

Page 2

BANKSIDE HOTELS LIMITED

FINANCIAL STATEMENTS

- for the year ended -

31ST AUGUST 1998

ENOCH & PARTNERS
Chartered Accountants
Hillside House
2-6 Friern Park, London N12 9BY

Company No: 03214521



BANKSIDE HOTELS LIMITED

DIRECTORS

M.S.Gourgey
K.Gourgey
R.J.Hodge
N.J.Griffith

SECRETARY

N.Gourgey

REGISTERED OFFICE

Hillside House
2-6 Friern Park
London N12 9BY

AUDITORS

Enoch & Partners
Chartered Accountants
Hillside House
2-6 Friern Park
London N12 9BY

BANKSIDE HOTELS LIMITED

INDEX TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST AUGUST 1998

Page

1	Report of the directors
3	Auditors' report
5	Profit and loss account
6	Statement of total recognised gains and losses
7	Balance sheet
8	Cash flow statement
9	Notes to the financial statements

BANKSIDE HOTELS LIMITED

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the year ended 31st August 1998.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company is that of a hotelier.

On the 27th June 1996 the company acquired a site at 75/79 Southwark Street, London SE1 and is developing the site as a 100 bedroom hotel, completion is expected by September 1999. The company has accepted an offer to lease the hotel when it is completed in 1999.

DIVIDENDS

The directors do not recommend payment of a dividend.

DIRECTORS AND THEIR INTERESTS

The directors at the balance sheet date and their interests in the company at that date and at the beginning of the year (or on appointment if later), were as follows:

	<u>Class of share</u>	<u>Number of shares</u>	
		<u>1998</u>	<u>1997</u>
M.S.Gourgey	Ordinary shares	-	-
K.Gourgey	Ordinary shares	-	-
R.J.Hodge	Ordinary shares	25	25
N.J.Griffith	Ordinary shares	25	25

The remaining 50 shares are held in a trust in which M.S.Gourgey and K.Gourgey have a beneficial interest.

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 the 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;
- 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 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.

BANKSIDE HOTELS LIMITED

REPORT OF THE DIRECTORS (Continued)

AUDITORS

The auditors, Enoch & Partners, are willing to be reappointed in accordance with section 385 of the Companies Act 1985.

Date: 14/6/99.....

By Order of the Board

N. Gourney
Secretary



BANKSIDE HOTELS LIMITED

AUDITORS' REPORT TO THE SHAREHOLDERS OF BANKSIDE HOTELS LIMITED

We have audited the financial statements on pages 5 to 14 which have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out in note 1 to the financial statements.

Respective responsibilities of the directors and auditors

As described on the Directors' Report the company's directors are 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 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.

Depreciation of freehold buildings

As explained in note 1 no provision has been made for depreciation of freehold buildings. Under Statement of Standard Accounting Practice 12 a provision of £104,790 should have been made for the depreciation of freehold buildings, increasing the loss before tax and reducing net assets by that amount. Our opinion is not qualified in this respect.

Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the continued support of the company's bankers. In view of the significance of the fact that the preparation of the financial statements on the going concern basis assumes such continued support, we consider that these disclosures should be brought to your attention.

Details of the circumstances relating to this uncertainty are described in note 8. Our opinion is not qualified in this respect.

BANKSIDE HOTELS LIMITED

AUDITORS' REPORT TO THE SHAREHOLDERS OF (Continued)
BANKSIDE HOTELS LIMITED

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 31st August 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Enoch Watson

ENOCH & PARTNERS
Chartered Accountants
Registered Auditors

Hillside House
2-6 Friern Park
London N12 9BY

Date: *15th June 1999*

BANKSIDE HOTELS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST AUGUST 1998

	Notes	1998 £	1997 £
Administrative expenses		(77,967)	(17,336)
OPERATING LOSS	2	(77,967)	(17,336)
Interest receivable	3	107	212
Interest payable	4	(7,963)	(5,253)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(85,823)	(22,377)
Tax on loss on ordinary activities	5	-	-
LOSS FOR THE FINANCIAL YEAR	13	(85,823)	(22,377)

None of the company's activities were acquired or discontinued during the above two financial years.

The notes on pages 9 to 14 form part of these financial statements.

BANKSIDE HOTELS LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31ST AUGUST 1998

	Notes	1998 £	1997 £
LOSS FOR THE FINANCIAL YEAR	13	(85,823)	(22,377)
Unrealised movement on revaluation of properties		-	1,263,487
		<u>(85,823)</u>	<u>1,241,110</u>
TOTAL NET LOSSES RECOGNISED SINCE LAST ANNUAL REPORT		<u>(85,823)</u>	<u>1,241,110</u>

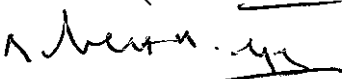
The notes on pages 9 to 14 form part of these financial statements.

