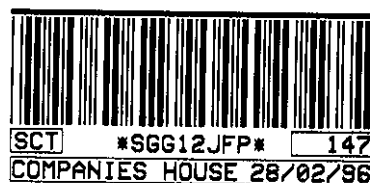


CHANNINGS HOTEL LIMITED
REPORT AND FINANCIAL STATEMENTS
YEAR ENDED 31 OCTOBER 1995

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CHANNINGS HOTEL 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

CHANNINGS HOTEL LIMITED

DIRECTOR'S REPORT

The director presents his report and the audited financial statements for the year ended 31 October 1995.

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 £143,722 (1994 - £246,258).

The director does not recommend payment of a dividend and recommends that the sum of £143,722 (1994 - £246,258) be transferred to reserves.

During the year the company purchased a hotel as an investment property. At the year end the company had concluded the missives for the purchase of a second additional hotel.

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

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

3 DIRECTOR

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

The interest of the director in office at 31 October 1995 and 31 October 1994 in the shares of the company were as follows:

	Ordinary Shares of £1	
	31.10.95	31.10.94
Peter J Taylor	100,000 =====	100,000 =====

4 CLOSE COMPANY

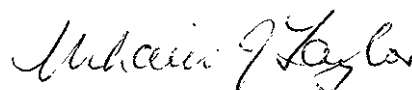
The company is a close company within the terms of the Income and Corporation Taxes Act 1988.

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

12 February 1996



Secretary

CHANNINGS HOTEL 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
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 1995 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

12 February 1996

**Chartered Accountants
Registered Auditors**

2 Queens Terrace
Aberdeen AB1 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

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

CHANNINGS HOTEL LIMITED
PROFIT AND LOSS ACCOUNT
YEAR ENDED 31 OCTOBER 1995

	Note	£	1994 £
TURNOVER	2	1,526,053	1,369,200
Cost of sales		555,786	451,843
		-----	-----
GROSS PROFIT		970,267	917,357
Other income	4	7,561	-
Administrative expenses		691,110	(507,232)
		-----	-----
OPERATING PROFIT		286,718	410,125
Interest received	5	1,226	91
Interest payable and similar charges	6	(77,207)	(80,461)
		-----	-----
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	7	210,737	329,755
Tax on profit on ordinary activities	8	67,015	83,497
		-----	-----
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		143,722	246,258
Profit and loss account brought forward		274,474	28,216
		-----	-----
PROFIT AND LOSS ACCOUNT CARRIED FORWARD		418,196	274,474
		=====	=====

CHANNINGS HOTEL LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

YEAR ENDED 31 OCTOBER 1995

	£	1994 £
Profit for the financial year	143,722	246,258
Unrealised surplus on revaluation of property	-	1,166,810
	-----	-----
Total recognised gains and losses relating to the year	143,722	1,413,068
	=====	=====


CHANNINGS HOTEL LIMITED

BALANCE SHEET

AT 31 OCTOBER 1995

	Note	£	£	1994 £
FIXED ASSETS				
Tangible assets	9		5,014,268	3,755,417
CURRENT ASSETS				
Stocks	10	13,027		10,655
Debtors	11	116,913		88,553
Cash at bank and in hand		132,072		109,883
		262,012		209,091
CREDITORS: Amounts falling due within one year	12	1,504,587		339,036
NET CURRENT LIABILITIES			(1,242,575)	(129,945)
TOTAL ASSETS LESS CURRENT LIABILITIES			3,771,693	3,625,472
CREDITORS: Amounts falling due in more than one year	13		1,946,687	1,988,203
PROVISION FOR LIABILITIES AND CHARGES	15		140,000	95,985
			1,685,006	1,541,284
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		418,196	274,474
EQUITY SHAREHOLDER FUNDS	18		1,685,006	1,541,284

These financial statements were approved by the director on 12 February 1996.

.....Director

CHANNINGS HOTEL LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED 31 OCTOBER 1995

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 it 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.

CHANNINGS HOTEL LIMITED
NOTES TO THE FINANCIAL STATEMENTS - Continued
YEAR ENDED 31 OCTOBER 1995

3 INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	£	1994 £
Wages and salaries	505,755	391,561
Social security costs	57,407	31,446
	-----	-----
	563,162	423,007
	=====	=====

	No	1994 No
Average number of persons employed	45	49
	-----	-----

Directors' emoluments during the year were as follows:

	£	£
Emoluments	80,000	-
	-----	-----

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

4 OTHER INCOME

	£	1994 £
Rental income	7,561	-
	-----	-----

5 INTEREST RECEIVED

	£	1994 £
Bank interest	1,226	91
	-----	-----

6 INTEREST PAYABLE AND SIMILAR CHARGES

	£	1994 £
Bank overdraft	1,702	2,305
Bank loan	75,505	78,156
	-----	-----
	77,207	80,461
	=====	=====

CHANNINGS HOTEL LIMITED

NOTES TO THE FINANCIAL STATEMENTS - Continued

YEAR ENDED 31 OCTOBER 1995

7 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	£	1994 £
Profit on ordinary activities before taxation is after charging:		
Depreciation	52,205	52,294
Auditors remuneration	2,300	2,000
Hire of equipment	178	169
	=====	=====

