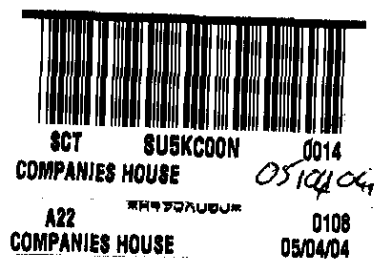


Scottish Highland Hotels Limited

**Directors' report and financial
statements**

Registered number ^{SC}55493

28 December 2003



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Directors and advisors

Executive directors

Michael Purtill FCA
Ian Goulding BSc ACA

Managing Director
Finance Director

Secretary and registered office

Ian Goulding
The Carlton Hotel
North Bridge
Edinburgh
EH1 1SD

Registered auditors

KPMG LLP
1 The Embankment
Neville Street
Leeds
LS1 4DW

Solicitors

DLA
Princes Exchange
Princes Square
Leeds
LS1 4BY

Bankers

NIB Capital Bank
7 Bishopsgate
London
EC2N 3BX

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

Directors' report

The directors present their report and the audited financial statements for the year ended 28 December 2003.

Principal activities and review of business

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

The principal activity of the company is operating and managing hotels. The directors consider the financial position at 28 December 2003 was satisfactory and they expect this to be maintained for the foreseeable future.

Dividends

The directors do not propose the payment of a dividend.

Directors and directors interests

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

Michael Purtill

Ian Goulding

No director had any interest in the shares of the company at 28 December 2003 or 29 December 2002.

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 £380 (2002: £270). 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.

Creditor payment policy

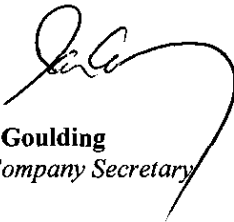
It is the company's policy to agree terms of payment with its suppliers when agreeing the terms of a business transaction or transactions. All suppliers are aware of this procedure and the company endeavours to abide by the agreed payment terms.

Directors' report *(continued)*

Auditors

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

By order of the board



I Goulding
Company Secretary

26 March 2004

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements 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 year. 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 LLP
1 The Embankment
Neville Street
Leeds
LS1 4DW
United Kingdom

Independent auditors' report to the members of Scottish Highland Hotels Limited

We have audited the financial statements on pages 6 to 17.

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 auditor's 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

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 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.

Basis of audit 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 28 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

26 March 2004

Profit and loss account
for the year ended 28 December 2003

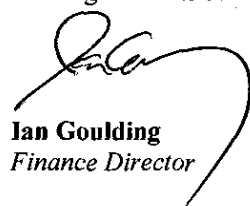
	<i>Note</i>	2003 £'000	2002 £'000
Turnover	2	8,937	8,964
Cost of sales		(1,350)	(1,263)
Gross profit		7,587	7,701
Administrative expenses		(5,476)	(5,553)
Operating profit		2,111	2,148
Interest payable and similar charges	5	(1,983)	(1,758)
Profit on ordinary activities before taxation	6	128	390
Tax on profit on ordinary activities	7	(539)	(212)
Retained (loss)/profit for the financial year	16	(411)	178

All of the company's operations during the year shown above represent continuing operations. There were no other recognised gains and losses other than the gains shown above.

Balance sheet
as at 28 December 2003

	<i>Note</i>	2003 £'000	2002 £'000
Fixed assets			
Tangible assets	8	21,260	24,840
Investments	9	427	427
		<hr/>	<hr/>
		21,687	25,267
		<hr/>	<hr/>
Current assets			
Stocks	10	106	110
Debtors	11	26,657	49,675
Cash at bank and in hand		146	147
		<hr/>	<hr/>
		26,909	49,932
Creditors: amounts falling due within one year	12	(1,773)	(30,335)
		<hr/>	<hr/>
Net current assets		25,136	19,597
		<hr/>	<hr/>
Total assets less current liabilities		46,823	44,864
		<hr/>	<hr/>
Creditors: amounts falling due after one year	13	(21,010)	(18,676)
		<hr/>	<hr/>
Provision for liabilities and charges	14	(2,270)	(2,234)
		<hr/>	<hr/>
Net assets		23,543	23,954
		<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	4,020	6,685
Special reserve		7,370	7,370
Profit and loss account	16	3,312	1,058
		<hr/>	<hr/>
Total equity shareholders' funds	17	23,543	23,954
		<hr/>	<hr/>