BANKSIDE HOTELS LIMITED

BALANCE SHEET AT 31ST AUGUST 1998

	Notes	1998 £	1997 £
FIXED ASSETS			
Tangible assets	6	5,240,415	3,000,000
CURRENT ASSETS			
Debtors	7	<u>203,839</u>	<u>60,986</u>
CREDITORS: Amounts falling due within one year	8	<u>(562,675)</u>	<u>(1,819,776)</u>
NET CURRENT LIABILITIES		<u>(358,836)</u>	<u>(1,758,790)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		4,881,579	1,241,210
CREDITORS: Amounts falling due after more than one year	9	<u>(3,726,192)</u>	<u>-</u>
		<u>1,155,387</u>	<u>1,241,210</u>
CAPITAL AND RESERVES			
Called up share capital	11	100	100
Revaluation reserve	12	1,263,487	1,263,487
Profit and loss account	13	<u>(108,200)</u>	<u>(22,377)</u>
		<u>1,155,387</u>	<u>1,241,210</u>

The financial statements were approved
by the board on ..14.6.99..... and
signed on its behalf by

M.S.Gourgey )
R.J.Hodge ) Directors

The notes on pages 9 to 14 form part of these financial statements.

BANKSIDE HOTELS LIMITED**CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST AUGUST 1998**

	Notes	1998 £	1997 £
CASH FLOW FROM OPERATING ACTIVITIES	15	48,683	184,645
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	16	(5,391)	(4,868)
CAPITAL EXPENDITURE	16	(2,240,515)	(1,736,513)
Cash outflow before use of liquid resources and financing		(2,197,223)	(1,556,736)
FINANCING	16		
Issue of shares		-	100
Increase in debt		2,176,192	1,550,000
		2,176,192	1,550,100
DECREASE IN CASH IN THE YEAR		(21,031)	(6,636)

**RECONCILIATION OF NET CASH FLOW
TO MOVEMENT IN NET DEBT**

DECREASE IN CASH IN THE YEAR	(21,031)	(6,636)
Cash inflow from increase in debt	(2,176,192)	(1,550,000)
Change in net debt resulting from cash flows	(2,197,223)	(1,556,636)
Movement in net debt in the year	(2,197,223)	(1,556,636)
Net debt at 1st September 1997	(1,556,636)	-
Net funds at 31st August 1998	(3,753,859)	(1,556,636)

The notes on pages 9 to 14 form part of these financial statements.

BANKSIDE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST AUGUST 1998

1. ACCOUNTING POLICIES

1.1 BASIS OF ACCOUNTING

The financial statements have been prepared under the historical cost convention modified to include the revaluation of freehold land and buildings.

1.2 DEPRECIATION

Depreciation is provided using the following rates and bases to reduce by annual instalments the cost, less estimated residual value, of the tangible assets over their estimated useful lives:-

Fixtures and fittings 10% Reducing balance

The property is carried at a 1998 open market value of £3,000,000 plus subsequent building costs. As the property is still under development, the directors have decided that depreciation of the property should not commence until the development has been completed.

The directors believe that this policy results in the financial statements giving a true and fair view.

1.3 DEFERRED TAXATION

Deferred taxation is provided where there is a reasonable probability of the amount becoming payable in the foreseeable future.

2. OPERATING LOSS

The operating loss is stated after charging:

Depreciation	100	-
Auditors' remuneration	2,000	2,000
	<u> </u>	<u> </u>

3. INTEREST RECEIVABLE

Bank and other interest receivable	107	212
	<u> </u>	<u> </u>

4. INTEREST PAYABLE

On bank loans and overdrafts	7,898	5,253
On overdue tax	65	-
	<u> </u>	<u> </u>
	7,963	5,253
	<u> </u>	<u> </u>

BANKSIDE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST AUGUST 1998

5. TAX ON LOSS ON ORDINARY ACTIVITIES

At the balance sheet date the company has losses to be carried forward against future profits.

6. TANGIBLE ASSETS

	Land & buildings £	Fixtures & fittings £	Total £
<u>Cost or valuation</u>			
At 1st September 1997	3,000,000	-	3,000,000
Additions	2,239,515	1,000	2,240,515
At 31st August 1998	5,239,515	1,000	5,240,515
<u>Depreciation</u>			
Charge for year	-	100	100
At 31st August 1998	-	100	100
<u>Net book value at 31st August 1998</u>	5,239,515	900	5,240,415
<u>Net book value at</u>	3,000,000	-	3,000,000
		1998	1997
		£	£
Analysis of net book value of land and buildings:			
Freehold		5,239,515	3,000,000

The properties were revalued on 5th March 1998 by Richard Ellis chartered surveyors, on the basis of open market value for current use.

