

LADSTOCK FIRST CORPORATION (Company Number FC11365)
DIRECTORS' REPORT - YEAR ENDED 31 DECEMBER 2002

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Directors: R D Ballingall
J Boydell
M J Noble

Secretary: B Hughes

Registered Office: 15 East North Street, Dover, Kent, Delaware 19901, United States.

The directors have pleasure in presenting their report and the company's accounts for the year ended 31 December 2002.

ACCOUNTS AND DIVIDENDS

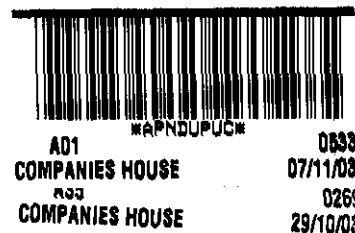
The accounts for the year show a loss of £2,468 (2001 – loss of £2,856), and after allowing for a favourable exchange movement of £1,715,196 (2001 – adverse movement of £463,383), a retained loss of £15,542,616 is carried forward. No dividend is recommended by the directors.

PRINCIPAL ACTIVITIES AND REVIEW OF BUSINESS DEVELOPMENTS

The company is an investment holding company. The company's subsidiary and its principal operating subsidiaries are stated in note 4. It is not expected that there will be any change in the business activities of the company during the coming year.

DIRECTORS

The directors during the year ended 31 December 2002 are shown above.



LADSTOCK FIRST CORPORATION (Company Number FC11365)
DIRECTORS' REPORT - YEAR ENDED 31 DECEMBER 2002

DIRECTORS' INTERESTS

According to the register kept by the company pursuant to section 325 of the Companies Act 1985, the directors at 31 December 2002 and their families:-

(a) had the following interests in shares and debentures of Hilton Group plc:-

	31 December 2002	31 December 2001 or when appointed
10p ordinary shares ("shares")		
R D Ballingall	9,590	9,590
M J Noble	5,150	5,150
Shares under the terms of the all employee Share ownership plan ("OWN share plan")		
R D Ballingall	929	259
M J Noble	929	259
Options to purchase shares under the terms of the 1978 share option scheme ("1978 Scheme")		
R D Ballingall	19,500	19,500
J Boydell	18,023	18,023
M J Noble	13,712	13,712
Options to purchase shares under the terms of the 1983 savings related share option scheme ("1983 Scheme")		
R D Ballingall	4,914	4,621
J Boydell	3,000	-
M J Noble	5,781	4,781
Options to purchase shares under the terms of the international share option scheme ("ISOS Scheme")		
R D Ballingall	70,000	63,000
J Boydell	81,977	41,977
M J Noble	251,288	211,288

(b) were granted or exercised during the year or period since appointment, options for shares of Hilton Group plc under the terms of the:-

	1983 Scheme		ISOS Scheme	
	Granted	Exercised		
R D Ballingall	3,000	-	7,000	-
J Boydell	3,000	-	40,000	-
M J Noble	1,000	-	40,000	-

Except as shown above no director at 31 December 2002 held at that date or at 31 December 2001, or on appointment, any interest in, or during the year was granted or exercised a right to subscribe for, the shares or debentures of this company or of Hilton Group plc or its subsidiaries.

By Order of the Board

Director

- 8 SEP 2003

LADSTOCK FIRST CORPORATION (Company Number FC11365)
STATEMENT OF DIRECTOR'S RESPONSIBILITIES IN RELATION TO THE ACCOUNTS

The directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for the financial year.

The directors consider that in preparing the accounts on pages 5 to 9 the company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and that all accounting standards which they consider to be applicable have been followed, subject to any explanations and any material departures disclosed in the notes to the accounts.

The accounts have been prepared on a going concern basis as the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the accounts comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them and which they deem appropriate to safeguard the assets of the company and to seek to prevent and detect fraud and other irregularities.

LADSTOCK FIRST CORPORATION (Company Number FC11365)
REPORT TO THE AUDITORS OF LADSTOCK FIRST CORPORATION

We have reviewed the financial statements of Ladstock First Corporation for the year ended 31 December 2002 which comprise the Profit and Loss account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the related notes 1 to 11.

