

**REGISTRAR OF
COMPANIES**

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Havana Holdings (UK) Limited

Report and Financial Statements

Period Ended

31 December 1998



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COMPANIES HOUSE 26/11/99
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COMPANIES HOUSE 12/10/99

BDO

BDO Stoy Hayward
Chartered Accountants

HAVANA HOLDINGS (UK) LIMITED

Report and financial statements for the period ended 31 December 1998

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Directors

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Directors

M A Cairns
J O'Shea
S Moatassem
J Rea

Secretary and registered office

S Moatassem, Media House, 4 Stratford Place, London, W1N 9AE.

Company number

3513344

Auditors

BDO Stoy Hayward, 8 Baker Street, London, W1M 1DA.

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HAVANA HOLDINGS (UK) LIMITED

Report of the directors for the period ended 31 December 1998

The directors present their first report together with the audited financial statements for the period ended 31 December 1998.

Results and dividends

The profit and loss account is set out on page 4 and shows the profit for the period.

The directors do not recommend an ordinary dividend.

Principal activities, trading review and future developments

The company was incorporated on 10 February 1998.

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

On 5 May 1998 the company acquired the entire share capital of Primeairo Limited and as a consequence indirectly controls International Hoteliers (UK) Limited and Churchill Group Limited.

The company trades as an investment holding company. The company's principal investment is the Churchill Inter-Continental Hotel, Portman Square, London.

The directors were satisfied with the results in 1998 and they anticipate that they will achieve similar results in 1999.

Charitable and political contributions

During the year the group made charitable donations of £136.

Year 2000

The directors are reviewing the likely impact of the Year 2000 issue on the group's operations. They do not consider that the business will be affected to any significant extent, nor do they anticipate any further material cost being incurred in addressing the issue.

Directors

The directors of the company during the period and their interests in the ordinary share capital of the company were:

M A Cairns	(appointed 1 June 1998)
J O'Shea	(appointed 5 May 1998)
S Moatassem	(appointed 28 April 1998)
J Rea	(appointed 28 April 1998)
M R Aucott	(appointed 10 February 1998, resigned 5 May 1998)
A F Winterbottom	(alternate director) (appointed 25 August 1998)

No director had any beneficial interest in the ordinary shares of the company at any time during the year.

HAVANA HOLDINGS (UK) LIMITED

Report of the directors for the period ended 31 December 1998 (*Continued*)

Employment of disabled persons

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 within the groups.

Employee involvement

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

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. In preparing those financial statements, the directors are required to:

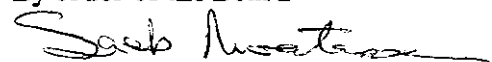
- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departure disclosed and explained in the financial statements; and
- prepare 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 the group 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.

Auditors

BDO Stoy Hayward, who were appointed as first auditors of the company by the directors, have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

By order of the Board



S Moatassem

Secretary

Date 29/9/99

HAVANA HOLDINGS (UK) LIMITED

Report of the auditors

To the shareholders of Havana Holdings (UK) Limited

We have audited the financial statements on pages 4 to 19 which have been prepared under the accounting policies set out on pages 8 and 9.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of the 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.

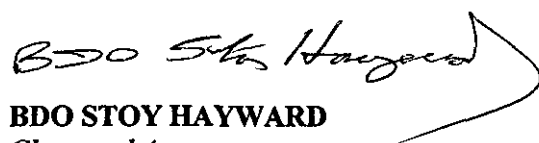
Basis of opinion

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.

Opinion

In our opinion the financial statements give a true and fair view of the state of the group and company's affairs as at 31 December 1998 and of the profit of the group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.


BDO STOY HAYWARD
*Chartered Accountants
and Registered Auditors*
London

29 September 1999

HAVANA HOLDINGS (UK) LIMITED**Consolidated profit and loss account for the period ended 31 December 1998**

	Note	Continuing Operations (acquisitions) £'000
Turnover	2	20,677
Raw materials and consumables		(937)
Other external changes		(2,273)
Staff costs		(4,749)
Depreciation		(1,275)
Other operating charges		(3,761)
Operating profit	4	7,682
Interest receivable and similar income		602
Interest payable and similar charges	5	(5,810)
Profit on ordinary activities before and after taxation and retained for the period		- 2,474

All recognised gains and losses are included in the profit and loss account.

