Paramount Hotels Limited

Directors' report and financial statements

Registered number - 2940925

31 December 2000

Contents

Directors and advisors

Executive directors

Michael Purtill FCA	Managing Director
Ian Goulding BSc ACA	Finance Director

Secretary and registered office

Ian Goulding
Fountain Court
12 Bruntcliffe Way
Morley
Leeds
LS27 0JG

Registered auditors

KPMG
1 The Embankment
Neville Street
Leeds
LS1 4DW

Solicitors

DLA
Princes Exchange
Princes Square
Leeds
LS1 4BY

Bankers

National Westminster Bank PLC
Leeds City Office
PO Box 154
8 Park Row
Leeds
LS1 1QS

NIB Capital Bank
7 Bishopsgate
London
EC2N 3BX

Directors' report

The directors present their report and the audited financial statements for the period ended 31 December 2000.

Principal activities and review of business

The profit and loss account for the period is set out on page 6.

The principal activity of the company is operating and managing hotels. The directors consider the financial position at 31 December 2000 was satisfactory and they expect this to be maintained for the foreseeable future.

Trading period

The period referred to in this report and the financial statements comprises 52 weeks *(1999: 52 weeks)*.

FRS 15 – tangible fixed assets

This accounting standard has been adopted for the first time by the company in this financial period. The standard recognises that all buildings, including hotels, have a finite life. Due regard has been taken of the age and structure of each hotel building, including any residual value, as well as its land and attendant value. Additionally, advice has been sought from and analysis undertaken by suitably qualified valuers and quantity surveyors. The British Association of Hospitality Accountants has established guidelines for use by hospitality companies to ensure a policy of consistent interpretation of FRS 15 and the company has supported this approach. As a result, £1,178,000 of depreciation has been charged for the period in respect of leasehold land and freehold and leasehold property.

Acquisitions

On 11 July 2000 the company acquired the business and assets of The Oxford Hotel (formerly the Oxford Moat House Hotel) from Moat House (Caterers) Limited. The acquisition has been accounted for as an acquisition. Details of the fair value of net assets acquired and consideration paid are set out in note 20 to the financial statements.

Dividends

The directors do not propose the payment of a dividend.

Directors and directors interests

The directors of the company who served during the period were:

Michael Purtill
Ian Goulding

No director had any interest in the shares of the company at 31 December 2000 or 2 January 2000.

Directors' interests in shares of other group companies are shown in the annual report of Paramount Hotels Group Limited.

Charitable and political donations

Donations made by the company during the period for charitable purposes amounted to £8,635 *(1999: £3,574)*. No contributions were made for political purposes.

Directors' report *(continued)*

Employees

The company policy is to consult and discuss with employees, at meetings, matters likely to affect employees' interests.

Information on matters of concern to employees is given through staff magazines, staff consultative meetings, information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the company's performance.

The company's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses are given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Creditor payment policy

It is the company's policy to agree terms of payment with its suppliers when agreeing the terms of a business transaction or transactions. All suppliers are aware of this procedure and the company endeavours to abide by the agreed payment terms.

Auditors

During the year KPMG were appointed auditors.

In accordance with Section 384 of the Companies Act 1985 a resolution to re-appoint KPMG as auditors to the company will be proposed at the forthcoming Annual General Meeting.

By order of the board

I Goulding
Company Secretary

8 March 2001

Statement of 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 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;
- state whether applicable accounting standards have been followed, subject to any material departures 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 maintaining 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG

1 The Embankment
Neville Street
Leeds
LS1 4DW
United Kingdom

Report of the auditors to the members of Paramount Hotels Limited

We have audited the financial statements on pages 6 to 18.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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. 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.

