

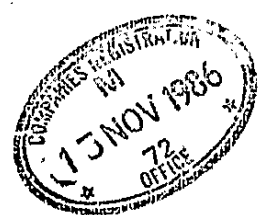
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27.

I.I.G. (UK) LIMITED
DIRECTORS' REPORT AND ACCOUNTS
FOR THE YEAR TO 31ST DECEMBER, 1985

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I.I.G. (UK) LIMITED

DIRECTORS' REPORT AND ACCOUNTS
FOR THE YEAR TO 31ST DECEMBER, 1985

PEAT, MARWICK, MITCHELL & CO.
1 Puddle Dock, Blackfriars, London EC4V 3PD.



PEAT MARWICK, MITCHELL & CO

I.I.G. (UK) LIMITEDDIRECTORS' REPORT

The directors present their report and the audited accounts for the year to 31st December, 1985.

PRINCIPAL ACTIVITY

The principal activity of the group consists of ownership of and investment in hotels.

BUSINESS REVIEW AND FUTURE DEVELOPMENTS

The financial results of the group for the year ended 31st December, 1985 are shown on page 4. On 9th July, 1985 Spencer Hotels Limited (formerly Montcalm Hotels Limited) a subsidiary, disposed of its hotel business and assets. The gain on disposal is shown as an extraordinary item.

PROPOSED DIVIDEND

The directors do not recommend the payment of a dividend.

FIXED ASSETS

The movements in fixed assets are shown in note 10 to the accounts. The company purchased the head-lease of the Churchill Hotel on 31st January, 1985 for a cash consideration of £9,250,000 financed out of a bank loan.

The leasehold interest in the Churchill Hotel sub-lease was valued at £50,000,000 by the directors at 31st December, 1984 on the basis of independent valuation advice obtained. This valuation has been reflected in the accounts.

The directors are of the opinion that the market value of the fixed assets is significantly greater than that reflected in the accounts.

DIRECTORS AND DIRECTORS' INTERESTS

The directors, who served throughout the year, were:

Hisham Al Otaibi

W.A. Lipscombe

B.E. Hare

Khalid Al Duwaisan

Dr. G.F. Nakshbendi

Faisal Al-Shaya

(resigned 30th June, 1985)

(appointed 17th April, 1985)

No director had a beneficial interest in the shares of the company or any other group company at any time during the year.

I.I.G. (UK) LIMITEDDIRECTORS' REPORTTRANSACTIONS WITH DIRECTORS

During the year Mr. B.E. Hare entered into certain credit transactions with Churchill Group Limited, a subsidiary, on an arm's length basis. The value of these transactions and the balance outstanding at 31st December, 1985, being the maximum amount outstanding during the year, was £9,100.

EMPLOYEES

The nature of the group's business is such that the duties of the majority of employees can only be performed by able-bodied people. Disabled people are not discriminated against when applying for suitable posts. Every effort is made to transfer employees becoming disabled to suitable posts with the group.

The group's communications with employees are conducted informally through the established supervisory structure.

CHARITABLE CONTRIBUTIONS

Charitable contributions of £3,050 were made in the year (1984:£1,820).

AUDITORS

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of Peat, Marwick, Mitchell & Co. as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

By order of the board,


Secretary

REPORT OF THE AUDITORS TO THE MEMBERS OF
I.I.G. (UK) LIMITED

We have audited the accounts on pages 4 to 17 in accordance with approved Auditing Standards.

In our opinion the accounts, which have been prepared on the basis of the accounting policies set out on page 8, give a true and fair view of the state of the affairs of the company and of the group at 31st December, 1985 and of the profit and source and application of funds of the group for the year to that date and comply with the Companies Act 1985.



London.

28 FEB 1986

Chartered Accountants

I.I.G. (UK) LIMITEDCONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR TO 31ST DECEMBER, 1985

	<u>Note</u>	<u>1985</u> <u>£000</u>	<u>1984</u> <u>£000</u>
TURNOVER			
Raw materials and consumables	2	21,340	21,891
Other external charges		(1,553)	(1,654)
Staff costs		(3,008)	(2,938)
Depreciation and other amounts written off tangible and intangible fixed assets	3	(6,158)	(6,461)
Other operating charges		(1,303)	(1,057)
Bank interest receivable		(3,775)	(3,867)
Interest payable		483	121
	4	(6,183)	(5,461)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<hr/>	<hr/>
	5	(157)	574
Tax on profit on ordinary activities	8	(183)	(505)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<hr/>	<hr/>
	9	(340)	69
Extraordinary item	6	5,326	-
RETAINED PROFIT FOR THE YEAR		<hr/>	<hr/>
		4,986	69
Retained profit brought forward		479	410
RETAINED PROFIT CARRIED FORWARD		<hr/> <hr/>	<hr/> <hr/>
		5,465	479

The notes on pages 8 to 17 form part of these accounts.