The notes on pages 8 to 19 form part of these financial statements.

HAVANA HOLDINGS (UK) LIMITED

Consolidated balance sheet at 31 December 1998

	Note	£'000	£'000
Fixed assets			
Tangible assets	7		147,256
Current assets			
Stocks	9	136	
Debtors	10	3,592	
Cash at bank and in hand		14,063	
		<u>17,791</u>	
Creditors: amounts falling due within one year	11	10,868	
		<u>6,923</u>	
Net current assets			6,923
Total assets less current liabilities			154,179
Creditors: amounts falling due after more than one year	12		104,205
			<u>49,974</u>
Capital and reserves			
Called up share capital	14		42,500
Share premium	15		5,000
Profit and loss account	15		2,474
			<u>49,974</u>
Shareholders' funds - equity	16		49,974

The financial statements were approved by the Board on

22/9/99

S Moatsassem

) Directors

J O'Shea

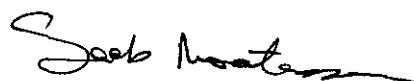
The notes on pages 8 to 19 form part of these financial statements.

HAVANA HOLDINGS (UK) LIMITED

Balance sheet at 31 December 1998

	Note	£'000	£'000
Fixed assets			
Investments	8		72,838
Current assets			
Debtors	10	79,385	
Cash at bank and in hand		8,660	
		<u>88,045</u>	
Creditors: amounts falling due within one year	11	14,598	
		<u></u>	
Net current assets			73,447
			<u></u>
Total assets less current liabilities			146,285
Creditors: amounts falling due after more than one year	12		104,205
			<u></u>
			<u>42,080</u>
Capital and reserves			
Called up share capital	14		42,500
Share premium	15		5,000
Profit and loss account	15		(5,420)
			<u></u>
Shareholders' funds - equity	16		42,080
			<u></u>

The financial statements were approved by the Board on



S Moatsassem

) Directors

J O'Shea

)

The notes on pages 8 to 19 form part of these financial statements.

HAVANA HOLDINGS (UK) LIMITED**Cash flow statement for the period ended 31 December 1998**

	Note	£'000	£'000
Net cash inflow from operating activities	22		9,801
Returns on investments and servicing of finance			
Interest received		602	
Interest paid		(4,336)	
			(3,734)
Taxation			
UK corporation tax			-
Capital expenditure			
Purchase of tangible fixed assets			(515)
Acquisitions			
Purchase of subsidiary undertakings	18		(73,215)
Cash outflow before use of liquid resources and financing			(67,663)
Management of liquid resources			
Cash held on short term deposit	24		(5,879)
Financing			
Issue of ordinary share capital		47,500	
Bank loans repaid		(80,057)	
New bank loan acquired		90,000	
New discounted loan notes acquired		20,000	
			77,443
Increase in cash	24		3,901

The notes on pages 8 to 19 form part of these financial statements.

HAVANA HOLDINGS (UK) LIMITED

Notes forming part of the financial statements for the period ended 31 December 1998

1 Accounting policies

The financial statements have been prepared under the historical cost convention and are in accordance with applicable accounting standards. The following principal accounting policies have been applied:

Consolidation

The consolidated financial statements incorporate the financial statements of Havana Holdings (UK) Limited and all of its subsidiaries. The results of companies acquired are included in the profit and loss account from the date of acquisition.

In accordance with the exemption allowed in Section 230 (3) of Companies Act 1985, a separate profit and loss account dealing with the results of the company has not been prepared. The group profit for the year includes a loss of £5,420,000 which is dealt with in the financial statements of the company.

Depreciation

No provision for depreciation has been made in respect of long leasehold land and buildings where the remaining term of the lease exceeds 30 years.

In the opinion of the directors, where there is more than 30 years remaining on the lease term, the properties are considered to have an estimated residual value of at least that shown in the balance sheet so that their depreciation is insignificant. The properties are regularly maintained and maintenance costs are charged directly against the profit and loss account.

Any permanent diminution in the value of long leasehold land and buildings is charged to the profit and loss accounts as appropriate.

Operating equipment represents the initial cost of equipping The Churchill Inter-Continental Hotel with glass, silver, uniforms and linen, as re-assessed periodically by the directors. No depreciation is provided on base stock and all replacements are charged to the profit and loss account in the year of purchase.

