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HOLIDAY INNS (U.K.) INC.  
BALANCE SHEET -- 31 DECEMBER 1982

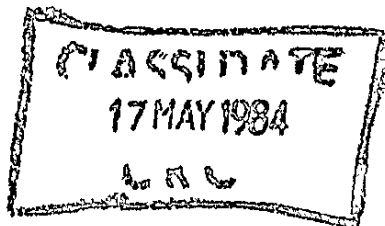
	<u>Notes</u>	<u>1982</u>	<u>1981</u>
<b>CURRENT ASSETS</b>			
Cash and bank deposits		£ 256,827	£ 385,056
Accounts receivable and prepaid expenses		1,243,929	1,215,180
Inventories		226,933	212,980
Due from parent company		340,385	676,768
Due from fellow-sub subsidiary companies		2,217,666	939,128
		<u>4,285,740</u>	<u>3,429,112</u>
<b>CURRENT LIABILITIES</b>			
Bank overdraft (unsecured)		614,837	560,549
Accounts payable and accrued liabilities		1,890,741	1,740,513
Due to subsidiary company		2,432,250	2,432,451
Current portion of long-term debt	5	919,389	1,212,062
Taxation		1,461,000	1,163,333
		<u>7,318,217</u>	<u>7,108,908</u>
Net current liabilities		(3,032,477)	(3,679,796)
INTEREST IN SUBSIDIARY COMPANIES	3	457,275	753,391
FIXED ASSETS, net	4	10,704,242	10,494,500
DEFERRED EXPENSES		33,534	42,810
LONG-TERM DEBT TO PARENT COMPANY	5	(3,063,434)	(2,986,441)
DEFERRED TAXATION	7	(2,069,675)	(1,751,000)
Net assets		<u>£ 3,029,465</u>	<u>£ 2,873,464</u>

Representing -

SHAREHOLDERS' INVESTMENT

Share capital-

1,000 shares of U.S. \$1 par value	2	£ 417	£ 417
Capital contribution		4,345,672	4,345,672
		<u>4,346,089</u>	<u>4,346,089</u>
Accumulated deficit		(1,316,624)	(1,472,625)
		<u>£ 3,029,465</u>	<u>£ 2,873,464</u>



APPROVED BY THE BOARD OF DIRECTORS ON 15 MARCH 1984.

The accompanying notes are an integral part of this balance sheet.



HOLIDAY INNS (U.K.) INC.

PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 1982

	<u>Notes</u>	<u>1982</u>	<u>1981</u>
SALES		£ 13,096,338	£ 11,723,127
MANAGEMENT FEE AND FRANCHISE INCOME		834,688	749,939
TOTAL REVENUES		13,931,026	12,473,066
COST OF SALES AND EXPENSES		(11,666,058)	(10,440,442)
OPERATING PROFIT		2,264,968	2,032,624
OTHER (EXPENSES) INCOME, net	6	(517,851)	(803,840)
PROFIT BEFORE TAXATION		1,747,117	1,228,784
TAXATION	7	(1,295,000)	(1,113,000)
PROFIT BEFORE EQUITY INTEREST IN SUBSIDIARY COMPANY		452,117	115,784
EQUITY INTEREST IN SUBSIDIARY COMPANY	3	(296,116)	(237,659)
NET PROFIT (LOSS)		156,001	(121,875)
ACCUMULATED DEFICIT, beginning of year		(1,472,625)	(1,350,750)
ACCUMULATED DEFICIT, end of year		£ (1,316,624)	£ (1,472,625)

The accompanying notes are an integral part of this profit and loss account.

1 ACCOUNTING POLICIES:

The accounts have been prepared on the historical cost basis and include the financial position and results of operations of the Company and its equity interest in its subsidiary company. Both the Company and its subsidiary draw their accounts up to, and including, the Friday nearest to the calendar year end.

The principal accounting policies applied in the accounts are as follows-

a) Revenues -

Sales comprise the invoiced value of accommodation, food and related services provided at the Holiday Inn properties, net of value added tax, returns and allowances.