I.I.G. (UK) LIMITEDCONSOLIDATED BALANCE SHEET AT 31ST DECEMBER, 1985

	<u>Note</u>	£000	<u>1985</u> £000	£000	<u>1984</u> £000
FIXED ASSETS					
Tangible assets	10		61,405		60,256
CURRENT ASSETS					
Stocks	12	230		224	
Debtors	13	2,266		3,076	
Cash at bank and in hand		2,929		1,420	
		<u>5,425</u>		<u>4,720</u>	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	14	<u>(4,897)</u>		<u>(2,499)</u>	
NET CURRENT ASSETS			528		2,221
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>61,933</u>		<u>62,477</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	15		(42,275)		(44,600)
PROVISION FOR LIABILITIES AND CHARGES	16		(953)		(1,258)
NET ASSETS			<u>18,705</u>		<u>16,619</u>
CAPITAL AND RESERVES					
Called up share capital	17		2,000		2,000
Revaluation reserve	18		11,240		14,140
Profit and loss account			5,465		479
			<u>18,705</u>		<u>16,619</u>

The notes on pages 8 to 17 form part of these accounts.

I.I.G. (UK) LIMITEDBALANCE SHEET AT 31ST DECEMBER, 1985

	Note	1985		1984	
		£000	£000	£000	£000
FIXED ASSETS					
Tangible assets	10	9,296		19	
Investments	11	<u>43,352</u>		<u>43,352</u>	
			52,648		43,371
CURRENT ASSETS					
Debtors	13	1,123		1,313	
Cash at bank and in hand		<u>121</u>		<u>518</u>	
		1,244		1,831	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	14	<u>(1,771)</u>		<u>(661)</u>	
NET CURRENT (LIABILITIES)/ASSETS			(527)		1,170
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>52,121</u>		<u>44,541</u>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	15		(42,275)		(44,600)
NET ASSETS			<u>9,846</u>		<u>(59)</u>
CAPITAL AND RESERVES					
Called up share capital	17		2,000		2,000
Profit and loss account			7,846		(2,059)
			<u>9,846</u>		<u>(59)</u>

Approved by the Board of directors
at a meeting held on **28 FEB 1986**

 Directors

The notes on pages 8 to 17 form part of these accounts.

I.I.G. (UK) LIMITEDSTATEMENT OF SOURCE AND APPLICATION OF FUNDS
FOR THE YEAR TO 31ST DECEMBER, 1985

	£000	<u>1985</u>	£000	£000	<u>1984</u>	£000
SOURCE OF FUNDS						
(Loss)/profit on ordinary activities before taxation			(157)			574
Adjustments for items not involving the movement of funds:						
Depreciation and amortisation			1,303			1,057
Loss on disposal of fixed assets			9			-
FUNDS GENERATED FROM OPERATIONS			<u>1,155</u>			<u>1,631</u>
FUNDS FROM OTHER SOURCES						
Increase in loans	9,250				-	
Tax recovered	280				-	
Disposal of fixed assets	<u>11,803</u>				-	
			21,333			-
			<u>22,488</u>			<u>1,631</u>
APPLICATION OF FUNDS						
Repayment of loan	(10,675)				-	
Purchase of tangible fixed assets	(10,888)				(961)	
Tax paid	-				(63)	
			(21,563)			(1,024)
INCREASE IN WORKING CAPITAL			<u>925</u>			<u>607</u>
COMPONENTS OF INCREASE IN WORKING CAPITAL						
Stocks	6				28	
Debtors	(572)				280	
Creditors falling due within one year	<u>(12)</u>				<u>(351)</u>	
			(578)			(43)
Movement in net liquid funds:						
Increase in cash at bank and in hand	1,509				650	
Increase in overdraft	<u>(6)</u>				-	
			1,503			650
			<u>925</u>			<u>607</u>

I.I.G. (UK) LIMITEDNOTES TO THE ACCOUNTS1. PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's and the group's accounts.