Depreciation on all other fixed assets is calculated so as to write off their cost by equal instalments over their estimated useful lives as follows:

Fixtures, fittings, tools and equipment - 4 to 12 years

HAVANA HOLDINGS (UK) LIMITED

Notes forming part of the financial statements for the period ended 31 December 1998 (*Continued*)

1 Accounting policies (*Continued*)

Stocks

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

Deferred taxation

Provision is made for timing differences between the treatment of certain items for taxation and accounting purposes, to the extent that it is probable that a liability or asset will crystallise.

Leased assets

Annual rentals on operating leases are charged to the profit and loss account on a straight line basis over the lease term.

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 rate 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.

Pensions

Pension costs in respect of the group's defined benefit scheme are charged to the profit and loss account so as to spread the cost of pensions over the service lives of the employees in the scheme. Variations from the regular cost are spread over the remaining service lives of current employees in the scheme. The pension cost is assessed in accordance with the advice of a qualified actuary.

Discounted loan notes

The finance cost of discounted loan notes is calculated at a constant rate on the carrying amount such that the value of the initial proceeds from the loan notes and accrued interest will equal the value at which the loan notes are to be redeemed at the date of maturity.

Liquid resources

Liquid resources consist of amounts on deposit with a maturity of up to twelve months.

2 Turnover

Turnover represents the invoiced value of goods and services, exclusive of VAT, provided to customers of The Churchill Inter-Continental Hotel, Portman Square, London. All revenue is generated in the United Kingdom.

The directors consider the whole of the activities of the group to constitute a single class of business.

HAVANA HOLDINGS (UK) LIMITED

Notes forming part of the financial statements for the period ended 31 December 1998 (*Continued*)

3 Directors and employees £'000

Staff costs consist of:

Wages and salaries	4,361
Social security costs	323
Other pension costs	65

4,749

The average number of employees during the period was 372.

The directors received fees of £61,000 during the period.

4 Operating profit

This is arrived at after charging:

Depreciation on fixed assets	1,275
Hire or other assets - operating leases	349
Auditors' remuneration - audit services	27
- non-audit services	7

-

5 Interest payable and similar charges

Bank loans	4,605
Interest on amounts owed to parent undertaking	1,205

5,810

6 Taxation on profit from ordinary activities

No taxation is payable due to the availability of tax losses.

HAVANA HOLDINGS (UK) LIMITED

Notes forming part of the financial statements for the period ended 31 December 1998 (*Continued*)

7 Tangible assets - group

	Long leasehold land and buildings £'000	Operating equipment £'000	Fixtures, fittings and equipment £'000	Total £'000
<i>Cost</i>				
On acquisition	142,302	262	17,286	159,850
Additions	-	219	296	515
Disposals	-	(83)	(2,017)	(2,100)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1998	142,302	398	15,565	158,265
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
On acquisition	-	-	11,751	11,751
Provided for the period	-	-	1,275	1,275
Disposals	-	-	(2,017)	(2,017)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1998	-	-	11,009	11,009
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 December 1998	142,302	398	4,556	147,256
	<hr/>	<hr/>	<hr/>	<hr/>

8 Fixed asset investments

	£'000
<i>Company</i>	
<i>Cost and net book value</i>	
On acquisition and 31 December 1998	72,838
	<hr/>

The investments are unlisted. Further details of subsidiary undertakings included in the group are shown in note 17.

HAVANA HOLDINGS (UK) LIMITEDNotes forming part of the financial statements for the period ended 31 December 1998 *(Continued)***9 Stocks**

	Group £'000	Company £'000
Consumables	11	-
Goods for resale	125	-
	<hr/>	<hr/>
	136	-
	<hr/>	<hr/>

10 Debtors

Trade debtors	2,070	-
Due from parent undertaking	566	566
Due from subsidiary undertakings	-	78,127
Other debtors	749	692
Prepayments and accrued income	207	-
	<hr/>	<hr/>
	3,592	79,385
	<hr/>	<hr/>

All amounts shown under debtors fall due for payment within one year.