This report is made solely to the directors in accordance with the instructions from the directors. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The financial statements are the responsibility of, and have been approved by the directors.

Review work performed

A review consists principally of making enquiries of management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial statements as presented for the year ended 31 December 2002.

Ernst & Young LLP

Ernst & Young LLP
London

9 September 2003

LADSTOCK FIRST CORPORATION (Company Number FC11365)
PROFIT AND LOSS ACCOUNT. - YEAR ENDED 31 DECEMBER 2002

	Note	2002 £	2001 £
Net operating expenses		<u>2,468</u>	<u>2,856</u>
OPERATING LOSS		<u>(2,468)</u>	<u>(2,856)</u>
LOSS ON ORDINARY ACTIVITIES BEFORE AND AFTER TAXATION	3	<u>(2,468)</u>	<u>(2,856)</u>
RETAINED LOSS FOR THE YEAR	8	<u>(2,468)</u>	<u>(2,856)</u>

All operating losses derive from continuing activities.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

		2002 £	2001 £
Loss for the financial year		(2,468)	(2,856)
Currency translation differences on foreign currency net investments	8	(48,470,454)	13,093,479
TOTAL RECOGNISED (LOSSES) AND GAINS FOR THE PERIOD		<u>(48,472,922)</u>	<u>13,090,623</u>

LADSTOCK FIRST CORPORATION (Company Number FC11365)
BALANCE SHEET AT 31 DECEMBER 2002

	Note	2002 £	2001 £
FIXED ASSETS			
Investments	4	<u>439,423,614</u>	<u>487,911,737</u>
CURRENT ASSETS			
Debtors	5	5,269	8,170
CREDITORS – amounts falling due within one year	6	<u>(164,046)</u>	<u>(182,148)</u>
NET CURRENT LIABILITIES		<u>(158,777)</u>	<u>(173,978)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>439,264,837</u>	<u>487,737,759</u>
CAPITAL AND RESERVES			
Called up share capital	8	144,348,146	160,276,217
Additional paid in capital	8	310,459,307	344,716,886
Profit and loss account	8	<u>(15,542,616)</u>	<u>(17,255,344)</u>
EQUITY SHAREHOLDERS' FUNDS		<u>439,264,837</u>	<u>487,737,759</u>


 Director

- 8 SEP 2003

LADSTOCK FIRST CORPORATION (Company Number FC11365)
NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2002

1. ACCOUNTING POLICIES

Basis of accounting

The accounts have been prepared under the historical cost convention and in accordance with applicable UK accounting standards.

Foreign currencies

Assets, liabilities, share capital and reserves denominated in a foreign currency, are translated into sterling at period end rates and exchange movements arising on translation are recorded as movements on capital and reserves. The profit and loss account is translated into sterling at average rates and exchange gains or losses arising on translation are reported as part of the operating result for the year.

Investments

Investments are held at cost.

2. DIRECTORS' EMOLUMENTS

The directors' emoluments are borne entirely by other group undertakings and it is not practicable to estimate what proportion of their emoluments are attributable to this subsidiary. The directors, all of whom were members of a Hilton Group defined benefit pension scheme, received total remuneration of £343,796 (2000 - £338,249).

3. TAX ON PROFIT ON ORDINARY ACTIVITIES

No provision has been made in these accounts for UK corporation tax, as an undertaking has been received from its ultimate holding company, Hilton Group plc, that the latter will assume all liability for any such taxation.

4. FIXED ASSET INVESTMENTS

	Investment in group Companies £
Cost	
At 1 January 2002	487,911,737
Exchange rate movements (2001 - gain £13,098,302)	(48,488,123)
At 31 December 2002	<u>439,423,614</u>

The company had the following subsidiary at 31 December 2002:

Ladstock Second Corporation - 100% owned and incorporated in USA, which acts as an investment holding company.

LADSTOCK FIRST CORPORATION (Company Number FC11365)
NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2002

4. FIXED ASSET INVESTMENTS (Continued)

The principal operating subsidiary company of Ladbroke Second Corporation is:

Ladstock Holding Corporation – a 100% owned company incorporated in the USA, which acts as an investment holding company.