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 company's affairs as at 31 December 2000 and of its profit for the 52 week period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG

KPMG
Chartered Accountants
Registered Auditors

8 March 2001

Profit and loss account

for the period ended 31 December 2000

	Note	**52 weeks ended 31 December 2000**		52 weeks ended 2 January 2000	
		£000	**£000**	£000	£000
Turnover					
Continuing operations	*2*	**35,277**		34,208	
Acquisition		**2,014**		-	
			37,291		34,208
Cost of sales			**(5,560)**		(5,251)
Gross profit			**31,731**		28,957
Administrative expenses			**(22,495)**		(19,207)
Operating profit					
Continuing operations		**8,293**		9,750	
Acquisition		**943**		-	
			9,236		9,750
Interest receivable and similar income			**81**		241
Interest payable and similar charges	*5*		**(4,123)**		(5,519)
Profit on ordinary activities before taxation	*6*		**5,194**		4,472
Tax on profit on ordinary activities	*7*		**(1,034)**		(166)
Retained profit for the financial period			**4,160**		4,306

All of the company's operations during the period shown above represent continuing operations.

Balance sheet
as at 31 December 2000

	Note	**31 December 2000 £**	2 January 2000 £
Fixed assets			
Intangible assets	*8*	**1,798**	1,752
Tangible assets	*9*	**109,210**	96,001
Investments	*10*	**-**	-
		111,008	97,753
Current assets			
Stocks	*11*	**456**	426
Debtors	*12*	**21,823**	3,923
Cash at bank and in hand		**1,620**	4,134
		23,899	8,483
Creditors: amounts falling due within one year	*13*	**(49,803)**	(10,383)
Net current liabilities		**(25,904)**	(1,900)
Total assets less current liabilities		**85,104**	95,853
Creditors: amounts falling due after more than one year	*14*	**(30,973)**	(45,882)
Net assets		**54,131**	49,971
Capital and reserves			
Called up share capital	*17*	**99**	99
Share premium account	*18*	**9,315**	9,315
Revaluation reserve	*18*	**28,763**	29,298
Profit and loss account	*18*	**15,954**	11,259
Total equity shareholders' funds	*19*	**54,131**	49,971

The financial statements on pages 6 to 18 were approved by the board of directors on 8 March 2001 and were signed on its behalf by:

Ian Goulding
Finance Director

Statement of total recognised gains and losses

for period ended 31 December 2000

	52 weeks ended 31 December 2000 £000	52 weeks ended 2 January 2000 £000
Retained profit for the financial period	**4,160**	4,306
Unrealised surplus on revaluation of properties	**-**	12,385
Total recognised gains and losses relating to the period	**4,160**	16,691

Note of historical cost profits and losses

for period ended 31 December 2000

	52 weeks ended 31 December 2000 £'000	52 weeks ended 2 January 2000 £'000
Reported profit on ordinary activities before taxation	**5,194**	4,472
Difference between historical cost depreciation and the actual depreciation charge for the period calculated on the revalued amount	**535**	-
Historical cost profit on ordinary activities before taxation	**5,729**	4,472
Historical cost profit for the period retained after taxation and dividends	**4,695**	4,306

Notes

(forming part of the financial statements)

1 Accounting policies

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

Basis of accounting

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules as modified to include the revaluation of certain tangible fixed assets.

The company has not prepared consolidated financial statements for the period as permitted by Section 228 of the Companies Act 1985.

As a wholly owned subsidiary, the company has availed itself of the exemption under Financial Reporting Standard Number 8, not to disclose intra-group transactions.

Under Financial Reporting Standard Number 1, the company is exempt from the requirement to prepare a cash flow statement on the grounds of it being a wholly owned subsidiary of Paramount Hotels Group Limited.

Tangible fixed assets

FRS15 has been adopted for the first time by the company in this financial period. The standard recognises that all buildings, including hotels, have a finite life. Due regard has been taken of the age and structure of each hotel building, including any residual value, as well as its land and attendant value. Additionally, advice has been sought from and analysis undertaken by suitably qualified valuers and quantity surveyors. The British Association of Hospitality Accountants has established guidelines for use by hospitality companies to ensure a policy of consistent interpretation of FRS 15 and the company has supported this approach. As a result, £1,178,000 of depreciation has been charged for the period in respect of leasehold land and freehold and leasehold property.