(a) Basis of accounting

The accounts have been prepared under the historical cost convention, except for some long leasehold land and buildings which are stated at directors' valuation.

(b) Consolidation

The consolidated accounts incorporate the accounts of IIG (UK) Limited and all of its subsidiaries, the accounts of which are made up to 31st December.

A separate profit and loss account dealing with the results of the company only has not been prepared.

(c) Fixed assets

Depreciation and amortisation is calculated so as to write off the cost or valuation of tangible fixed assets by equal instalments over their estimated useful lives as follows:

Leasehold buildings	period of lease
Fixtures, fittings, tools and equipment	between 4 and 12 years

Base stock: this represents the cost of equipping The Churchill with glass, silver and linen on opening. No depreciation is provided, and all replacements are charged to the profit and loss account in the year of purchase.

(d) Stocks

Stocks are valued on a "first in, first out" basis at the lower of cost and net realisable value.

(e) Foreign exchange

Transactions denominated in foreign currencies are translated into sterling and recorded at the rate of exchange ruling at the date of the transactions. Balances denominated in a foreign currency are translated into sterling at the exchange rates ruling on the balance sheet date. All exchange gains and losses are reflected in the profit and loss account for the year in which they arise.

(f) Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect of all timing differences to the extent that it is probable that the liabilities will crystallise in the foreseeable future.

I.I.G. (UK) LIMITEDNOTES TO THE ACCOUNTS2. TURNOVER

Turnover represents the invoiced value of goods and services provided to customers of the hotels (exclusive of VAT).

All revenue is generated in the United Kingdom.

3. STAFF NUMBERS AND COSTS

The average number of persons employed by the group (including directors) during the year, including the period whilst the Montcalm was trading analysed by category, was as follows:

	<u>1985</u>	<u>1984</u>
Holding company directors	6	5
Hotel staff: Senior management	9	9
Operational	609	602
Sales and administration	57	58
	<u>681</u>	<u>674</u>

The aggregate payroll costs of these persons were as follows:

	£000	£000
Wages and salaries	4,863	5,225
Social security costs	450	477
Other pension costs	251	242
	<u>5,564</u>	<u>5,944</u>
Other staff costs	594	517
	<u>6,158</u>	<u>6,461</u>

4. INTEREST PAYABLE

	<u>1985</u>	<u>1984</u>
	£000	£000
To group companies	-	41
On bank loans and overdrafts	54	34
On other loans	6,129	5,386
	<u>6,183</u>	<u>5,461</u>

I.I.G. (UK) LIMITEDNOTES TO THE ACCOUNTS5. PROFIT BEFORE TAXATION

Profit before taxation is stated after charging the following:

	<u>1985</u> £000	<u>1984</u> £000
Directors' emoluments (see note 7):		
As directors	120	71
Auditors' remuneration and expenses	<u>20</u>	<u>18</u>

6. EXTRAORDINARY PROFIT

	<u>1985</u> £000
Profit on disposal of assets and business of the Montcalm Hotel	6,276
Taxation attributable	(950)
Extraordinary profit	<u>5,326</u>

7. EMOLUMENTS OF DIRECTORS AND SENIOR EMPLOYEES

Excluding pension contributions, the emoluments of the Chairman were £34,000 (1984:£20,000) and those of the highest paid director were £41,000 (1984:£22,000). Emoluments of the other directors were within the following ranges:

	<u>1985</u>	<u>1984</u>
£0 - £ 5,000	1	-
£ 5,001 - £10,000	2	2
£10,001 - £15,000	-	1
£20,001 - £25,000	<u>1</u>	<u>-</u>

The number of employees whose emoluments, excluding pension contributions, fell within the following ranges were:

	<u>1985</u>	<u>1984</u>
£30,001 - £35,000	1	1
£50,001 - £55,000	-	-
£65,001 - £70,000	<u>1</u>	<u>1</u>