Management fee and franchise income represents revenues received by the Company for services to Holiday Inn properties owned by associated and unrelated companies.

b) Inventories -

Inventories, which consist mainly of stocks of food and drink and hotel consumables, are stated at the lower of first-in, first-out cost and net realisable value on an item-by-item basis.

c) Interest in subsidiary companies -

Interests in subsidiary companies are accounted for by the equity method, whereby the carrying value of the investments is adjusted for the movement in applicable underlying net assets since the date of acquisition.

d) Fixed assets -

Fixed assets are recorded at cost less depreciation.

Depreciation is provided at the following annual rates, which are based upon the economic lives of the assets-

Freehold buildings and improvements	- 3% straight-line
Leasehold buildings and improvements	- 2.5 - 3% straight-line
Motor vehicles	- 25% straight-line
Furniture and equipment	- 7 - 20% straight-line

e) Deferred expenses -

Deferred expenses comprise pre-opening expenses which are being amortised over the lives of associated leases, and management contract expenses which are being amortised over the term of the contract.

NOTES TO ACCOUNTS (Continued)

1 ACCOUNTING POLICIES (Continued):

f) Taxation -

Corporation tax payable is provided on taxable profits at the current rate.

Deferred taxation is provided for on all timing differences on the deferral basis.

g) Foreign currency translation -

Transactions in foreign currencies are translated into pounds sterling at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities stated in foreign currencies (principally the debt to the parent company - see Note 5) have been translated at the appropriate rates of exchange ruling at the year-end. Gains and losses arising from fluctuations in exchange rates are included in the profit and loss account.

2 SHARE CAPITAL AND PARENT COMPANY

The Company is a wholly-owned subsidiary of Holiday Inns Inc., which is incorporated in the State of Tennessee, U.S.A.. The Company is also incorporated in the State of Tennessee, but its management and operations are resident in the United Kingdom.

The Company's share capital of U.S. \$1,000 has been translated to pounds sterling at the historical rate of \$2.40 to £1 prevailing at the date of the Company's incorporation in 1972.

NOTES TO ACCOUNTS (Continued)

3

INTEREST IN SUBSIDIARY COMPANIES:

The Company has the following two wholly-owned non-trading subsidiary companies -

a) H.I. (Ireland) Limited

H.I. (Ireland) Limited is incorporated in the Republic of Ireland, does not trade and has an issued share capital of 100 shares of £1 each.

The Company's interest in H.I. (Ireland) Limited comprises -

	<u>1982</u>	<u>1981</u>
Shares, at cost	£ 100	£ 100
Equity interest in (decrease) in underlying net assets since acquisition -		
Current year	(296,116)	(237,659)
Prior years	753,291	990,950
	<u>-----</u>	<u>-----</u>
Total interest in subsidiary company	£ 457,275	£ 753,391
	<u>-----</u>	<u>-----</u>

b) Holiday Inns of America (U.K.) Limited

Holiday Inns of America (U.K.), Limited is incorporated in Great Britain, does not trade, and has an issued share capital of 100,000 ordinary shares of £1 each.

The Company's interest in Holiday Inns of America (U.K.), Limited is held at nil value, as follows -

Shares denoted at nil value	£ -
Due from subsidiary company	879,594
Less: Provision for uncollectible receivable	(879,594)
	<u>-----</u>
	£ -
	<u>-----</u>

NOTES TO ACCOUNTS (Continued)

4 FIXED ASSETS:

a) The movement on these accounts during the year was as follows -

	Balance, beginning of year	Additions/ charge	Retirements	Transfers	Balance, end of year
<b>COST-</b>					
Freehold land	£ 503,916	£ -	£ -	£ -	£ 503,916
Freehold buildings and improvements	3,637,282	2,432	-	-	3,639,714
Long leasehold buildings and improvements	4,343,501	51,385	-	-	4,394,886
Furniture and equipment	5,319,301	899,835	(21,002)	49,342	6,247,476
Motor vehicles	137,374	50,003	(16,863)	-	170,514
Construction in progress	49,310	100,162	-	(49,342)	100,130
	13,990,684	£1,103,817	£(37,865)	£ -	15,056,636