No depreciation is provided on freehold land. Depreciation is provided on all tangible fixed assets, other than freehold land, on a straight line basis, over their estimated useful economic lives as follows:

Leasehold land	-	up to 50 years
Freehold and leasehold property	-	up to 50 years
Plant and machinery	-	15 to 20 years
Furniture, fittings, equipment and motor vehicles	-	5 to 15 years

Finance and operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term. Leasing agreements which transfer to the company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals payable are treated as consisting of capital and finance elements. The capital element is applied to reduce the outstanding obligations and the finance element is charged to the profit and loss account as interest. Assets held under finance leases are depreciated over the useful lives of equivalent owned assets.

Stocks

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

Notes *(continued)*

1 Accounting policies *(continued)*

Turnover

Turnover, which excludes value added tax, transactions between group companies and trade discounts, represent the invoiced value of goods and services supplied.

Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

Pension costs

The company operates a defined contribution pension scheme. The amount charged against profits represents the contribution payable to the scheme in respect of the accounting period.

Goodwill

Where businesses or subsidiaries are acquired, any difference between the cost of acquisition and the value attributable to the acquired assets and liabilities is reflected as goodwill on the balance sheet. Goodwill is written off over its estimated useful life not exceeding 20 years.

2 Segmental analysis

The company's turnover, profit before taxation and net assets are derived from its principal activity within the UK and as such no segmental information has been disclosed.

3 Directors' emoluments

The directors received no emoluments in the financial period *(1999: £nil)*.

4 Employee information

The average weekly number of persons employed by the company during the period was:

	52 weeks ended 31 December 2000		52 weeks ended 2 January 2000	
	Full-time	**Part-time**	Full-time	Part-time
By activity				
Staff in hotel outlets	**700**	**530**	664	465
Administration staff	**34**	**-**	20	-
	734	530	684	465

Notes *(continued)*

4 Employee information *(continued)*

	52 weeks ended 31 December 2000 £'000	52 weeks ended 2 January 2000 £'000
Staff costs (for the above persons)		
Wages and salaries	**11,525**	10,064
Social security costs	**798**	757
Employers' pension costs	**142**	99
	12,465	10,920

5 Interest payable and similar charges

	52 weeks ended 31 December 2000 £'000	52 weeks ended 2 January 2000 £'000
Finance cost of deep discounted bonds	**4,091**	112
Interest payable on bank loans, overdrafts and other loans	**10**	5,388
Interest payable on finance leases	**22**	19
	4,123	5,519

6 Profit on ordinary activities before taxation

	52 weeks ended 31 December 2000 £'000	52 weeks ended 2 January 2000 £'000
Profit on ordinary activities before taxation is stated:		
after crediting:		
Rents receivable	**565**	34
after charging:		
Depreciation charge for the period:		
Tangible owned fixed assets	**2,517**	1,311
Tangible fixed assets held under finance leases	**134**	81
Loss on disposal of tangible fixed assets	**41**	70
Auditors' remuneration for:		
Audit	**13**	25
Other services	**76**	26
Rentals payable under operating leases:		
Property	**78**	79
Plant and machinery	**287**	229

Notes *(continued)*

7 Tax on profit on ordinary activities

	52 weeks ended 31 December 2000 £'000	52 weeks ended 2 January 2000 £'000
Corporation tax in respect of current period	1,021	139
Corporation tax in respect of prior periods	13	27
	1,034	166

8 Intangible fixed assets

	Goodwill £'000
Cost	
At beginning of period	1,903
Additions	144
At end of period	2,047
Amortisation	
At beginning of period	(151)
Charge for period	(98)
At end of period	(249)
Net book value	
At 31 December 2000	1,798
At 2 January 2000	1,752

Goodwill is being amortised over its estimated useful economic life of 20 years. This period is the estimated average useful life of the assets acquired that gave rise to the goodwill.

The positive goodwill arising in the period is in respect of the acquisition of The Oxford Hotel (see note 20) and is being amortised on a straight line basis over its presumed useful economic life of 20 years.