I.I.G. (UK) LIMITED
NOTES TO THE ACCOUNTS

8. TAX ON PROFIT ON ORDINARY ACTIVITIES

	<u>1985</u> £000	<u>1984</u> £000
Taxation based on the profit for the year of the company and its subsidiaries:		
Corporation tax at 41.25% (1984:46.25%)	536	432
Deferred taxation (see note 16)	(305)	79
Adjustments relating to prior periods:		
Corporation tax	(48)	(6)
	<u>183</u>	<u>505</u>
 The taxation charge has been increased by:		
Amortisation of leaseholds not eligible for hotel allowances	<u>(301)</u>	<u>(244)</u>

9. RETAINED PROFIT

Retained profit for the year is dealt with:

	<u>1985</u> £000	<u>1984</u> £000
In the accounts of the company	9,905	270
In the accounts of subsidiaries	385	326
Amortisation of hotel leaseholds shown at fair value in the consolidated accounts	(551)	(527)
Movement on revaluation	(4,753)	-
	<u>4,986</u>	<u>69</u>

NOTES TO THE ACCOUNTS

10. TANGIBLE FIXED ASSETS

<u>Group</u>	<u>Land and buildings</u>		<u>Fixtures, fittings, tools and equipment</u>	<u>Base stock</u>	<u>Total</u>
	<u>Long Leasehold</u>	<u>Short leasehold</u>			
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Cost and valuation:					
At 1st January, 1985	58,000	1	3,510	91	61,602
Additions	9,596	-	1,292	-	10,888
Disposals	(8,073)	-	(975)	-	(9,048)
At 31st December, 1985	<u>59,523</u>	<u>1</u>	<u>3,827</u>	<u>91</u>	<u>63,442</u>
Depreciation and amortisation:					
At 1st January, 1985	-	-	1,346	-	1,346
Charged in year	732	1	570	-	1,303
Disposals	(54)	-	(558)	-	(612)
At 31st December, 1985	<u>678</u>	<u>1</u>	<u>1,358</u>	<u>-</u>	<u>2,037</u>
Net book value:					
At 31st December, 1985	<u>58,845</u>	<u>-</u>	<u>2,469</u>	<u>91</u>	<u>61,405</u>
At 31st December, 1984	<u>58,000</u>	<u>1</u>	<u>2,164</u>	<u>91</u>	<u>60,256</u>

The long leasehold interests at 1st January, 1985 had been revalued by the directors on the basis of professional valuation advice. The corresponding amounts stated on an historical cost basis are as follows:

	<u>£000</u>
Cost:	
At 1st January, 1985	807
Additions	9,596
Disposals	(368)
At 31st December, 1985	<u>10,035</u>
Depreciation:	
At 1st January, 1985	-
Charged in year	181
Disposals	(2)
At 31st December, 1985	<u>179</u>
Net book value:	
At 31st December, 1985	<u>9,856</u>

I.I.G. (UK) LIMITED
NOTES TO THE ACCOUNTS

10. TANGIBLE FIXED ASSETS (continued)

Company	<u>Land and buildings long leasehold £000</u>	<u>Land and buildings short leasehold £000</u>	<u>Fixtures, fittings, tools and equipment £000</u>	<u>Total £000</u>
Cost:				
At 1st January, 1985	-	1	18	19
Additions	9,451	-	18	9,469
Disposals	-	-	(11)	(11)
At 31st December, 1985	<u>9,451</u>	<u>1</u>	<u>25</u>	<u>9,477</u>
Depreciation and amortisation:				
At 1st January, 1985	-	-	-	-
Charged in year	173	1	12	186
Disposals	-	-	(5)	(5)
At 31st December, 1985	<u>173</u>	<u>1</u>	<u>7</u>	<u>181</u>
Net book value:				
At 31st December, 1985	<u>9,278</u>	<u>-</u>	<u>18</u>	<u>9,296</u>
At 31st December, 1984	<u>-</u>	<u>1</u>	<u>18</u>	<u>19</u>

11. INVESTMENTS (HELD AS FIXED ASSETS)

Company

Cost:

At 31st December, 1985 and 1984

Shares in
group
companies
£'000

43,352

I.I.G. (UK) LIMITED
NOTES TO THE ACCOUNTS

12. STOCKS

	<u>1985</u>	<u>Group</u>	<u>1984</u>
	£000		£000
Raw materials and consumables	32		39
Finished goods and goods for resale	198		185
	<u>230</u>		<u>224</u>

