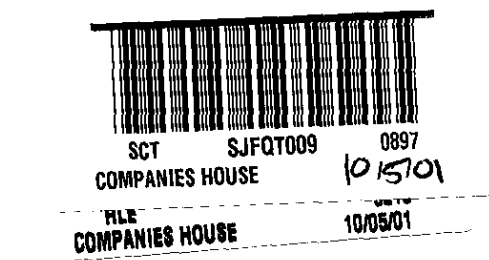


Scottish Highland Hotels Limited

**Directors' report and financial
statements**

Registered number 55493

31 December 2000



Contents

Directors and advisors	1
Directors' report	2
<i>Statement of directors' responsibilities</i>	4
Report of the auditors to the members of Scottish Highland Hotels Limited	5
Profit and loss account	6
Balance sheet	7
Statement of total recognised gains and losses	8
Note of historical cost profits and losses	8
Notes	9

Directors and advisors

Executive directors

Michael Purtill FCA	Managing Director
Ian Goulding BSc ACA	Finance Director

Secretary and registered office

Ian Goulding
The Carlton Hotel
North Bridge
Edinburgh
EH1 1SD

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: 61 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, £255,000 of depreciation has been charged for the period in respect of freehold property.

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 in 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 £325 (1999: £nil). No contributions were made for political purposes.

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 is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, where possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Directors' report *(continued)*

Creditor payment policy

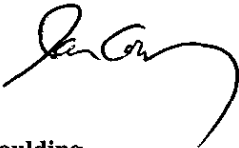
It is the company's policy to agree terms of payment with its suppliers when agreeing the terms of a business transaction or transactions. All suppliers are aware of this procedure and the company endeavours to abide by the agreed payment terms.

Auditors

During the year KPMG were appointed as auditors.

In accordance with Section 384 of the Companies Act 1985, a resolution to re-appoint KPMG 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.



1 The Embankment
Neville Street
Leeds
LS1 4DW
United Kingdom

Report of the auditors to the members of Scottish Highland Hotels Limited

We have audited the financial statements on pages 6 to 16.

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
Chartered Accountants
Registered Auditors

8 March 2001

Profit and loss account
for the period ended 31 December 2000

	<i>Note</i>	52 weeks ended 31 December 2000 £'000	61 weeks ended 2 January 2000 £'000
Turnover	2	10,476	13,337
Cost of sales		(1,563)	(1,970)
Gross profit		8,913	11,367
Administrative expenses		(7,561)	(10,181)
Operating profit		1,352	1,186
Exceptional item: loss on disposal of hotel		-	(1,031)
Operating profit after exceptional item		1,352	155
Interest receivable and similar income		483	297
Interest payable and similar charges	5	(1,472)	(1,346)
Profit/(loss) on ordinary activities before taxation	6	363	(894)
Tax on profit/(loss) on ordinary activities	7	50	599
Profit/(loss) on ordinary activities after taxation		413	(295)
Dividends	8	-	(409)
Retained profit/(loss) for the financial period		413	(704)

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

Balance sheet
as at 31 December 2000

		31 December 2000 £'000	2 January 2000 £'000
	<i>Note</i>		
Fixed assets			
Tangible assets	9	27,464	29,128
Investments	10	427	427
		<hr/> 27,891	<hr/> 29,555
Current assets			
Stocks	11	124	173
Debtors	12	7,356	11,966
Cash at bank and in hand		379	546
		<hr/> 7,859	<hr/> 12,685
Creditors: amounts falling due within one year	13	(8,989)	(15,892)
		<hr/>	<hr/>
Net current liabilities		(1,130)	(3,207)
Total assets less current liabilities		26,761	26,348
		<hr/>	<hr/>
Net assets		26,761	26,348
		<hr/>	<hr/>
Capital and reserves			
Called up share capital	15	1,461	1,461
Share premium account	16	6,365	6,365
Capital redemption reserve		1,015	1,015
Revaluation reserve	16	7,452	7,526
Special reserve		7,370	7,370
Profit and loss account	16	3,098	2,611
		<hr/>	<hr/>
Total equity shareholders' funds		26,761	26,348
		<hr/>	<hr/>

The financial statements on pages 6 to 16 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 the period ended 31 December 2000

	52 weeks ended 31 December 2000 £'000	61 weeks ended 2 January 2000 £'000
Retained profit/(loss) for the financial period	413	(704)
Unrealised surplus on revaluation of properties	-	3,229
Total recognised gains and losses relating to the period	413	2,525

Note of historical cost profits and losses
for the period ended 31 December 2000

	52 weeks ended 31 December 2000 £000	62 weeks ended 2 January 2000 £000
Reported profit/(loss) on ordinary activities before taxation	363	(894)
Difference between historical cost depreciation and the actual depreciation charge for the period calculated on the revalued amounts	74	-
Historical cost profit/(loss) on ordinary activities before taxation	437	(894)
Historical cost profit/(loss) for the period retained after taxation and dividends	487	(704)

Notes

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.