11 Creditors: amounts falling due within one year

Bank loans (secured – see note 12)	5,000	5,000
Amounts owed to subsidiary undertakings	-	9,329
Trade creditors	4,226	-
Taxation and social security	888	-
Other creditors	178	-
Accruals and deferred income	576	269
	<hr/>	<hr/>
	10,868	14,598
	<hr/>	<hr/>

HAVANA HOLDINGS (UK) LIMITED

Notes forming part of the financial statements for the period ended 31 December 1998 (Continued)

12 Creditors: amounts falling due after more than one year

	Group £'000	Company £'000
Amounts owed to parent undertaking	21,205	21,205
Bank loan (secured)	83,000	83,000
	<u>104,205</u>	<u>104,205</u>

Amounts owed to the parent undertaking consist of discounted loan notes of £9,500,000 repayable in 2007 and £10,500,000 repayable in 2004. The loan notes will be redeemed at £19,800,000 and £17,100,000 respectively. Interest of £1,205,000 has been accrued on these balances in accordance with Financial Reporting Standard 4.

The bank loan is secured by a fixed and floating charge over the assets of the group.

The repayments on this loan are as follows:

Within one to two years	5,500
Within two to five years	8,000
After five years	69,500
	<u>83,000</u>

13 Deferred taxation

	Group Unprovided £'000	Group Provided in accounts £'000	Company Unprovided £'000	Company Provided in accounts £'000
Decelerated capital allowances	(667)	-	-	-
Unrelieved tax losses carried forward	(6,360)	-	-	-
Revaluation reserve	27,883	-	-	-
Interest payable	(374)	-	(374)	-
	<u>20,482</u>	<u>-</u>	<u>(374)</u>	<u>-</u>

HAVANA HOLDINGS (UK) LIMITED

Notes forming part of the financial statements for the period ended 31 December 1998 (*Continued*)

14 Share capital

	£'000
<i>Authorised</i>	
42,500,000 ordinary shares of £1 each	42,500
	<u> </u>
<i>Allotted called up and fully paid</i>	
42,500,000 ordinary shares of £1 each	42,500
	<u> </u>

The ordinary shares were allotted during the period for cash at a premium of £5,000,000.

15 Reserves

An analysis of movements on reserves is given below:

	Group £'000	Company £'000
<i>Share premium</i>		
On allotment and at 31 December 1998	5,000	5,000
	<u> </u>	<u> </u>
<i>Profit and loss account</i>		
Profit/(loss) for the period and at 31 December 1998	2,474	(5,420)
	<u> </u>	<u> </u>

16 Reconciliation of movements in shareholders' funds

Profit/(loss) for the period	2,474	(5,420)
New share capital subscribed	47,500	47,500
	<u> </u>	<u> </u>
Closing shareholders' funds	49,974	42,080
	<u> </u>	<u> </u>

HAVANA HOLDINGS (UK) LIMITED

Notes forming part of the financial statements for the period ended 31 December 1998 (Continued)

17 Subsidiary undertakings

The company's subsidiaries, owned directly or indirectly and included within the consolidated financial statements are as follows:

Name	Principal activities	Description and proportion of shares held	Country of registration
Primeairo Limited	Holding company	100% ordinary shares	England
International Hoteliers (UK) Limited	Hotel owning company	100% ordinary shares	England
Churchill Group Limited	Hoteliers	100% ordinary shares 100% deferred shares	England

18 Acquisitions

On 5 May 1998, the company acquired Primeairo Limited and its subsidiaries.

The fair values of net assets of Primeairo Limited and its subsidiaries have been assessed and are detailed below:

	Book value £'000	Fair value adjustment £'000	Fair value on acquisitions £'000
Tangible fixed assets	118,851	29,248	148,099
Current assets			
Stocks	135	-	135
Trade debtors	2,145	-	2,145
Other debtors	66	-	66
Prepayments	204	-	204
Liquid resources	4,283	-	4,283
Current liabilities			
Bank overdraft	(377)	-	(377)
Creditors	(3,660)	-	(3,660)
Long term liabilities	(78,057)	-	(78,057)
Net assets	43,590	29,248	72,838
Consideration satisfied by cash			72,838
Goodwill arising on acquisition			-

The long leasehold property acquired was fair valued by the directors at open market value at the date of acquisition.