8 TAX ON PROFIT ON ORDINARY ACTIVITIES

	£	1994 £
Corporation tax current year (25%)	23,000	-
Transfer to deferred tax (25%)	44,015	83,497
	-----	-----
	67,015	83,497
	=====	=====

9 TANGIBLE FIXED ASSETS

	Heritable Property £	Furniture & Equipment £	Motor Vehicles £	Total £
Cost or valuation				
At 1 November 1994	3,338,963	638,082	8,900	3,985,945
Additions	716,273	545,250	53,073	1,314,596
Disposals	-	-	(4,900)	(4,900)
	-----	-----	-----	-----
At 31 October 1995	4,055,236	1,183,332	57,073	5,295,641
	-----	-----	-----	-----
Accumulated depreciation				
At 1 November 1994	-	227,045	3,483	230,528
Charge for year	-	47,057	5,148	52,205
On disposals	-	-	(1,360)	(1,360)
	-----	-----	-----	-----
At 31 October 1995	-	274,102	7,271	281,373
	-----	-----	-----	-----
Net book value				
At 31 October 1995	4,055,236	909,230	49,802	5,014,268
	=====	=====	=====	=====
At 31 October 1994	3,338,963	411,037	5,417	3,755,417
	=====	=====	=====	=====

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 Rydens, Chartered Surveyors, Edinburgh on 28 October 1994.

CHANNINGS HOTEL LIMITED
NOTES TO THE FINANCIAL STATEMENTS - Continued
YEAR ENDED 31 OCTOBER 1995

9 TANGIBLE FIXED ASSETS (Continued)

Heritable property includes an investment property of £200,000. This investment property was not formally revalued at 31 October 1995 but the director is of the opinion that the value is at market value.

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

	£	1994 £
Cost	2,172,153	2,152,063
Additions	716,273	20,090
Accumulated depreciation	-	-
	-----	-----
	2,888,426	2,172,153
	=====	=====

10 STOCKS

	£	1994 £
Food and liquor	8,921	6,559
Consumables	4,106	4,096
	-----	-----
	13,027	10,655
	=====	=====

11 DEBTORS

	£	1994 £
Trade debtors	102,577	80,391
Prepayments	14,336	8,162
	-----	-----
	116,913	88,553
	=====	=====

CHANNINGS HOTEL LIMITED

NOTES TO THE FINANCIAL STATEMENTS - Continued

YEAR ENDED 31 OCTOBER 1995

12 CREDITORS: Amounts falling due within one year

	£	1994 £
Bank loan	121,956	121,956
Trade creditors	119,020	74,099
Payments on account	40,511	35,439
Taxation and social security	64,767	69,119
Accruals	1,135,333	38,423
Corporation tax	23,000	-
	-----	-----
	1,504,587	339,036
	=====	=====

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

The bank loan is secured by a standard security and bond and floating charge over the property of the company. The loans bear interest 1.5% to 2% over bank base rate.

13 CREDITORS: Amounts falling due in more than one year

	£	1994 £
Bank loan	917,061	886,577
Directors loan	1,029,626	1,101,626
	-----	-----
	1,946,687	1,988,203
	=====	=====

14 BORROWINGS

	£	1994 £
Bank loans and overdrafts	1,039,017	1,008,533
	-----	-----
Analysis of loan repayments, bank loans and overdrafts		
Within one year	121,956	121,956
Between one and two years	121,956	121,956
Between two and five years	365,868	365,868
After five years	429,237	398,753
	-----	-----
	1,039,017	1,008,533
	=====	=====

CHANNINGS HOTEL LIMITED
NOTES TO THE FINANCIAL STATEMENTS - Continued
YEAR ENDED 31 OCTOBER 1995

15 PROVISION FOR LIABILITIES AND CHARGES

	£	1994 £
Deferred taxation		
Opening balance	95,985	12,488
Movement during year	44,015	83,497
	-----	-----
Closing balance	140,000	95,985
	=====	=====
Deferred tax has been fully provided in respect of:-		
Accelerated capital allowances at 25%	140,000	95,985
	=====	=====

16 CALLED UP SHARE CAPITAL

	£	1994 £
Authorised		
Ordinary shares of £1 each	500,000	500,000
	=====	=====
Allotted, issued and fully paid		
Ordinary share of £1 each	100,000	100,000
	=====	=====

17 RECONCILIATION OF MOVEMENTS IN RESERVES

	Revaluation Reserve £	Profit and Loss Account £	Total £
At 1 November 1994	1,166,810	274,474	1,441,284
Profit for the year	-	143,722	143,722
	-----	-----	-----
At 31 October 1995	1,166,810	418,196	1,585,006
	=====	=====	=====

CHANNINGS HOTEL LIMITED
 NOTES TO THE FINANCIAL STATEMENTS - Continued
 YEAR ENDED 31 OCTOBER 1995

18 RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	1995 £	1994 £
Profit for financial year	143,722	246,258
Other recognised gains and losses relating to the year	-	1,166,810
	----- 143,722	----- 1,413,068
Opening shareholder's funds	1,541,284	128,216
Closing shareholder's funds	----- 1,685,006 -----	----- 1,541,284 -----