In the opinion of the directors the value of the subsidiary undertakings are not less than the amounts at which they are stated in these accounts.

Consolidated accounts have not been prepared as the company is a wholly owned subsidiary of another body corporate incorporated in Great Britain.

5. DEBTORS

	2002 £	2001 £
Other debtors	446	446
Amounts due from other group companies (note 7)	4,823	7,724
	<u>5,269</u>	<u>8,170</u>

6. CREDITORS

	2002 £	2001 £
Amounts falling due within one year:		
Amounts due to other group companies (note 7)	<u>164,046</u>	<u>182,148</u>

7. AMOUNTS DUE TO AND FROM GROUP COMPANIES

Amounts due to and from group companies are included under amounts falling due within one year where there are no specified terms as to their repayment or recoverability. While amounts due to group companies are technically repayable on demand and hence are included in amounts falling due within one year, the directors are of the opinion that, in the ordinary course of business, repayment within such a time scale would not be required.

8. SHARE CAPITAL AND RESERVES

	Total £	Share capital £	Profit and loss account £
At 1 January 2002	487,737,759	504,993,103	(17,255,344)
Retained loss for the year (2001 - loss £2,856)	(2,468)	-	(2,468)
Exchange rate movements (2001 - gain £13,093,479)	(48,470,454)	(50,185,650)	1,715,196
At 31 December 2002	<u>439,264,837</u>	<u>454,807,453</u>	<u>(15,542,616)</u>

The total number of shares of all classes of capital stock which the company has authority to issue is 686,755 shares (2001 – 686,755 shares) which are divided into two classes as follows:

85,755 shares of Preferred Stock without par value (2001 – 85,755)
601,000 shares of Common Stock par value \$1.00 per share (2001 – 601,000)

LADSTOCK FIRST CORPORATION (Company Number FC11365)
NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2002

8. SHARE CAPITAL AND RESERVES (Continued)

Allotted, called up and fully paid share capital is:

	No of shares	31 December 2002	Exchange Rate Movement	31 December 2001
Common Stock of US\$1	161,515	100,320	(11,069)	111,389
Preferred Stock 1982				
Series A US\$1,000 each	4,729	2,937,268	(324,112)	3,261,380
Series B US\$1,000 each	100	62,111	(6,854)	68,965
Series C US\$1,000 each	650	403,727	(44,549)	448,276
Series D US\$1,000 each	7,500	4,658,385	(514,029)	5,172,414
Series E US\$1,000 each	45,000	27,950,310	(3,084,172)	31,034,482
Series F US\$10,000 each	17,426	108,236,025	(11,943,286)	120,179,311
	<u>236,920</u>	<u>144,348,146</u>	<u>(15,928,071)</u>	<u>160,276,217</u>
	No of shares	31 December 2002	Exchange Rate Movement	31 December 2001
Additional paid-in capital	<u>499,839,435</u>	<u>310,459,307</u>	<u>(34,257,579)</u>	<u>344,716,886</u>

9. ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking is Ladbroke Hotels USA Corporation, a company incorporated in the USA. The ultimate holding company is Hilton Group plc, a company registered in England and Wales, the accounts of which are available from the registered office of that company, at Maple Court, Central Park, Reeds Crescent, Watford, Herts, WD24 4QQ.

The company has taken advantage of provisions in FRS 8 which exempt subsidiary undertakings, 90% or more of whose voting rights are controlled within the group, from disclosing transactions with other entities within the group. The ultimate parent undertaking, Hilton Group plc, has included the required related party disclosures within its group accounts.

10. CONTINGENT LIABILITIES

The company has jointly and severally guaranteed the value added tax liability of certain other Hilton Group companies, within a group registration, amounting to £10,924,940 at 31 December 2002 (2001 – £13,043,347).

11. CASHFLOW STATEMENT

The company has taken advantage of the provision of FRS1 which exempts subsidiaries, 90% or more of whose voting rights are controlled within the group, from preparing a cash flow statement. The ultimate parent company, Hilton Group plc, has included the required consolidated cash flow statement within its consolidated financial statements.