HAVANA HOLDINGS (UK) LIMITED

Notes forming part of the financial statements for the period ended 31 December 1998 *(Continued)*

18 Acquisitions *(Continued)*

The consolidated results of Primeairo Limited and its subsidiaries prior to its acquisition were as follows:

Profit and loss account	£'000
Turnover	8,278
Operating profit	2,408
Exceptional item - waiver of loan	31,836
Net interest payable	(1,680)
Profit on ordinary activities before and after taxation	32,564
Taxation on profit from ordinary activities	-
Profit for the period 1 January 1998 to 5 May 1998	32,564

The consolidated profit after tax for the year to 31 December 1997 for Primeairo Limited and its subsidiaries was £4,634,000.

Cash flows

The net outflow of cash arising from acquisition of Primeairo Limited and its subsidiaries was as follows:

	£'000
Cash consideration including acquisition expenses	(72,838)
Overdrafts acquired	(377)
Net cash outflow	(73,215)

HAVANA HOLDINGS (UK) LIMITED

Notes forming part of the financial statements for the period ended 31 December 1998 (*Continued*)

19 Pension scheme

A subsidiary company, Churchill Group Limited, operates a pension scheme in the United Kingdom called the Churchill Staff Benefits Plan which is a funded defined benefit plan. The assets of the scheme are excluded from these accounts and held in separate Trustee Administered Funds.

The company's pension costs are calculated in accordance with the advice of an independent qualified actuary using the Attained Age Method. The latest formal Actuarial Valuation of the Scheme was carried out as at 6 April 1996. The principal assumptions adopted in the valuation were that, over the long term the annual rate of return on investments would be 9.0% and salary increases would be 7% per annum.

The net market value of the assets of the scheme at the last valuation date were £5,730,000. The actuarial value of these assets on an "on-going" basis was sufficient to cover the liabilities of the schemes. The total pension cost of the company in the year was £94,000 after a reduction in the pension cost of £36,000 resulting from the amortisation of the surplus (1997 - £36,000 after a reduction in the cost of £134,000 resulting from the amortisation of the surplus).

20 Commitments under operating leases

At 31 December 1998, the group had annual commitments under non-cancellable operating leases as set out below:

	Land and buildings £'000
Operating leases which expire:	
Within one year	47
After five years	476
	<hr/>
	523
	<hr/>

HAVANA HOLDINGS (UK) LIMITED

Notes forming part of the financial statements for the period ended 31 December 1998 (Continued)

21 Related party transactions

The trading operations of the Churchill Inter-Continental Hotel are managed by Inter-Continental Hotel & Resorts. During the year the group was charged management fees of £1,047,000, licence fees of £688,000 and Global reservation fees of £46,000 by Inter-Continental Hotels & Resorts. At 31 December 1998 £1,416,000 was owed to them.

22 Reconciliation of operating profit to net cash inflow from operating activities	£'000
Operating profit	7,682
Depreciation	1,275
Decrease in debtors	(611)
Increase in creditors	1,373
Loss on disposal of fixed assets	83
	<hr/>
	9,801
	<hr/>

23 Reconciliation of net cash inflow to movement in net debt

	£'000	£'000
Increase in cash in the period	3,901	-
Cash inflow from increase in debt	(29,943)	
Cash outflow from increase in liquid resources	5,879	
	<hr/>	
Change in net debt resulting from cash flows		(20,163)
Loans and liquid resources acquired with subsidiary		(73,774)
Other non-cash movements		(1,205)
		<hr/>
Movement in net debt in the period		(95,142)
Net debt at beginning of period		-
		<hr/>
Net debt at end of period		(95,142)
		<hr/>

HAVANA HOLDINGS (UK) LIMITED

Notes forming part of the financial statements for the period ended 31 December 1998 *(Continued)*

24 Analysis of changes in net debt

	At 10 February 1998 £'000	Cash flow £'000	Acquired with subsidiary (excluding cash and overdrafts) £'000	Other non-cash movements £'000	At 31 December 1998 £'000
Cash in hand and at bank	-	3,901	-	-	3,901
Debt due within one year	-	73,057	(78,057)	-	(5,000)
Debt due after one year	-	(103,000)	-	(1,205)	(104,205)
Short term deposits	-	5,879	4,283	-	10,162
Total	-	(20,163)	(73,774)	(1,205)	(95,142)

25 Ultimate parent company

At 31 December 1998 the company's immediate parent company was Havana Investments Limited, a company incorporated under the terms of the States of Jersey.

The ultimate controlling party is unknown.