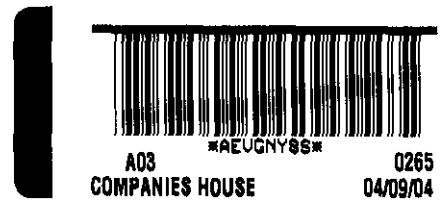


879456

ADDA HOTELS (UNLIMITED)

Report and Accounts

31 December 2003



Adda Hotels (Unlimited)

Registered No. 879456

DIRECTORS

G D Hearn (resigned 31 January 2003)
D L M Taljaard (resigned 6 May 2003)
I Hughes-Rixham
M J Way
A Bradley (appointed 6 May 2003)
G W Lyle (appointed 6 May 2003)
W Neumann (appointed 31 January 2003)
R Shill (appointed 6 May 2003)
S Humphreys
P F James

SECRETARY

Ladbroke Corporate Secretaries Limited

AUDITORS

Ernst & Young LLP
1 More London Place
London SE1 2AF

REGISTERED OFFICE

Maple Court
Central Park
Reeds Crescent
Watford
Hertfordshire WD24 4QQ

Adda Hotels (Unlimited)

DIRECTORS' REPORT

The directors present their report and audited accounts for the year ended 31 December 2003.

RESULTS AND DIVIDENDS

The loss for the year after taxation amounted to £5,485,545 (2002 – profit of £629,987).

The directors do not propose to pay a dividend (2002 – £41,000,000).

PRINCIPAL ACTIVITIES AND REVIEW OF THE BUSINESS

Adda Hotels (Unlimited) has continued to carry on its business as hotel operator.

The company will expand when opportunities arise.

FIXED ASSETS

Movements in respect of fixed assets during the year are detailed in note 10 of the accounts.

DIRECTORS AND THEIR INTERESTS

The directors of the company during the year were as listed on page 1.

According to the register kept by the company pursuant to section 325 of the Companies Act 1985, the directors at 31 December 2003 and their families:

(a) had the following interests in the shares of Hilton Group plc.

	2003	2002
10p ordinary shares ("Shares")		
A Bradley	4,500	4,500*
G W Lyle	25,956	31,213*
I Hughes-Rixham	33,542	33,542
P F James	3,945	3,945
W M Neumann	1,416	1,416*
R Shill	4,873	4,873*
Options to purchase shares under the terms of the 1978 share option scheme ("1978 Scheme")		
A Bradley	16,264	– *
G W Lyle	11,156	11,156*
I Hughes-Rixham	9,499	9,499
M J Way	9,515	9,515
S Humphreys	10,026	10,026
P F James	13,303	13,303
W M Neumann	21,186	– *
R Shill	10,696	10,696*
Options to purchase shares under the terms of the 1983 savings related share option scheme ("1983 Scheme")		
I Hughes-Rixham	8,012	8,012
M J Way	7,181	7,181
R Shill	9,165	3,000*

Adda Hotels (Unlimited)

DIRECTORS' REPORT

DIRECTORS AND THEIR INTERESTS (continued)

	2003	2002
Options to purchase shares under the terms of the International share option scheme ("International Scheme")		
A Bradley	284,336	200,600*
G W Lyle	238,844	226,344*
I Hughes-Rixham	274,036	244,036
M J Way	178,643	126,143
S Humphreys	47,699	40,699
P F James	187,197	147,197
W M Neumann	295,814	192,000*
R Shill	239,304	224,304*
Own share plan		
I Hughes-Rixham	1,755	929
M J Way	1,755	929
P F James	1,755	929
R Shill	1,755	1,224*
Conditional right to receive shares under the Hilton Group performance share plan ("The Plan")		
A Bradley	143,712	—*
W M Neumann	151,155	—*
Stakis 1994 Executive option scheme		
R Shill	76,199	76,199*
Nil priced options under the Executive Deferred Bonus Plan ("DBS")		
A Bradley	26,498	26,498*
G W Lyle	18,647	18,647*
I Hughes-Rixham	17,639	—
M J Way	17,635	—
P F James	16,173	—
R Shill	19,218	19,218*
Conditional shares under the Executive Deferred Bonus Plan ("DBS")		
S Humphreys	5,612	—

(Note: * denotes holding at date of appointment)

- (b) were granted, or exercised during the year (or during the period since appointment), options over shares as follows:

	1978 option scheme		Performance share plan		International scheme	
	granted	exercised	granted	exercised	granted	exercised
A Bradley	16,264	—	143,712	—	83,736	—
G W Lyle	—	—	—	—	12,500	—
I Hughes-Rixham	—	—	—	—	30,000	—
S Humphreys	—	—	—	—	7,000	—
P F James	—	—	—	—	40,000	—
M J Way	—	—	—	—	52,500	—
W M Neumann	21,186	—	151,155	—	103,814	—
R Shill	—	—	—	—	15,000	—