The financial statements on pages 6 to 17 were approved by the board of directors on 26 March 2004 and were signed on its behalf by:


Ian Goulding
Finance Director

Note of historical cost profits and losses
for the year ended 28 December 2003

	2003 £000	2002 £000
Reported profit on ordinary activities before taxation	128	390
Difference between historical cost depreciation and the actual depreciation charge for the year calculated on the revalued amounts	29	48
	<hr/>	<hr/>
Historical cost profit on ordinary activities before taxation	157	438
	<hr/>	<hr/>
Historical cost (loss)/profit for the year retained after taxation and dividends	(382)	226
	<hr/>	<hr/>

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

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 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, represents the invoiced value of goods and services supplied.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

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 year.

2 Segmental analysis

The company'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

The directors received no emoluments in the financial year (2002: £nil)

4 Employee information

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

	2003		2002	
	Full time	Part time	Full time number	Part time number
By activity				
Staff in hotel outlets	193	129	189	127

Notes *(continued)*

4 Employee information *(continued)*

	2003 £'000	2002 £'000
Staff costs (for the above persons)		
Wages and salaries	2,569	2,578
Social security costs	174	163
Other pension costs	23	25
	<u>2,766</u>	<u>2,766</u>

5 Interest payable and similar charges

	2003 £'000	2002 £'000
Interest due to group undertakings	<u>1,983</u>	<u>1,758</u>

6 Profit on ordinary activities before taxation

	2003 £'000	2002 £'000
Profit on ordinary activities before taxation is stated		
<i>after crediting:</i>		
Rents receivable	<u>9</u>	<u>9</u>
<i>after charging:</i>		
Auditors' remuneration and expenses:		
Audit fees	12	12
Depreciation charge for the year:		
on owned tangible fixed assets	417	490
on tangible fixed assets held under finance leases	31	9
Loss on disposal of tangible fixed assets	75	-
Rentals payable under operating leases:		
plant and machinery	<u>54</u>	<u>60</u>

Notes *(continued)*

7 Tax on profit on ordinary activities

	2003 £'000	2002 £'000
UK corporation tax charge in respect of:		
Group relief – current year	494	38
Group relief - prior year	9	-
	<hr/>	<hr/>
	503	38
Deferred tax		
Excess of tax allowances over depreciation	28	50
Losses	-	12
Prior year adjustment	8	112
	<hr/>	<hr/>
	539	212
	<hr/>	<hr/>

The current tax charge for the year is higher (2002: lower) than the standard rate of corporation tax in the UK (30%, 2002: 30%). The differences are explained below.

	2003 £'000	2002 £'000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	128	390
	<hr/>	<hr/>
Current tax at 30% (2002: 30%)	38	117
<i>Effects of:</i>		
Income not chargeable to corporation tax	(22)	(17)
Capital allowances for the year in excess of depreciation	(28)	(50)
Losses not utilised in year carried forward	-	(12)
Expenses not deductible for tax purposes	50	-
Adjustment to tax charge in respect of prior periods	9	-
Chargeable gain	456	-
	<hr/>	<hr/>
Total current tax charge (see above)	503	38
	<hr/>	<hr/>

Notes *(continued)*

8 Tangible fixed assets

	Freehold land and buildings £'000	Plant and equipment £'000	Assets in course of construction £'000	Total £'000
<i>Cost or valuation</i>				
At beginning of year	23,024	3,267	1,180	27,471
Transfers	937	235	(1,172)	-
Additions	230	252	921	1,403
Disposals	(5,489)	(620)	-	(6,109)
At end of year	18,702	3,134	929	22,765
<i>Depreciation</i>				
At beginning of year	(1,591)	(1,040)	-	(2,631)
Charge for year	(195)	(253)	-	(448)
Disposals	1,246	328	-	1,574
At end of year	(540)	(965)	-	(1,505)
<i>Net book value</i>				
At 28 December 2003	18,162	2,169	929	21,260
At 31 December 2002	21,433	2,227	1,180	24,840