Notes *(continued)*

9 Tangible fixed assets

	Freehold land and buildings £'000	Long leasehold land and buildings £'000	Plant and equipment £'000	Assets in course of construction £'000	Total £'000
Cost or valuation					
At beginning of period	81,955	-	17,894	-	99,849
Transfers	4,178	-	(4,178)	-	-
Additions	1,611	-	2,368	446	4,425
Disposals	(8)	-	(816)	-	(824)
Acquisitions	-	11,500	-	-	11,500
At end of period	87,736	11,500	15,268	446	114,950
Depreciation					
At beginning of period	-	-	(3,848)	-	(3,848)
Transfers	(738)	-	738	-	-
Charge for period	(1,055)	(123)	(1,473)	-	(2,651)
Disposals	8	-	751	-	759
At end of period	(1,785)	(123)	(3,832)	-	(5,740)
Net book value					
At 31 December 2000	**85,951**	**11,377**	**11,436**	**446**	**109,210**
At 2 January 2000	81,955	-	14,046	-	96,001

The net book value of tangible fixed assets includes an amount of £702,000 *(1999: £606,000)* in respect of assets held under finance leases.

The company adopts a policy of revaluation to land and buildings. The last full valuation was undertaken at 22 December 1999 by Christie & Co.

The historical cost and net book value of the company's freehold and long leasehold land and buildings included at valuation, is as follows:

	Freehold land and buildings		**Long leasehold land and buildings**	
	31 December 2000 £'000	2 January 2000 £'000	**31 December 2000 £'000**	2 January 2000 £'000
Historical cost	**58,438**	52,657	**11,500**	-
Historical net book value	**57,189**	52,657	**11,377**	-

The company has adopted FRS 15 'Tangible Fixed Assets'. In previous years the company has not depreciated freehold and long leasehold properties on the basis that their lives are so long and residual values so high that their depreciation is insignificant. The company recognises the principle of consumption and has charged depreciation in the period amounting to approximately £1,178,000 as a consequence.

Notes *(continued)*

10 Investments

The company has an investment of £2 *(1999: £2)* representing the whole of the issued ordinary share capital of £2 of Paramount Hotels Services Limited, incorporated in England which provides employment services. The investment is stated at cost.

11 Stocks

	31 December 2000 £'000	2 January 2000 £'000
Raw materials and consumables	**269**	246
Goods for resale	**187**	180
	456	426

12 Debtors

	31 December 2000 £'000	2 January 2000 £'000
Amounts falling due within one year		
Trade debtors	**2,993**	2,247
Amounts owed by group undertakings	**17,766**	825
Other debtors	**38**	214
Prepayments and accrued income	**1,026**	637
	21,823	3,923

13 Creditors: amounts falling due within one year

	31 December 2000 £'000	2 January 2000 £'000
Trade creditors	**5,304**	1,912
Amounts due to group undertakings	**41,700**	5,703
Obligations under finance leases	**238**	201
Corporation tax	**36**	23
Other taxation and social security	**729**	568
Other creditors	**391**	629
Accruals and deferred income	**1,405**	1,347
	49,803	10,383

Notes *(continued)*

14 Creditors: amounts falling due after more than one year

	31 December 2000 £'000	2 January 2000 £'000
Deep discount bonds due to group undertakings	**30,754**	45,612
Obligations under finance leases	**219**	270
	30,973	45,882

The deep discounted bonds are repayable on or before 31 December 2004. The finance cost rate on the deep discounted bonds is equivalent to a 9% annual interest rate and is capitalised annually on 31 December and added to the principal amount of the deep discounted bonds.

15 Finance lease obligations

The net finance lease obligations to which the company is committed are:

	31 December 2000 £'000	2 January 2000 £'000
In one year or less	**238**	201
Between one and two years	**133**	165
Between two and five years	**86**	105
	457	471

16 Deferred taxation

No deferred taxation has been provided in the financial statements. The full potential liability, which has not been provided, is as follows:

	31 December 2000 £'000	2 January 2000 £'000
Timing differences of:		
Excess of tax allowances over depreciation	**4,553**	2,699
Short term timing differences	**(781)**	(34)
	3,772	2,665

The capital gains tax liability that would arise on a disposal of the trading properties at their balance sheet amounts has not been quantified or provided as it is anticipated that rollover relief would postpone any such liability indefinitely.

