

SCOTTISH HIGHLAND HOTELS LIMITED

Report and Financial Statements

2 January 2005

**Deloitte & Touche LLP
Leeds**



SCOTTISH HIGHLAND HOTELS LIMITED

2005 REPORT AND FINANCIAL STATEMENTS

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SCOTTISH HIGHLAND HOTELS LIMITED

2005 REPORT AND FINANCIAL STATEMENTS

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Colin Campbell
Massimo Marcovecchio
Paul Rogers

SECRETARY

Megan Langridge

REGISTERED OFFICE

C/o Brodies LLP
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Edinburgh
EH3 3HA

BANKERS

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National Westminster Bank PLC
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SOLICITORS

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AUDITORS

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Leeds

SCOTTISH HIGHLAND HOTELS LIMITED

DIRECTORS' REPORT

The directors present their annual report on the affairs of the company, together with the financial statements for the year ended 2 January 2005.

PRINCIPAL ACTIVITY AND REVIEW OF BUSINESS

The principal activity of the company is operating and managing hotels. The directors consider the financial position at 2 January 2005 was satisfactory and they expect this to be maintained for the foreseeable future.

DIVIDENDS AND RESULTS

The directors have proposed the payment of a dividend of £10,000,000 (2003: £nil). The retained loss for the year of £2,623,000 (2003: £411,000) was transferred from reserves.

DIRECTORS AND THEIR INTERESTS

The directors who served during the year were:

Michael Purtill	resigned 9 July 2004
Ian Goulding	resigned 9 July 2004
Colin Campbell	appointed 9 July 2004
Massimo Marchovecchio	appointed 9 July 2004
Paul Rogers	appointed 9 July 2004

No director had any interest in the shares of the company at 2 January 2005 or 28 December 2003.

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 year for charitable purposes amounted to £1,173 (2003: £380). No contributions were made for political purposes (2003: £nil).

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.

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.

SCOTTISH HIGHLAND HOTELS LIMITED

DIRECTORS' REPORT

AUDITORS

KPMG LLP resigned as auditors during the year. Deloitte & Touche LLP, Chartered Accountants, were appointed as auditors during the year and a resolution for the reappointment of Deloitte & Touche LLP is to be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



Megan Langridge
Company Secretary

14th April 2006

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom 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 as at the end of the financial period 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; 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 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF SCOTTISH HIGHLAND HOTELS LIMITED

We have audited the financial statements of Scottish Highland Hotels Limited for the year ended 2 January 2005 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, the note of historical cost profits and losses and the related notes 1 to 22. These financial statements have been prepared under 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 United Kingdom legal and regulatory requirements and 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 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 for the above period and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of 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 the company's affairs as at 2 January 2005 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Leeds

29 April 2005

SCOTTISH HIGHLAND HOTELS LIMITED

PROFIT AND LOSS ACCOUNT

Year ended 2 January 2005

		Year ended 2 January 2005 £'000	Year ended 28 December 2003 £'000
TURNOVER		9,637	8,937
Cost of sales		(1,501)	(1,350)
GROSS PROFIT		8,136	7,587
Administrative expenses		(6,160)	(5,476)
OPERATING PROFIT		1,976	2,111
Income from shares in group undertakings		5,500	-
Interest receivable and similar income	4	3,211	-
Interest payable and similar charges	5	(2,590)	(1,983)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	6	8,097	128
Tax on profit on ordinary activities	7	(720)	(539)
PROFIT/(LOSS) FOR THE FINANCIAL YEAR		7,377	(411)
Dividends payable	17	(10,000)	-
RETAINED LOSS FOR THE FINANCIAL YEAR	16	(2,623)	(411)