Included in additions to land and buildings is £348,742 in respect of capitalised interest.

The value of £3,000,000 for the site, prior to development costs was brought into the 1997 financial statements and further building costs have been added. As the property is still under development the directors have decided that depreciation of the property should not commence until the development has been completed.

BANKSIDE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST AUGUST 1998

7.	DEBTORS	1998 £	1997 £
	Amounts owed by group undertakings	136,013	52,013
	Other debtors	56,736	1,527
	Prepayments and accrued income	11,090	7,446
		<u>203,839</u>	<u>60,986</u>

8.	CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	1998 £	1997 £
	Bank loans and overdrafts	27,667	1,556,636
	Amounts owed to group undertakings	63,736	49,808
	Taxes and social security costs	-	568
	Directors' current accounts	142,500	142,500
	Other creditors	12,211	3,570
	Accruals and deferred income	316,561	66,694
		<u>562,675</u>	<u>1,819,776</u>

The company is dependent on its bankers continuing to provide the necessary facilities to enable the company to continue in operation for the foreseeable future.

9.	CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	1998 £	1997 £
	Loans	<u>3,726,192</u>	<u>-</u>

The company has entered into a mortgage of £5,800,000 which is repayable by 60 quarterly instalments commencing July 2001. The company has drawn down £3,726,192 at the Balance Sheet date.

BANKSIDE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST AUGUST 1998

10. BORROWINGS	1998	1997
	£	£
<u>The company's borrowings are repayable as follows:</u>		
In one year, or less or on demand	27,667	1,560,206
	<u> </u>	<u> </u>
<u>Details of security:</u>		
The bank loan is secured by a legal mortgage over the Freehold Property. Mr M.S.Gourgey and Mr R.J.Hodge, directors of the company, have given personal guarantees to cover any shortfall in the interest on the loan.		
11. SHARE CAPITAL	1998	1997
	£	£
<u>Authorised</u>		
<u>Equity interests:</u>		
10,000 Ordinary shares of £1 each	10,000	10,000
	<u> </u>	<u> </u>
<u>Allotted, called up and fully paid</u>		
<u>Equity interests:</u>		
100 Ordinary shares of £1 each	100	100
	<u> </u>	<u> </u>
12. REVALUATION RESERVE	1998	1997
	£	£
Balance at 1st September 1997	1,263,487	-
Revaluation during the year	-	1,263,487
	<u> </u>	<u> </u>
Balance at 31st August 1998	1,263,487	1,263,487
	<u> </u>	<u> </u>
13. PROFIT AND LOSS ACCOUNT	1998	1997
	£	£
Accumulated losses at 1st September 1997	(22,377)	-
Loss for the financial year	(85,823)	(22,377)
	<u> </u>	<u> </u>
Accumulated losses at 31st August 1998	(108,200)	(22,377)
	<u> </u>	<u> </u>

BANKSIDE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST AUGUST 1998

14. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	1998 £	1997 £
Loss for the financial year	(85,823)	(22,377)
Other recognised gains and losses relating to the year (net)	-	1,263,487
New share capital subscribed	-	100
Net addition to shareholders' funds	(85,823)	1,241,210
Shareholders' funds at 1st September 1997	1,241,210	-
Shareholders' funds at 31st August 1998	1,155,387	1,241,210
Represented by:-		
Equity interests	1,155,387	1,241,210
	1,155,387	1,241,210

15. RECONCILIATION OF OPERATING LOSS TO OPERATING CASH FLOWS

	1998 £	1997 £
Operating loss	(77,967)	(17,336)
Depreciation	100	-
Increase in debtors	(142,853)	(60,986)
Increase in creditors due within one year	269,403	262,967
Cash flow from operating activities	48,683	184,645

BANKSIDE HOTELS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST AUGUST 1998

16. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	1998 £	1997 £
Returns on investments and servicing of finance		
Interest received	107	212
Interest paid	(5,498)	(5,080)
Net cash outflow from returns on investments and servicing of finance	(5,391)	(4,868)
Capital expenditure		
Purchase of tangible fixed assets	(2,240,515)	(1,736,513)
Net cash inflow from capital expenditure	(2,240,515)	(1,736,513)
Financing		
Receipts from issue of shares	-	100
Debt due beyond one year		
Receipts from other long term loans	4,201,631	1,550,000
Repayment of other long term loans	(2,025,439)	-
Net cash inflow from financing	2,176,192	1,550,100

17. CAPITAL COMMITMENTS

	1998 £	1997 £
Details of capital commitments at the accounting date are as follows:-		
Contracted for but not provided in the financial statements	2,300,000	3,500,000

The company is also committed to an arrangement fee of £29,000 due for payment 30 June 2000.