ACCUMULATED DEPRECIATION-

Freehold buildings and improvements	502,106	£ 104,028	£ -	£ -	606,134
Long leasehold buildings and improvements	904,289	112,479	-	-	1,016,768
Furniture and equipment	2,049,362	625,243	(13,491)	-	2,661,114
Motor vehicles	40,427	36,902	(8,951)	-	68,378
	3,496,184	£ 878,652	£(22,442)	£ -	4,352,394
<b>NET BOOK VALUE</b>	<b>£10,494,500</b>	<b>=====</b>	<b>=====</b>	<b>=====</b>	<b>£10,704,242</b>

b) H.I. (Ireland) Limited, a wholly-owned subsidiary of the Company, had received English Tourist Board grants of £1,054,000 towards the cost of building certain properties which were transferred to the Company in 1979. All such grants have been given subject to certain conditions as to the continued operation of the properties, and may be repayable by the Company if these conditions are not complied with.

# NOTES TO ACCOUNTS (Continued)

## LONG-TERM DEBT:

The long-term debt is payable to the parent company, Holiday Inns Inc.. It is denominated in U.S. dollars, is unsecured and bears interest at 8.75% per annum. Minimum annual capital repayments of \$939,500 are required on 30 April of each year, and additional early repayments of capital are permitted.

The total amount payable at 31 December 1982, (converted at U.S. \$1.62 [1980 - \$1.91] to £1 sterling) was £3,982,823 (1981 - £4,198,503). The minimum capital repayment required in 1983 of £579,938 together with interest accrued and unpaid on the whole of the debt of £339,451 has been included in current liabilities. The balance of £3,063,434 has been classified as long-term debt.

Fluctuations in the exchange rate between the U.S. dollar and the pound during the year resulted in exchange losses of £677,136 (1981 - loss of £710,454), which have been included in the profit and loss account.

## OTHER (EXPENSES) INCOME, NET:

Other income (expenses) net, comprises -

	<u>1982</u>	<u>1981</u>
Currency translation (losses)	£ (257,819)	£ (566,317)
Interest income on bank deposits	44,488	18,896
Interest expense on debt to parent company	(301,388)	(261,419)
Other interest	(3,132)	-
	<u>£ (517,851)</u>	<u>£ (803,840)</u>

## UNITED KINGDOM TAXATION:

### a) Taxation -

The taxation charge is based on the profit for the year and comprises-

	<u>1982</u>	<u>1981</u>
Corporation tax payable at 52%	£ 976,325	£ 880,000
Deferred taxation charge at 52%	318,675	192,000
	<u>1,295,000</u>	<u>1,072,000</u>
Adjustments in respect of prior years	-	41,000
	<u>£1,295,000</u>	<u>£1,113,000</u>

NOTES TO ACCOUNTS (Continued)

**UNITED KINGDOM TAXATION (Continued):**

b) During the year, fluctuations in the exchange rate between the U.S. dollar and the pound resulted in the Company suffering exchange losses of £686,555. These exchange losses are not deductible for tax purposes. Accordingly, the tax charge for the year has been calculated after adding back these losses.

c) Deferred taxation -

Deferred Taxation comprises-

	<u>1982</u>	<u>1981</u>
Capital allowances in excess of book depreciation of fixed assets	£2,200,000	£2,072,700
Current timing differences	(130,325)	(321,700)
	<u>£2,069,675</u>	<u>£1,751,000</u>
	=====	=====

8 **UNITED STATES TAXATION:**

The Company is subject to taxation in the U.S.A., and accordingly its parent files a consolidated U.S. corporation tax return which includes the results of the Company. The parent company has indicated that it will record and pay any U.S.A. tax liability which may be imputed to the Company. Consequently, no provision for U.S.A. taxation has been made or is necessary in these accounts.

9 **EMPLOYEE BENEFITS SCHEME:**

The Company operates an employee benefits scheme for senior staff. The scheme includes a contributory, defined benefit pension plan and provides for life assurance and certain other benefits on a non-contributory basis.

The pension scheme is administered by Stewart Wrightson Trustees Limited and the benefits are provided under arrangements with the Standard Life Assurance Company. The Plan was last reviewed and actuarially valued as at 5 April 1980. Based on this valuation, which applied the unit cost method and assumed a 9% interest rate, as at the valuation date, the future assets of the plan exceeded by £9,478 the future cost of pensions earned.