

**LADSTOCK FIRST CORPORATION (Company Number FC11365)**  
**DIRECTORS' REPORT - YEAR ENDED 31 DECEMBER 2001**

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Directors: R D Ballingall  
J Boydell (Appointed 12<sup>th</sup> October 2001)  
M J Way (Resigned 12<sup>th</sup> October 2001)  
M J Noble

Secretary: B Hughes

Registered Office: One Wall Street Court, New York, NY 10005, United States.

The directors have pleasure in presenting their report and the company's accounts for the year ended 31 December 2001.

**ACCOUNTS AND DIVIDENDS**

The accounts for the year show a loss of £2,856 (2000 – profit of £4,624), and after allowing for an adverse exchange movement of £463,383 (2000 – adverse movement of £1,251,998 ), a retained loss of £17,255,344 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 2001 are shown above.



**LADSTOCK FIRST CORPORATION (Company Number FC11365)**  
**DIRECTORS' REPORT - YEAR ENDED 31 DECEMBER 2001**

**DIRECTORS' INTERESTS**

According to the register kept by the company pursuant to section 325 of the Companies Act 1985, the directors at 31 December 2001 and their families:-

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

	31 December 2001	31 December 2000 or when appointed
10p ordinary shares ("shares")		
R D Ballingall	9,590	6,090
M J Noble	5,150	5,150
Shares under the terms of the all employee Share ownership plan ("OWN share plan")		
R D Ballingall	258	
M J Noble	258	
Options to purchase shares under the terms of the 1978 share option scheme ("1978 Scheme")		
R D Ballingall	19,500	23,000
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	4,621	4,621
M J Noble	4,781	4,414
Options to purchase shares under the terms of the international share option scheme ("ISOS Scheme")		
R D Ballingall	63,000	48,000
J Boydell	41,977	41,977
M J Noble	211,288	151,288

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

	1978 Scheme		1983 Scheme		ISOS Scheme	
	Granted	Exercised	Granted	Exercised		
R D Ballingall	-	3,500	-	-	15,000	-
M J Noble	-	-	1,063	-	60,000	-

Except as shown above no director at 31 December 2001 held at that date or at 31 December 2000, 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

25 OCT 2002

ladstockfirst

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

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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 deems appropriate to safeguard the assets of the company and to seek to prevent and detect fraud and other irregularities.

**REPORT  
TO THE MEMBERS OF LADSTOCK FIRST CORPORATION**

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We have examined the financial statements of Ladstock First Corporation for the year ended 31 December 2001 which comprise the Profit and Loss account, the Balance Sheet and the related notes 1 to 11. The financial statements are the responsibility of the Directors and have been approved by them.

Our examination consisted principally of agreeing the accounting data to the underlying records and vouchers and making enquiries of the corporation's management responsible for financial and accounting matters. This is substantially less in scope than an audit performed in accordance with Auditing Standards and accordingly we do not express an audit opinion on the accounts.

Based on our examination, in our opinion the accounts are in accordance with the books and vouchers presented to us.

*Ernst & Young LLP*

Ernst & Young LLP  
London

*25 October 2002*

**LADSTOCK FIRST CORPORATION (Company Number FC11365)**  
**PROFIT AND LOSS ACCOUNT - YEAR ENDED 31 DECEMBER 2001**

	Note	2001 £	2000 £
Net operating expenses		2,856	371
<b>OPERATING LOSS</b>		<b>(2,856)</b>	<b>(371)</b>
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>(2,856)</b>	<b>(371)</b>
Taxation	3	-	4,995
<b>(LOSS) / PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		<b>(2,856)</b>	<b>4,624</b>
<b>RETAINED (LOSS) / PROFIT FOR THE YEAR</b>	8	<b>(2,856)</b>	<b>4,624</b>

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

	2001 £	2000 £
(Loss) / Profit for the financial year	(2,856)	4,624
Currency translation differences on foreign currency net investments	13,093,479	35,376,790
<b>TOTAL GAINS AND LOSSES FOR THE PERIOD</b>	<b>13,090,623</b>	<b>35,381,414</b>

