIMILAR CHARGES

	£	1995 £
Bank overdraft	1,733	1,702
Bank loan	132,256	75,505
	-----	-----
	133,989	77,207
	=====	=====

Bank loan interest is in respect of borrowings repayable for a term of more than 5 years.

THE TOWN HOUSE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS - Continued
YEAR ENDED 31 OCTOBER 1996

7 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	£	1995 £
Profit on ordinary activities before taxation is after charging:		
Depreciation	120,475	52,205
Auditors remuneration	3,000	2,300
	=====	=====

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

	£	1995 £
Corporation tax current year	-	23,000
Corporation tax previous year	(23,000)	-
Transfer to deferred tax	51,000	44,015
	-----	-----
	28,000	67,015
	=====	=====

9 TANGIBLE FIXED ASSETS

	Heritable Property £	Furniture & Equipment £	Motor Vehicles £	Total £
Cost or valuation				
At 1 November 1995	4,055,236	1,183,332	57,073	5,295,641
Additions	271,564	41,483	-	313,047
	-----	-----	-----	-----
At 31 October 1996	4,326,800	1,224,815	57,073	5,608,688
	-----	-----	-----	-----
Accumulated depreciation				
At 1 November 1995	-	274,102	7,271	281,373
Charge for year	-	108,024	12,451	120,475
	-----	-----	-----	-----
At 31 October 1996	-	382,126	19,722	401,848
	-----	-----	-----	-----
Net book value				
At 31 October 1996	4,326,800	842,689	37,351	5,206,840
	=====	=====	=====	=====
At 31 October 1995	4,055,236	909,230	49,802	5,014,268
	=====	=====	=====	=====

The heritable property owned at 1 November 1994 was revalued at £3,750,000, on an open market value basis including furniture and equipment by Ryden, Chartered Surveyors, Edinburgh on 28 October 1994. The other heritable property is carried at cost.

THE TOWN HOUSE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS - Continued
YEAR ENDED 31 OCTOBER 1996

9 TANGIBLE FIXED ASSETS (Continued)

Heritable property includes an investment property of £252,000. This investment property was not formally revalued at 31 October 1996 but was sold after the year end, for more than the cost reflected in the accounts.

Comparable amounts in respect of heritable property determined according to the historical cost convention is as follows:

	£	1995 £
Cost	2,888,426	2,172,153
Additions	271,564	716,273
Accumulated depreciation	-	-
	-----	-----
	3,159,990	2,888,426
	=====	=====

10 STOCKS

	£	1995 £
Food and liquor	20,100	8,921
Consumables	4,105	4,106
	-----	-----
	24,205	13,027
	=====	=====

11 DEBTORS

	£	1995 £
Trade debtors	256,194	102,577
Prepayments	31,467	14,336
	-----	-----
	287,661	116,913
	=====	=====

THE TOWN HOUSE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS - Continued
YEAR ENDED 31 OCTOBER 1996

12 CREDITORS: Amounts falling due within one year

	£	1995 £
Bank overdraft	92,851	-
Bank loan	229,229	121,956
Trade creditors	200,159	119,020
Payments on account	37,534	40,511
Taxation and social security	108,167	64,767
Accruals	149,884	1,135,333
Corporation tax	-	23,000
	-----	-----
	817,824	1,504,587
	=====	=====

The bank loan and overdraft are secured by a first standard security and bond and floating charge over the property and assets of the company. The loan bears interest of 1.5% to 2% over bank base rate.

13 CREDITORS: Amounts falling due in more than one year

	£	1995 £
Bank loan	1,509,088	917,061
Director's loan	999,705	1,029,626
	-----	-----
	2,508,793	1,946,687
	=====	=====

There are no written terms regarding the repayment of the director's loan which is interest free and deemed repayable on demand.

	£
The term loan is repayable in instalments	
Within one year	230,000
Between one and two years	230,000
Between two and five years	690,000
After five years	594,167

	1,744,167
Less unamortised costs of arranging finance	(5,850)

	1,738,317
Included in creditors falling due within one year	(229,229)

	1,509,088
	=====

THE TOWN HOUSE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS - Continued
YEAR ENDED 31 OCTOBER 1996

14 BORROWINGS

	£	1995 £
Bank loans and overdrafts	1,831,168	1,039,017
	=====	=====
Analysis of loan repayments, bank loans and overdrafts		
Within one year	322,080	121,956
Between one and two years	229,229	121,956
Between two and five years	687,686	365,868
After five years	592,173	429,237
	-----	-----
	1,831,168	1,039,017
	=====	=====

15 PROVISION FOR LIABILITIES AND CHARGES

	1996		1995	
Deferred taxation	Unprovided £	Provided £	Unprovided £	Provided £
Accelerated capital allowances	-	191,000	-	140,000
Revaluation reserve	386,000	-	386,000	-
	-----	-----	-----	-----
	386,000	191,000	386,000	140,000
	=====	=====	=====	=====

16 CALLED UP SHARE CAPITAL

	£	1995 £
Authorised		
Ordinary shares of £1 each	500,000	500,000
	=====	=====
Allotted, issued and fully paid		
Ordinary share of £1 each	100,000	100,000
	=====	=====

THE TOWN HOUSE COMPANY LIMITED
NOTES TO THE FINANCIAL STATEMENTS - Continued
YEAR ENDED 31 OCTOBER 1996

17 RECONCILIATION OF MOVEMENTS IN RESERVES

	Revaluation Reserve £	Profit and Loss Account £	Total £
At 1 November 1995	1,166,810	418,196	1,585,006
Profit for the year	-	323,199	323,199
At 31 October 1996	1,166,810	741,395	1,908,205

18 RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	£	1995 £
Profit for financial year	323,199	143,722
Increase in shareholder's funds	323,199	143,722
Opening shareholder's funds	1,685,006	1,541,284
Closing shareholder's funds	2,008,205	1,685,006

19 CAPITAL COMMITMENTS

The company had capital expenditure authorised and contracted for at 31 October 1996 of £1,225,000. The expenditure is to be funded by bank borrowings.