Adda Hotels (Unlimited)

DIRECTORS' REPORT

	<i>Executive Deferred Bonus Plan</i>		<i>1983 Share save scheme</i>	
	<i>granted</i>	<i>exercised</i>	<i>granted</i>	<i>exercised</i>
A Bradley	—	—	—	—
G W Lyle	—	—	—	—
I Hughes-Rixham	17,639	—	—	—
S Humphreys	—	—	—	—
P F James	16,173	—	—	—
M J Way	17,635	—	—	—
W M Neumann	—	—	—	—
R Shill	—	—	6,165	—

Except as shown above, no director at 31 December 2003 held at that date or at 31 December 2002 (or on appointment) any interest in, or during the year (or period since appointment) was granted or exercised a right to subscribe for, the shares or debentures of this company or of Hilton Group plc or its subsidiaries.

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

During the year Hilton Group plc purchased and maintained on behalf of the company, liability insurance for its directors and officers as permitted by section 310 (3) of the Companies Act 1985.

AUDITORS

Ernst & Young LLP will be re-appointed as the company's auditor in accordance with the elective resolution passed by the company under section 386 of the Companies Act 1985.

By order of the Board


Secretary

FOR AND ON BEHALF OF
LADBROKE CORPORATE
SECRETARIES LIMITED

30 JUL 2004

Adda Hotels (Unlimited)

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts 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 accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- prepare the accounts 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 accounts 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF ADDA HOTELS (UNLIMITED)

We have audited the company's financial statements for the year ended 31 December 2003 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 22. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 affairs of the company as at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered Auditor
London

30 July 2004

Adda Hotels (Unlimited)

PROFIT AND LOSS ACCOUNT for the year ended 31 December 2003

	Notes	2003 £	2002 £
TURNOVER	3	64,567,917	26,283,325
Cost of sales		(62,161,382)	(22,774,425)
Gross profit		2,406,535	3,508,900
Administrative expenses		(6,610,627)	(2,352,488)
OPERATING (LOSS)/PROFIT	4	(4,204,092)	1,156,412
Loss on disposal of fixed assets	5	–	(390,110)
Interest receivable	6	1,480	–
Interest payable	6	(1,282,933)	(134,710)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(5,485,545)	631,592
Taxation	9	–	(1,605)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		(5,485,545)	629,987
Dividend	17	–	(41,000,000)
RETAINED LOSS FOR THE FINANCIAL YEAR	17	(5,485,545)	(40,370,013)

Turnover and operating (loss)/ profit derive solely from continuing operations.

There are no recognised gains or losses in either period other than those reported in the profit and loss account.

Adda Hotels (Unlimited)

BALANCE SHEET at 31 December 2003

	Notes	2003 £	2002 £
FIXED ASSETS			
Tangible assets	10	3,348,275	1,661,129
Investments	11	725	—
		<u>3,349,000</u>	<u>1,661,129</u>
CURRENT ASSETS			
Stocks	12	260,202	302,482
Debtors: amounts falling due within one year	13	43,703,026	22,513,985
Cash at bank and in hand		136,203	144,040
		<u>44,099,431</u>	<u>22,960,507</u>
CREDITORS: amounts falling due within one year	14	(52,183,742)	(23,871,402)
NET CURRENT LIABILITIES		<u>(8,084,311)</u>	<u>(910,895)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>(4,735,311)</u>	<u>750,234</u>
CAPITAL AND RESERVES			
Called up share capital	16,17	5,500	5,500
Profit and loss account	17	(4,740,811)	744,734
EQUITY AND NON-EQUITY SHAREHOLDERS' FUNDS	17	<u>(4,735,311)</u>	<u>750,234</u>

Approved by the Board on
and signed on its behalf by:


Director

30 JUL 2004

Adda Hotels (Unlimited)

NOTES TO THE ACCOUNTS

at 31 December 2003

1. FUNDAMENTAL ACCOUNTING CONCEPT

The accounts have been prepared under the going concern basis because, as stated in note 15, the directors of the group undertakings to whom £45,044,253 is owed at 31 December 2003 (2002 – £16,422,151) have agreed to defer settlement to this amount and related interest until the company is financially able to settle these debts. In addition, the ultimate parent undertaking has agreed to meet any other liabilities as they fall due should the company's income not be sufficient.

2. ACCOUNTING POLICIES

Accounting convention

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Investments

Investments are stated at cost. Impairment reviews are carried out as and when required by FRS 11.