**LADSTOCK FIRST CORPORATION (Company Number FC11365)**  
**BALANCE SHEET AT 31 DECEMBER 2001**

	Note	2001 £	2000 £
<b>FIXED ASSETS</b>			
Investments	4	<u>487,911,737</u>	<u>474,813,435</u>
<b>CURRENT ASSETS</b>			
Debtors	5	8,170	8,536
<b>CREDITORS – amounts falling due within one year</b>	6	<u>(182,148)</u>	<u>(174,835)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(173,978)</u>	<u>(166,299)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>487,737,759</u>	<u>474,647,136</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	8	160,276,217	155,973,500
Additional paid in capital	8	344,716,886	335,462,741
Profit and loss account	8	<u>(17,255,344)</u>	<u>(16,789,105)</u>
<b>EQUITY SHAREHOLDERS' FUNDS</b>		<u>487,737,759</u>	<u>474,647,136</u>

  
 Director

**25 OCT 2002**

**LADSTOCK FIRST CORPORATION (Company Number FC11365)**  
**NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2001**

**1. ACCOUNTING POLICIES**

**Basis of accounting**

The accounts have been prepared under the historical cost convention.

**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 £338,249 (2000 - £365,534).

**3. TAX ON PROFIT ON ORDINARY ACTIVITIES**

	2001 £	2000 £
Income Tax Refund	-	4,995
	<u>-</u>	<u>4,995</u>

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 2001	474,813,435,
Exchange rate movements (2000 - £35,389,821)	13,098,302,
At 31 December 2001	<u>487,911,737,</u>

**LADSTOCK FIRST CORPORATION (Company Number FC11365)**  
**NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2001**

**4. FIXED ASSET INVESTMENTS (Continued)**

The company had the following subsidiary at 31 December 2001:

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

The principal operating subsidiary companies of Ladbroke Second Corporation is:

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

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

**5. DEBTORS**

	2001 £	2000 £
Amounts falling due within one year:		
Other debtors	446	446
Amounts due from other group companies (note 7)	7,724	8,090
	<u>8,170</u>	<u>8,536</u>

**6. CREDITORS**

	2001 £	2000 £
Amounts falling due within one year:		
Amounts due to other group companies (note 7)	182,148	174,835
	<u>182,148</u>	<u>174,835</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 2001	474,647,136	491,436,241	(16,789,105)
Retained loss for the year (2000 - profit £4,624)	(2,856)	-	(2,856)
Exchange rate movements (2000 - £35,376,790)	13,093,479	13,556,862	(463,383)
At 31 December 2001	<u>487,737,759</u>	<u>504,993,103</u>	<u>(17,255,344)</u>

The total number of shares of all classes of capital stock which the company has authority to issue is 686,755 shares (2000 – 686,755 shares) which are divided into two classes as follows:

85,755 shares of Preferred Stock without par value (2000 – 85,755)  
 601,000 shares of Common Stock par value \$1.00 per share (2000 – 601,000)



**LADSTOCK FIRST CORPORATION (Company Number FC11365)**  
**NOTES TO THE ACCOUNTS - YEAR ENDED 31 DECEMBER 2001**

**8. SHARE CAPITAL AND RESERVES (Continued)**

Allotted, called up and fully paid share capital is:

	No of shares	31 December 2001	Exchange Rate Movement	31 December 2000
Common Stock of US\$1	161,515	111,389	2,990	108,399
Preferred Stock 1982				
Series A US\$1,000 each	4,729	3,261,380	87,554	3,173,826
Series B US\$1,000 each	100	68,965	1,851	67,114
Series C US\$1,000 each	650	448,276	12,034	436,242
Series D US\$1,000 each	7,500	5,172,414	138,857	5,033,557
Series E US\$1,000 each	45,000	31,034,482	833,140	30,201,342
Series F US\$10,000 each	17,426	120,179,311	3,226,291	116,953,020
	<u>236,920</u>	<u>160,276,217</u>	<u>4,302,717</u>	<u>155,973,500</u>

	No of shares	31 December 2001	Exchange Rate Movement	31 December 2000
Additional paid-in capital	499,839,435	<u>344,716,886</u>	<u>9,254,145</u>	<u>335,462,741</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 £13,043,347 at 31 December 2001 (2000 – £12,285,405).

**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.