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

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

SCOTTISH HIGHLAND HOTELS LIMITED

BALANCE SHEET

2 January 2005

		28 2 January 2005 £'000	December 2003 £'000
	Note		
FIXED ASSETS			
Tangible assets	8	29,750	21,260
Investments	9	427	427
		<u>30,177</u>	<u>21,687</u>
CURRENT ASSETS			
Stocks	10	93	106
Debtors	11	25,804	26,657
Cash at bank and in hand		99	146
		<u>25,996</u>	<u>26,909</u>
CREDITORS: Amounts falling due within one year	12	<u>(25,413)</u>	<u>(1,773)</u>
NET CURRENT ASSETS		<u>583</u>	<u>25,136</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>30,760</u>	<u>46,823</u>
CREDITORS: Amounts falling due after more than one year	13	-	(21,010)
PROVISION FOR LIABILITIES AND CHARGES	14	<u>(2,387)</u>	<u>(2,270)</u>
NET ASSETS		<u>28,373</u>	<u>23,543</u>
CAPITAL AND RESERVES			
Called up share capital	15	1,461	1,461
Share premium account	16	6,365	6,365
Capital redemption account		1,015	1,015
Revaluation reserve	16	11,392	4,020
Special reserve	17	7,370	7,370
Profit and loss account	16	770	3,312
EQUITY SHAREHOLDERS' FUNDS	17	<u>28,373</u>	<u>23,543</u>

The financial statements were approved by the Board of Directors on 14th April 2005, and signed on its behalf by:

Colin Campbell
Director

Paul Rogers
Director

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

SCOTTISH HIGHLAND HOTELS LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES Year ended 2 January 2005

	Year ended 2 January 2005 £'000	Year ended 28 December 2003 £'000
Retained loss for year	(2,623)	(411)
Unrealised surplus on revaluation of properties	7,453	-
	<u>4,830</u>	<u>(411)</u>

NOTE OF HISTORICAL COST PROFITS AND LOSSES Year ended 2 January 2005

	Year ended 2 January 2005 £'000	Year ended 28 December 2003 £'000
Reported profit on ordinary activities before taxation	8,097	128
Difference between historical cost depreciation charge and actual depreciation charge for the year calculated on the revalued amount	81	29
Historical cost profit on ordinary activities before taxation	<u>8,178</u>	<u>157</u>
Historical cost loss for the year retained after taxation and dividends	<u>(2,542)</u>	<u>(382)</u>

SCOTTISH HIGHLAND HOTELS LIMITED

NOTES TO THE ACCOUNTS

Year ended 2 January 2005

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

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 tangible fixed assets.

Basis of preparation

The company is exempt by virtue of Section 228 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 Dawnay Share Hotels plc.

Tangible assets

Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. 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

It is the company's policy to periodically revalue its fixed assets and recognise the assets at the revalued amount.

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.

Taxation

Current tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Stocks

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

SCOTTISH HIGHLAND HOTELS LIMITED

NOTES TO THE ACCOUNTS

Year ended 2 January 2005

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.

Pension scheme arrangements

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 year.

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. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

The directors received no emoluments in the financial year (2003: £nil). Emoluments paid to the directors are disclosed in the financial statements of Paramount Hotels Group Limited.

	Year ended 2 January 2005		Year ended 28 December 2003	
	Full-time No.	Part-time No.	Full-time No.	Part-time No.
Average monthly number of persons employed				
Staff in hotel outlets	185	126	193	129

	Year ended 2 January 2005 £'000	Year ended 28 December 2003 £'000
Staff costs during the year (including directors)		
Wages and salaries	2,602	2,569
Social security costs	181	174
Other pension costs	25	23
	2,808	2,766

4. INTEREST RECEIVABLE AND SIMILAR INCOME

	Year ended 2 January 2005 £'000	Year ended 28 December 2003 £'000
Interest receivable from group undertakings	3,211	-

SCOTTISH HIGHLAND HOTELS LIMITED

NOTES TO THE ACCOUNTS

Year ended 2 January 2005

5. INTEREST PAYABLE AND SIMILAR CHARGES

	Year ended 2 January 2005 £'000	Year ended 28 December 2003 £'000
Interest payable to group undertakings	2,590	1,983

6. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated

	Year ended 2 January 2005 £'000	Year ended 28 December 2003 £'000
After crediting:		
Rent receivable	9	9
After charging:		
Auditors' remuneration and expenses:		
Audit fees	8	12
Depreciation charge for the year:		
On owned tangible fixed assets	551	417
On tangible fixed assets held under finance leases	31	31
Loss on disposal of tangible fixed assets	-	75
Rental payable under operating leases:		
Plant and machinery	88	86

7. TAX ON PROFIT ON ORDINARY ACTIVITIES

	Year ended 2 January 2005 £'000	Year ended 28 December 2003 £'000
UK corporation tax charge		
Group relief - current year	788	494
Group relief - prior year	(185)	9
	603	503
Deferred tax		
Origination and reversal of timing differences	(9)	28
Prior year adjustment	126	8
Tax on profit on ordinary activities	720	539

SCOTTISH HIGHLAND HOTELS LIMITED

NOTES TO THE ACCOUNTS

Year ended 2 January 2005

7. TAX ON PROFIT ON ORDINARY ACTIVITIES (continued)

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows.

	Year ended 2 January 2005 £'000	Year ended 28 December 2003 £'000
Current tax reconciliation		
Profit on ordinary activities before taxation	8,097	128
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (28 December 2003: 30%)	2,429	38
Effects of:		
Income not chargeable to corporation tax	(1,650)	(22)
Capital allowances for the year in excess of depreciation	9	(28)
Expenses not deductible for tax purposes	-	50
Capital allowances for the year in excess of depreciation - prior year	(185)	9
Chargeable gains	-	456
Current tax charge for year	603	503

8. 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 year	18,702	3,134	929	22,765
Transfers	689	240	(929)	-
Additions	1,042	577	-	1,619
Revaluation	6,618	-	-	6,618
At end of year	27,051	3,951	-	31,002
Depreciation				
At beginning of year	(540)	(965)	-	(1,505)
Charged in the year	(295)	(287)	-	(582)
Revaluation	835	-	-	835
At end of year	-	(1,252)	-	(1,252)
Net book value				
At 2 January 2005	27,051	2,699	-	29,750
At 28 December 2003	18,162	2,169	929	21,260

SCOTTISH HIGHLAND HOTELS LIMITED

NOTES TO THE ACCOUNTS

Year ended 2 January 2005

8. TANGIBLE FIXED ASSETS (continued)

The net book value of tangible fixed assets includes an amount of £357,000 (2003: £391,000) in respect of assets held under finance leases. Depreciation in the year on these assets was £31,000 (2003: £31,000). The corresponding liability in respect of finance leases is held on the balance sheet of Paramount Hotels Limited.

The company's freehold properties were valued externally by Colliers Robert Barry, Chartered Surveyors, on the basis of being fully equipped operational entities and having regard to their future trading potential as at 18 November 2004 and following guidelines by the Royal Institution of Chartered Surveyors.

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

	28 2 January 2005 £'000	28 December 2003 £'000
Historical cost	14,747	13,705
Historical net book value	13,971	13,144

9. INVESTMENTS

	28 2 January 2005 £'000	28 December 2003 £'000
Share 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 (2003: £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 (2003: £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.

10. STOCKS

	28 2 January 2005 £'000	28 December 2003 £'000
Raw materials and consumables	60	68
Goods for resale	33	38
	93	106

SCOTTISH HIGHLAND HOTELS LIMITED

NOTES TO THE ACCOUNTS

Year ended 2 January 2005

11. DEBTORS

	28 2 January 2005 £'000	28 December 2003 £'000
Amounts falling due within one year		
Trade debtors	346	455
Amounts due from group undertakings	25,346	22,413
Other debtors	1	2
Prepayments and accrued income	111	148
	<u>25,804</u>	<u>23,018</u>
Amounts falling due after more than one year		
Amounts due from group undertakings	-	3,639
	<u>25,804</u>	<u>26,657</u>

