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PHL HOTELS LIMITED

Report and Financial statements

3 April 2003

 ERNST & YOUNG



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PHL Hotels Limited

Registered No: 160044

DIRECTORS

T J Hemmings (Chairman)
J C Kay
S Stott

SECRETARY

S Stott

AUDITORS

Ernst & Young LLP
Ten George Street
Edinburgh
EH2 2DZ

BANKERS

Bank of Scotland
New Ueberior House
11 Earl Grey Street
Edinburgh
EH3 9BN

SOLICITORS

Halliwell Landau
Manchester

Maclay Murray & Spens
Edinburgh

REGISTERED OFFICE

Ten George Street
Edinburgh
EH2 2DZ

DIRECTORS' REPORT

The directors present their report and financial statements for the period ended 3 April 2003.

RESULTS AND DIVIDENDS

The company did not trade during the period.

DIRECTORS AND THEIR INTERESTS

The current directors are those listed on page 2.

No director had an interest in the shares of the company, nor in the shares of Paragon Hotels Limited, the company's parent undertaking.

AUDITORS

In accordance with the provisions of Section 386 of the Companies Act 1985, the company has elected to dispense with the obligation to appoint auditors annually. Accordingly, Ernst & Young LLP will continue in office as auditors.

By order of the Board

S. Jha

Secretary

6th October 03

STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

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 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 PHL HOTELS LIMITED

We have audited the company's financial statements for the period ended 3 April 2003 which comprise the Profit and Loss Account, Balance Sheet, and the related notes 1 to 9. These financial statements have been prepared on the basis of the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

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

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

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

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

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 3 April 2003 and have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Registered Auditor
Edinburgh

6 October 2003

PHL Hotels Limited

PROFIT AND LOSS ACCOUNT for the period ended 3 April 2003

| | <i>Notes</i> | <i>2003 £000</i> | <i>2002 £000</i> |
|--|--------------|----------------------|----------------------|
| TURNOVER | | - | 2,847 |
| Cost of sales | | - | (2,406) |
| GROSS PROFIT | | - | 441 |
| Administrative expenses | | - | (277) |
| Other operating income | | - | (652) |
| OPERATING LOSS | 2 | - | (488) |
| Investment income | | - | 285 |
| Interest payable | 3 | - | (103) |
| LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION | | - | (306) |
| Taxation on loss on ordinary activities | 4 | - | 4 |
| LOSS FOR THE FINANCIAL YEAR | | - | (302) |
| DIVIDENDS | | - | (2,035) |
| RETAINED LOSS ON ORDINARY ACTIVITIES | | - | (2,337) |

All gains and losses arising during the period have been recognised in the profit and loss account and derive from continuing operations of the company.


PHL Hotels Limited

BALANCE SHEET

at 3 April 2003

| | <i>Notes</i> | <i>2003</i> <i>£000</i> | <i>2002</i> <i>£000</i> |
|---|--------------|----------------------------|----------------------------|
| CURRENT ASSETS | | | |
| Debtors | 5 | 1,509 | 1,509 |
| CREDITORS: amounts falling due within one year | 6 | (1,459) | (1,459) |
| TOTAL ASSETS LESS LIABILITIES | | <u>50</u> | <u>50</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 7 | 50 | 50 |
| Profit and loss account | | - | - |
| EQUITY SHAREHOLDERS' FUNDS | | <u>50</u> | <u>50</u> |

 ERNST & YOUNG


6 October 2003

Director

NOTES TO THE FINANCIAL STATEMENTS
at 3 April 2003

1. ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared on a going concern basis under the historical cost convention and in accordance with currently applicable accounting standards.

2. OPERATING LOSS

The operating loss is stated after charging:

| | 2003 £000 | 2002 £000 |
|------------------------------|--------------|--------------|
| Audit fees | - | 9 |
| Depreciation | - | 77 |
| Loss of sale of fixed assets | - | 652 |
| | <u>-</u> | <u>738</u> |

The company has no employees and none of the directors receives any emoluments from the company.

In addition, the gross profit is stated after charging £Nil (2002: £1,019,853) paid to the hotel staff who are employed by a hotel management company.

3. INTEREST PAYABLE

| | 2003 £000 | 2002 £000 |
|---------------------------|--------------|--------------|
| Net bank interest payable | - | 103 |
| | <u>-</u> | <u>103</u> |

4. TAX ON LOSS ON ORDINARY ACTIVITIES

| | 2003 £000 | 2002 £000 |
|---|--------------|--------------|
| a) The taxation credit is based on the loss on ordinary activities and comprises: | | |
| UK Corporation tax | - | (13) |
| Group relief | - | (8) |
| Adjustments in respect of prior periods | - | 1 |
| Total current tax | <u>-</u> | <u>(20)</u> |
| Origination and reversal of timing differences | - | 24 |
| | <u>-</u> | <u>4</u> |

NOTES TO THE FINANCIAL STATEMENTS
at 3 April 2003

4. TAX ON LOSS ON ORDINARY ACTIVITIES

(continued)

b) Factors affecting the tax charge for the period:

The tax assessed on the loss on ordinary activities for the period is higher than the standard rate of corporation tax in the UK. The differences are explained below:

| | 2003 £000 | 2002 £000 |
|---|--------------|--------------|
| Loss on ordinary activities before tax | - | (306) |
| Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30.00% (2002: 30.00%) | - | (92) |
| Effect of: | | |
| Disallowed expenses and non-taxable income | - | 146 |
| Capital allowances in excess of depreciation | - | (33) |
| Adjustments in respect of previous periods | - | (1) |
| Current tax charge for the period | - | 20 |

c) Factors that may affect future tax charges

Disclosure of unrecognised deferred tax assets

No deferred tax asset is recognised in respect of the capital losses carried forward at 3 April 2003. The amount of deferred tax unrecognised on capital losses is £2,295,000. The capital losses may be offset against future capital gains of companies within the group.

5. DEBTORS

| | 2003 £000 | 2002 £000 |
|-------------------------------------|--------------|--------------|
| Amounts due from group undertakings | 1,509 | 1,509 |

6. CREDITORS: amounts falling due within one year

| | 2003 £000 | 2002 £000 |
|---|--------------|--------------|
| Amounts due to fellow subsidiary undertakings | 1,459 | 1,459 |

7. SHARE CAPITAL

| | Authorised | | Allotted, called up and fully paid | |
|----------------------------|--------------|--------------|------------------------------------|--------------|
| | 2003 £000 | 2002 £000 | 2003 £000 | 2002 £000 |
| Ordinary shares of £1 each | 50 | 50 | 50 | 50 |

NOTES TO THE FINANCIAL STATEMENTS
at 3 April 2003

8. CONTINGENT LIABILITIES

The company is party to an agreement with its bankers whereby the bank is entitled to hold all sums at credit of any financial statements in the company's name in security of all sums due to the bank by the company's parent company and fellow subsidiary undertakings.

9. ULTIMATE PARENT COMPANY

The company's immediate parent undertaking is Paragon Hotels Limited, a company registered in England and Wales. The company's results are included in the consolidated financial statements of Paragon Hotels Limited and copies of its Annual Report and Financial statements may be obtained from The Registrar of Companies, Companies House, Crown Way, Cardiff, CF4 3UZ.

The company's ultimate parent company and controlling party is Calgarth Limited, which is incorporated in the Isle of Man.