Depreciation

No depreciation is provided on freehold land. Buildings are depreciated to residual values over a period of 50 years or estimated length of the life of the building, or the lease, whichever is less on a straight line basis.

Fixtures, fittings and equipment are depreciated on a straight line basis at rates between 7.5% and 33.3% which are estimated to write down cost to residual values over their useful lives.

Stocks

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

Operating leases

Rentals applicable to operating leases, under which substantially all the benefits and risks of ownership remain with the lessor, are charged to the profit and loss account on a straight line basis over the lease term.

3. TURNOVER

Turnover represents the invoice value, excluding VAT, of goods sold and services rendered by the company and arose wholly in the United Kingdom.

4. OPERATING (LOSS)/PROFIT

This is stated after charging:

	2003	2002
	£	£
Fees payable to group undertaking	1,937,038	788,500
Management charge payable to group undertaking	4,673,590	1,563,988
Depreciation of tangible fixed assets	256,211	171,485
Hire of plant and equipment under operating leases	551,509	225,628
Rent payable to group undertaking in respect of operating leases	393,809	465,368
Rent payable under sale and leaseback agreements	23,255,159	7,985,871

The remuneration of auditors was borne entirely by other undertakings within the Hilton Group and is disclosed as appropriate in the accounts of those undertakings.

Adda Hotels (Unlimited)

NOTES TO THE ACCOUNTS

at 31 December 2003

5. LOSS ON DISPOSAL

Loss on disposal in the previous year relates to additional costs recorded in the year in respect of the disposal of the Sherlock Holmes Hotel during the year ended 31 December 2000.

6. INTEREST RECEIVABLE/(PAYABLE)

	2003	2002
	£	£
Other interest receivable	1,480	—
Interest payable on balances due to fellow subsidiary undertakings	(1,282,933)	(134,710)
	<u> </u>	<u> </u>

7. DIRECTORS' REMUNERATION

The directors of the company are also directors of other undertakings within the Hilton Group. The directors' remuneration for the year was paid by the other undertakings. The directors do not believe that it is practicable to apportion this amount between their services as directors of the company and their services as directors of the fellow subsidiary undertakings.

8. STAFF COSTS

All operations of the company during 2003 have been undertaken by employees of other group undertakings. A charge of £16,705,363 has been included in these accounts in respect of their services (2002 – £6,144,615).

9. TAX ON (LOSS)/PROFIT ON ORDINARY ACTIVITIES

No provision has been made in these accounts for UK corporation tax, as an undertaking has been received from its ultimate parent undertaking, Hilton Group plc, that the latter will assume all liability for any such taxation.

No credit for current taxation arises in the year, as group relief has been surrendered to fellow subsidiaries free of charge.

Hilton Group plc has indemnified the company in respect of all tax liabilities and assets and as a result deferred tax of £127,000 (2002: £98,000) has not been recorded in the current year resulting from accelerated capital allowances.

	2003	2002
	£	£
Prior year income tax balance written off	—	1,605
	<u> </u>	<u> </u>

Adda Hotels (Unlimited)

NOTES TO THE ACCOUNTS at 31 December 2003

10. TANGIBLE ASSETS

	<i>Short leasehold land and buildings</i>	<i>Fixtures, fittings and equipment</i>	<i>Total</i>
	£	£	£
Cost:			
At 1 January 2003	548,037	2,040,390	2,588,427
Additions	50,585	1,892,772	1,943,357
Reclassifications	(209,357)	209,357	—
Disposals	—	(157,719)	(157,719)
At 31 December 2003	389,265	3,984,800	4,374,065
Depreciation:			
At 1 January 2003	583	926,715	927,298
Provided during the year	1,589	254,622	256,211
Disposals	—	(157,719)	(157,719)
At 31 December 2003	2,172	1,023,618	1,025,790
Net book value:			
At 31 December 2003	387,093	2,961,182	3,348,275
At 31 December 2002	547,454	1,113,675	1,661,129

11. INVESTMENTS

	<i>Shares in other group undertakings</i>
	£
Cost or valuation:	
At 1 January 2003	—
Additions	725
At 31 December 2003	725
Provisions:	
At 31 December 2003 and 31 December 2002	—
Net book value:	
At 31 December 2003	725
At 31 December 2002	—

Adda Hotels (Unlimited)

NOTES TO THE ACCOUNTS

at 31 December 2003

None of the company's investments represent 20% or more of the nominal value of any class of share capital.

12. STOCKS

	2003	2002
	£	£
Food and beverage	260,202	302,482

The directors estimate that the replacement cost of stocks is not materially different from their book amounts.