The net book value of tangible fixed assets includes an amount of £391,000 (2002: £49,000) in respect of assets held under finance leases. Depreciation in the year on these assets was £31,000 (2002: £9,000)

The company's freehold property was valued externally by Christie & Co, Chartered Surveyors, on the basis of existing use as at 14 December 2001 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:

	2003 £'000	2002 £'000
Historical cost	13,705	15,176
Historical net book value	13,144	14,747

Notes (continued)

9 Investments

	2003 £'000	2002 £'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 (2002: £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 (2002: £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

	2003 £'000	2002 £'000
Raw materials and consumables	68	70
Goods for resale	38	40
	106	110

11 Debtors

	2003 £'000	2002 £'000
<i>Amounts falling due within one year</i>		
Trade debtors	455	309
Amounts due from group undertakings	22,413	3,287
Other debtors	2	14
Prepayments and accrued income	148	120
	23,018	3,730
<i>Amounts falling due after more than one year</i>		
Amounts due from group undertakings	3,639	45,945
	26,657	49,675

Notes (continued)

12 Creditors: amounts falling due within one year

	2003 £'000	2002 £'000
Trade creditors	453	428
Other taxes and social security costs	273	310
Other creditors	58	91
Accruals and deferred income	447	393
Amounts due to group undertakings	542	29,113
	<u>1,773</u>	<u>30,335</u>

13 Creditors: amounts falling due after more than one year

	2003 £'000	2002 £'000
Amounts due to group undertakings	<u>21,010</u>	<u>18,676</u>

14 Provision for liabilities and charges

	2003 £'000	2002 £'000
Deferred tax		
At beginning of year	2,234	2,060
Transfer to profit and loss account	36	174
At end of year	<u>2,270</u>	<u>2,234</u>

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

	2003		2002	
	Provided £'000	Unprovided £'000	Provided £'000	Unprovided £'000
Difference between accumulated depreciation and capital allowances	2,267	-	2,239	-
On revaluation of land and buildings	-	1,793	-	2,698
Other timing differences	3	-	(5)	-
Undiscounted provision	<u>2,270</u>	<u>1,793</u>	<u>2,234</u>	<u>2,698</u>

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

Notes (continued)

15 Share capital

	2003 £'000	2002 £'000
<i>Authorised</i>		
40,000,000 ordinary shares of 5 p 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>
<i>Allotted, called up and fully paid</i>		
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	6,685	1,058	14,108
Retained loss for the financial year	-	-	(411)	(411)
Transfer in respect of depreciation provided on revaluation surpluses	-	(29)	29	-
Recognition of revaluation of sold property	-	(2,636)	2,636	-
	<u>6,365</u>	<u>4,020</u>	<u>3,312</u>	<u>13,697</u>
At end of year	<u>6,365</u>	<u>4,020</u>	<u>3,312</u>	<u>13,697</u>

17 Reconciliations of movements in shareholders' funds

	2003 £'000	2002 £'000
Opening shareholders' funds	23,954	23,776
(Loss)/profit for the financial year	(411)	178
	<u>23,543</u>	<u>23,954</u>
Closing shareholders' funds	<u>23,543</u>	<u>23,954</u>

Notes (continued)

18 Capital commitments

	2003 £'000	2002 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	1,614	267

19 Financial commitments

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

	2003 Plant and machinery £'000	2002 Plant and machinery £'000
Expiring:		
within one year	64	59
between two and five years	22	40
Over five years	-	-
	86	99

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 year represents contributions payable by the company to the fund and amounted to £23,000 (2002: £25,000).

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 Ultimate controlling party

The entire issued share capital of this company is indirectly owned by Paramount Hotels Group Limited; a company incorporated in Great Britain and registered in England and Wales. The Group accounts of Paramount Hotels Group Limited can be obtained from Registrar of Companies, Companies House, Crown Way, Cardiff, CF4 3UZ. 89.7% of the issued share capital of Paramount Hotels Group Limited is held by Alchemy Partners Nominees Limited on behalf of investors in the Alchemy Investment Plan. The Alchemy Investment Plan is managed by Alchemy Partners (Guernsey) Limited.