12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	28 2 January 2005 £'000	28 December 2003 £'000
Trade creditors	375	453
Other taxes and social security costs	344	273
Other creditors	129	58
Accruals and deferred income	416	447
Amounts due to group undertakings	24,149	542
	<u>25,413</u>	<u>1,773</u>

13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	28 2 January 2005 £'000	28 December 2003 £'000
Amounts due to group undertakings	-	21,010
	<u>-</u>	<u>21,010</u>

SCOTTISH HIGHLAND HOTELS LIMITED

NOTES TO THE ACCOUNTS

Year ended 2 January 2005

14. PROVISIONS FOR LIABILITIES AND CHARGES

	2 January 2005 £'000	28 December 2003 £'000
<i>Deferred taxation</i>		
At beginning of year	2,270	2,234
Transfer to profit and loss account	117	36
At end of year	<u>2,387</u>	<u>2,270</u>

The amounts provided for deferred taxation and the amounts not provided are set out below:

	2 January 2005		28 December 2003	
	Provided £'000	Unprovided £'000	Provided £'000	Unprovided £'000
Difference between accumulated depreciation and capital allowances	2,834	-	2,267	-
On revaluation of land and buildings	-	3,725	-	1,793
Other timing differences	3	-	3	-
Undiscounted provision	<u>2,387</u>	<u>3,725</u>	<u>2,270</u>	<u>1,793</u>

No provision has been made in respect of the unrealised property revaluation surplus as it is not the directors' current intention to dispose of the related property.

15. SHARE CAPITAL

	2 January 2005 £'000	28 December 2003 £'000
Authorised		
40,000,000 Ordinary shares of 5p each	2,000	2,000
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 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 year	6,365	4,020	3,312	13,697
Retained loss for the financial year	-	-	(2,623)	(2,623)
Transfer in respect of depreciating provided on revaluation surpluses	-	(81)	81	-
Revaluation in the year	-	7,453	-	7,453
At end of year	<u>6,365</u>	<u>11,392</u>	<u>770</u>	<u>18,527</u>

SCOTTISH HIGHLAND HOTELS LIMITED

NOTES TO THE ACCOUNTS

Year ended 2 January 2005

17. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2 January 2005 £'000	28 December 2003 £'000
Profit/(loss) for the financial year	7,377	(411)
Revaluation in the period	7,453	-
Dividend payable	(10,000)	-
Net addition/(reduction) to shareholders' funds	4,830	(411)
Opening shareholders' funds	23,543	23,954
Closing shareholders' funds	28,373	23,543

An equity dividend payment of 34.2p per share is payable for the year (2003:nil).

The special reserve of £7,370,000 is a non-distributable reserve and may only be utilised in the elimination of goodwill.

18. CAPITAL COMMITMENTS

	2 January 2005 £'000	28 December 2003 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	93	1,614

19. FINANCIAL COMMITMENTS

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

	2 January 2005 Plant and machinery £'000	28 December 2003 Plant and machinery £'000
Expiring:		
Within one year	76	64
Between two and five years	12	22
	88	86

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 costs charged in the year represents contributions payable by the company to the fund and amounted to £25,000 (2003: £23,000).

21. CONTINGENT LIABILITIES

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

SCOTTISH HIGHLAND HOTELS LIMITED

NOTES TO THE ACCOUNTS

Year ended 2 January 2005

22. ULTIMATE CONTROLLING PARTY

The entire issued share capital of this company is indirectly owned by Dawnay Shore Hotels plc, a company incorporated in Great Britain and registered in England and Wales. The Group accounts of Dawnay Shore Hotels plc, which represents the largest group in which the company is consolidated, can be obtained from Registrar of Companies, Companies House, Crown Way, Cardiff, CF4 3UZ.

The smallest group in which the company's financial statements are consolidated are the financial statements of Paramount Hotels Group Limited. The financial statements of Paramount Hotels Group Limited can also be obtained from the address above.