13. DEBTORS

	2003	2002
	£	£
Trade debtors	2,297,092	3,246,108
Other debtors	11,307	362,142
Prepayments and accrued income	6,303,440	6,333,451
Amounts due from fellow subsidiary undertakings	35,091,187	12,572,284
	43,703,026	22,513,985

14. CREDITORS: amounts falling due within one year:

	2003	2002
	£	£
Trade creditors	1,478,068	1,057,780
Taxes and social security	2,487,129	2,707,709
Accruals and other creditors	3,174,292	3,683,762
Amounts due to fellow subsidiary undertakings (note 15)	45,044,253	16,422,151
	52,183,742	23,871,402

15. AMOUNTS DUE TO GROUP UNDERTAKINGS

Amounts due to group undertakings are included in amounts due within one year where there are no specified repayment terms. While amounts due to group undertakings are technically repayable on demand, and hence are included in amounts due within one year, the directors are of the opinion that in the ordinary course of business, repayment within such a timescale would not be required.

Adda Hotels (Unlimited)

NOTES TO THE ACCOUNTS

at 31 December 2003

16. SHARE CAPITAL

	2003 £	2002 £
Authorised, allotted, called up and fully paid:		
500 ordinary shares of £1 each (equity)	500	500
5,000 deferred shares of £1 each (non equity)	5,000	5,000
	<u>5,500</u>	<u>5,500</u>

The non equity deferred shares carry no rights to participate in the company's profits. On liquidation or otherwise, the surplus assets shall be applied first in repaying to the holders of ordinary shares £1,000 per share, and secondly repaying to the holders of the deferred shares the amount paid up on such shares; the balance of the surplus assets shall be distributed to the holders of the ordinary shares in proportion to the amounts paid up thereon. As regards voting on a show of hands, the holders of each class of share shall rank pari passu, and on a poll each ordinary share shall carry 1,000 votes and each deferred share one vote.

17. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share capital £	Profit and loss account £	Total £
At 31 December 2001	5,500	41,114,747	41,120,247
Profit for the year	–	629,987	629,987
Dividend	–	(41,000,000)	(41,000,000)
At 31 December 2002	<u>5,500</u>	<u>744,734</u>	<u>750,234</u>
Loss for the year	–	(5,485,545)	(5,485,545)
At 31 December 2003	<u>5,500</u>	<u>(4,740,811)</u>	<u>(4,735,311)</u>
			£
Shareholders' funds attributable to:			
Equity			(4,735,311)
Non-equity			–
			<u>(4,735,311)</u>

Adda Hotels (Unlimited)

NOTES TO THE ACCOUNTS at 31 December 2003

18. FINANCIAL COMMITMENTS

The annual commitment under non-cancellable operating leases at 31 December 2003 was as follows:

	<i>Land and buildings</i>	
	<i>2003</i>	<i>2002</i>
	<i>£</i>	<i>£</i>
Leases expiring:		
After more than five years	23,555,000	23,661,000
	<hr/>	<hr/>
	<i>Plant and equipment</i>	
	<i>2003</i>	<i>2002</i>
	<i>£</i>	<i>£</i>
Leases expiring:		
After more than five years	551,509	225,628
	<hr/>	<hr/>

The leasing commitments relate to the future annual rentals payable by the Group under non-cancellable operating leases. These primarily relate to rents payable on land and buildings. These include contingent rents, that are determined by the turnover or profit performance of the individual hotels, and are based on budgeted results.

19. CONTINGENT LIABILITIES

The company has jointly and severally guaranteed the value added tax liability of certain other Hilton Group undertakings within the group registration, amounting to £11,550,188 at 31 December 2003 (2002 – £10,924,940).

20. CASH FLOW STATEMENT

The company has taken advantage of the provision within FRS 1 which exempts subsidiary undertakings, 90% or more of whose voting rights are controlled within the group, from disclosing transactions with other entities within the group. The ultimate parent undertaking, Hilton Group plc, has included the required related party disclosures within its group accounts.

21. RELATED PARTIES

The company has taken advantage of provisions in FRS 8 which exempt subsidiary undertakings, 90% or more of whose voting rights are controlled within the group, from disclosing transactions with other entities within the group. The ultimate parent undertaking, Hilton Group plc, has included the required related party disclosures within its group accounts.

22. PARENT UNDERTAKING AND CONTROLLING PARTY

The company's immediate parent undertaking is Comfort Hotels International Limited (formerly Comfort Hotels International plc), a company registered in England and Wales. The ultimate parent undertaking and the only undertaking for which group accounts are prepared is Hilton Group plc, a company registered in England and Wales, accounts for which can be obtained from the following address:

Maple Court, Central Park, Reeds Crescent, Watford, Hertfordshire, WD24 4QQ.

Adda Hotels (Unlimited)

NOTES TO THE ACCOUNTS
at 31 December 2003