Basis of preparation

The company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the company as an individual undertaking and not about its group.

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 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, £255,000 of depreciation has been charged for the period in respect of freehold 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:

Freehold 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 group 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, represents 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 contributions payable to the scheme in respect of the accounting period.

2 Segmental analysis

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

3 Directors' emoluments

	52 weeks ended 31 December 2000 £'000	61 weeks ended 2 January 2000 £'000
Aggregate emoluments	-	261
Company pension contributions	-	34
Compensation paid in cash to third party for services of director	-	26
	<hr/>	<hr/>
	-	321
	<hr/>	<hr/>
Termination payments to directors for loss of office	-	435
	<hr/>	<hr/>

4 Employee information

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

	52 weeks ended 31 December 2000		61 weeks ended 2 January 2000	
By activity	Full time	Part time	Full time number	Part time number
Staff in hotel outlets	292	140	343	190
Administration staff	-	-	6	-
	<hr/>	<hr/>	<hr/>	<hr/>
	292	140	349	190
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

4 Employee information (continued)

	52 weeks ended 31 December 2000 £'000	61 weeks ended 2 January 2000 £'000
Staff costs (for the above persons)		
Wages and salaries	3,341	4,448
Social security costs	208	302
Other pension costs	26	81
	<u>3,575</u>	<u>4,831</u>

5 Interest payable and similar charges

	52 weeks ended 31 December 2000 £'000	61 weeks ended 2 January 2000 £'000
Bank loans and overdrafts	23	1,093
Interest due to group undertakings	1,449	40
Write off of prepayment fee on cancellation of debt facilities	-	150
Cancellation fee on termination of swap instrument	-	63
	<u>1,472</u>	<u>1,346</u>

6 Profit/(loss) on ordinary activities before taxation

	52 weeks ended 31 December 2000 £'000	61 weeks ended 2 January 2000 £'000
Profit/(loss) on ordinary activities before taxation is stated		
<i>after crediting:</i>		
Rents receivable	19	-
Government grants	-	30
	<u>19</u>	<u>30</u>
<i>after crediting:</i>		
Auditors' remuneration and expenses:		
Audit fees	10	22
Other services	2	9
Depreciation on owned tangible fixed assets	533	481
Loss on disposal of tangible fixed assets	131	-
Rentals payable under operating leases:		
plant and machinery	69	91
Property	65	65
Non recurring costs:		
Write down of value of hotel to estimated realisable value	688	-
	<u>688</u>	<u>-</u>

Notes (continued)

7 Tax on profit/(loss) on ordinary activities

	52 weeks ended 31 December 2000 £'000	61 weeks ended 2 January 2000 £'000
Corporation tax in respect of:		
current period	(150)	(236)
prior period	100	(388)
ACT written off	-	184
Deferred tax in respect of prior periods	-	(159)
	<u>(50)</u>	<u>(599)</u>

8 Dividends - paid and proposed

	52 weeks ended 31 December 2000 £'000	61 weeks ended 2 January 2000 £'000
Interim dividend paid on equity shares	-	409

9 Tangible fixed assets

	Freehold land and buildings £'000	Plant and equipment £'000	Assets in course of construction £'000	Total £'000
Cost or valuation				
At beginning of period	27,849	3,623	-	31,472
Additions	584	651	128	1,363
Disposals	(2,359)	(984)	-	(3,343)
Reclassification	(150)	-	-	(150)
Write down to net realisable value	(688)	-	-	(688)
At end of period	<u>25,236</u>	<u>3,290</u>	<u>128</u>	<u>28,654</u>
Depreciation				
At beginning of period	(1,031)	(1,313)	-	(2,344)
Charge for period	(255)	(278)	-	(533)
Disposals	-	1,537	-	1,537
Reclassification	1,031	(881)	-	150
At end of period	<u>(255)</u>	<u>(935)</u>	<u>-</u>	<u>(1,190)</u>
Net book value				
At 31 December 2000	<u>24,981</u>	<u>2,355</u>	<u>128</u>	<u>27,464</u>
At 2 January 2000	<u>26,818</u>	<u>2,310</u>	<u>-</u>	<u>29,128</u>

Notes (continued)

9 Tangible fixed assets *(continued)*

The company adopts a policy of revaluation to land and buildings. The last full valuation was undertaken at 22 December 1999 by Christie & Co. Valuations subsequent to that date are only in respect of any assets available for disposal.