Notes *(continued)*

17 Share capital

	31 December 2000 £	2 January 2000 £
Authorised, allotted, called up and fully paid		
9,900,000 ordinary shares of 1p each	**99,000**	99,000

18 Share premium and reserves

	Share premium account £'000	Revaluation reserve £'000	Profit and loss account £'000	**Total £'000**
At beginning of period	9,315	29,298	11,259	49,872
Retained profit for the period	-	-	4,160	4,160
Transfer in respect of depreciation provided on revaluation surpluses	-	(535)	535	-
At end of period	**9,315**	**28,763**	**15,954**	**54,032**

19 Reconciliation of movements in shareholders' funds

	31 December 2000 £'000	2 January 2000 £'000
Opening shareholders' funds	**49,971**	33,280
Profit for the financial period	**4,160**	4,306
Revaluation of freehold properties	-	12,385
Closing shareholders' funds	**54,131**	49,971

20 Acquisitions

On 11 July 2000 the company acquired The Oxford Hotel (formerly the Oxford Moat House Hotel) from Moat House (Caterers) Limited for a total consideration of £11,285,000.

In the financial year to 31 December 1999 the hotel made an operating profit of £1,829,000. Since that date to 31 May 2000 (the date of the last management accounts prepared prior to acquisition) the hotel had a turnover of £1,755,000 and an operating profit of £625,000. All operating profits are presented before corporate and other charges, interest and taxation, as all these costs were dealt with on a group basis by Moat House (Caterers) Limited, and no meaningful allocation of such items can be made.

Notes *(continued)*

20 Acquisitions *(continued)*

Since acquisition to 31 December 2000, the hotel has contributed £943,000 to the company's net operating cash flows and utilised £427,000 for capital expenditure. No further analysis of cash flows is available as the hotel has been integrated with the company.

	Consideration	Fair value adjustment	Fair value
	£'000	£'000	£'000
Tangible fixed assets	11,250	250	11,500
Stock	24	-	24
Debtors	38	-	38
Creditors	(27)	-	(27)
	11,285	**250**	**11,535**
Goodwill			144
			11,679
Satisfied by:			
Cash			11,285
Acquisition expenses			394
			11,679

The net outflow of cash and cash equivalents in respect of the purchase of the hotel was £11,679,000.

The fair value of tangible fixed assets was based on an independent professional valuation carried out in accordance with RICS guidelines on an open market value basis inclusive of fixtures and equipment.

21 Capital commitments

	31 December 2000	2 January 2000
	£'000	£'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	**1,815**	696

22 Financial commitments

The company had annual commitments under non-cancellable operating leases as follows:

	31 December 2000		2 January 2000	
	Property	Plant and machinery	Property	Plant and machinery
	£'000	£'000	£'000	£'000
Expiring:				
Within one year	**37**	**114**	56	90
between two and five years	**57**	**132**	30	131
over five years	**-**	**29**	-	30
	94	**275**	86	251

Notes *(continued)*

23 Pension arrangements

The company maintains a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charged in the period represents contributions payable by the company to the fund and amounted to £142,000 *(1999: £99,000)*.

24 Parent undertaking and ultimate controlling party

The immediate parent company is Paramount Hotels Holdings Limited and the ultimate parent company and controlling party is Paramount Hotels Group Limited. Copies of Paramount Hotels Group Limited's consolidated financial statements can be obtained from the Registrar of Companies, Companies House, Crown Way, Cardiff, CF4 3UZ.

25 Contingent liabilities

The company is a participant in a fellow subsidiary's (Paramount Hotels Holdings Limited) term loan borrowings whereby these borrowings are secured by a fixed and floating charge over the company's assets.