13. DEBTORS

	<u>1985</u>		<u>1984</u>	
	<u>Group</u>	<u>Company</u>	<u>Group</u>	<u>Company</u>
	£000	£000	£000	£000
Amounts falling due within one year:				
Trade debtors	1,069	-	1,209	-
Other debtors	21	21	16	16
Prepayments and accrued income	1,176	992	1,613	1,207
Corporation tax recoverable	-	-	238	-
Amounts owed by group companies	-	110	-	-
	<u>2,266</u>	<u>1,123</u>	<u>3,076</u>	<u>1,313</u>

I.I.G. (UK) LIMITEDNOTES TO THE ACCOUNTS14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	1985		1984	
	Group £000	Company £000	Group £000	Company £000
Bank loans and overdrafts	906	900	-	-
Trade creditors	384	-	555	-
Amounts owed to group companies	597	608	583	514
Other creditors including taxation and social security	2,525	81	1,184	45
Accruals and deferred income	485	182	177	2
	<u>4,897</u>	<u>1,771</u>	<u>2,499</u>	<u>661</u>
Other creditors including taxation and social security comprise:				
Corporation tax	1,482	-	2	-
Other taxes and social security	558	1	729	9
	<u>2,040</u>	<u>1</u>	<u>731</u>	<u>9</u>
Other creditors	485	80	453	36
	<u>2,525</u>	<u>81</u>	<u>1,184</u>	<u>45</u>

15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

This represents term loans from National Bank of Kuwait. They are secured by a charge over the assets and undertaking of Churchill Group Limited. Of the total loans outstanding £13,970,000 is not repayable within five years.

The interest rates applying to these loans are:

(i) On £34,600,000

- (a) for the period to 12th September, 1986, 12.0625% pa; and
 (b) thereafter 3/8% over the LIBOR on the first day of each repayment period.

(ii) On £8,575,000

at $\frac{1}{2}$ % over the National Bank of Kuwait base lending rate.

F.J.G. (UK) LIMITEDNOTES TO THE ACCOUNTS16. PROVISIONS FOR LIABILITIES AND CHARGES

Deferred taxation:

Balance at 31st December, 1984	£000 1,258
Credit for the year	305
Balance at 31st December, 1985	<u>953</u>

Group

	1985		1984	
	Amount provided £000	Full potential liability £000	Amount provided £000	Full potential liability £000
Difference between accumulated depreciation and amortisation and capital allowances	669	669	798	798
Tax relief on prepaid interest not yet charged to profit and loss account	284	284	460	460
Revaluation of fixed assets	-	14,697	-	17,158
Chargeable gain rolled over	-	2,403	-	-
	<u>953</u>	<u>18,053</u>	<u>1,258</u>	<u>18,416</u>

Company

The potential liability for deferred tax in the company is as follows:

	1985 £000	1984 £000
Chargeable gain rolled over	2,403	-
Revaluation of fixed assets	3,372	4,242
	<u>5,775</u>	<u>4,242</u>

No provision has been made for deferred taxation as it is not anticipated that any tax will become payable in the foreseeable future.

17. SHARE CAPITAL

At 31st December, 1985 and 1984:	£000
Share capital authorised, allotted, called up and fully paid:	
2,000,000 ordinary shares of £1 each	<u>2,000</u>

I.L.G. (UK) LIMITEDNOTES TO THE ACCOUNTS18. REVALUATION RESERVE

	£000
At 1st January, 1985	14,140
Release on disposal of the Montcalm Hotel	2,900
At 31st December, 1985	<u>11,240</u>

19. COMMITMENTS

There were no capital commitments outstanding at 31st December, 1985.

20. SUBSIDIARIES

The company's principal subsidiary companies, both of which are wholly owned, are:

	<u>Type of share</u>	<u>Nominal value</u>	<u>Quantity in issue</u>
Churchill Group Limited - hotelier	Ordinary	£1	100
	Deferred	£1	100
			<u>200</u>
Spencer Hotels Limited - hotelier (formerly Montcalm Hotels Limited)	Ordinary	£1	100
	10%	£1	100
	Non-cumulative Preference		
			<u>200</u>

Both of these companies operate in the United Kingdom.

21. ULTIMATE HOLDING COMPANY

The company's ultimate holding company is International Realty Investment Group SAK, a company incorporated in Kuwait.