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

	31 December 2000 £'000	2 January 2000 £'000
Historical cost	17,137	19,562
Historical net book value	16,955	19,562

The company has adopted FRS 15 'Tangible Fixed Assets'. In previous years the company has not depreciated its freehold property on the basis that its life is so long and residual value so high that its depreciation is insignificant. The company recognises the principle of consumption and has charged depreciation in the period amounting to approximately £255,000 as a consequence.

10 Investments

	31 December 2000 £'000	2 January 2000 £'000
Shares in group undertakings at cost	427	427

The company's interest in the equity of subsidiaries (excluding dormant subsidiaries) is as shown below.

- (i) An investment of £125,000 (1999: £125,000) representing the whole of the issued ordinary and preference share capital of Carlton Hotel (Edinburgh) Limited, incorporated in Scotland, which operates and manages a hotel.
- (ii) An investment of £302,000 (1999: £302,000) representing the whole of the issued ordinary share capital of Stirling Highland Hotel Limited, incorporated in Scotland, which operates and manages a hotel.

11 Stocks

	31 December 2000 £'000	2 January 2000 £'000
Raw materials and consumables	75	76
Goods for resale	49	97
	124	173

Notes (continued)

12 Debtors

	31 December 2000 £'000	2 January 2000 £'000
Trade debtors	763	477
Amounts due from group undertakings	6,417	11,305
Corporation tax	-	40
Other debtors	53	-
Prepayments and accrued income	123	144
	<hr/> 7,356 <hr/>	<hr/> 11,966 <hr/>

13 Creditors: amounts falling due within one year

	31 December 2000 £'000	2 January 2000 £'000
Trade creditors	775	487
Other taxes and social security costs	373	526
Other creditors	162	67
Accruals and deferred income	367	965
Amounts due to group undertakings	7,312	13,847
	<hr/> 8,989 <hr/>	<hr/> 15,892 <hr/>

14 Provision for liabilities and charges

No deferred taxation has been provided in the financial statements and 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	2,698	2,274
Losses	(20)	(74)
Short term timing differences	(17)	(42)
	<hr/> 2,661 <hr/>	<hr/> 2,158 <hr/>

The capital gains tax liability which would arise on 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)

15 Share capital

	31 December 2000 £'000	2 January 2000 £'000
Authorised		
40,000,000 (1999: 40,000,000) ordinary shares of 5 p each	2,000	2,000
1,000,000 (1999: 1,000,000) redeemable preference shares of £1 each	1,000	1,000
	<u>3,000</u>	<u>3,000</u>
Allotted, called up and fully paid		
29,228,736 (1999: 29,228,736) ordinary shares of 5p each	<u>1,461</u>	<u>1,461</u>

16 Reserves

	Share premium account £'000	Revaluation reserve £'000	Profit and loss account £'000	Total £'000
At beginning of period	6,365	7,526	2,611	16,502
Retained profit for the financial period	-	-	413	413
Transfer in respect of depreciation provided on revaluation surpluses	-	(74)	74	-
At end of period	<u>6,365</u>	<u>7,452</u>	<u>3,098</u>	<u>16,915</u>

17 Reconciliations of movements in shareholders' funds

	31 December 2000 £'000	2 January 2000 £'000
Opening shareholders' funds	26,348	23,823
Profit/(loss) for the financial period	413	(295)
Dividends	-	(409)
Unrealised surplus on the revaluation of properties	-	3,229
Closing shareholders' funds	<u>26,761</u>	<u>26,348</u>

18 Capital commitments

	31 December 2000 £'000	2 January 2000 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	<u>469</u>	<u>31</u>

Notes (continued)

19 Financial commitments

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

	31 December 2000		2 January 2000	
	Property £'000	Plant and machinery £'000	Property £'000	Plant and machinery £'000
Expiring:				
within one year	-	7	-	8
between two and five years	65	37	56	16
Over five years	-	18	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	65	62	56	24
	<hr/>	<hr/>	<hr/>	<hr/>

20 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 £26,000.

21 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.

22 Parent undertaking and ultimate controlling party

The immediate parent undertaking is Paramount Hotels Investments Limited. 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 Registrar of Companies, Companies House, Crown Way, Cardiff, CF4 3UZ.