

Summerhill Properties Limited

**Directors' report and financial
statements**

Registered number 3454201

For the year ended 31st March 2013

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Directors' report

The directors present their report and the audited financial statements of Summerhill Properties Limited ('the Company') for the year ended 31 March 2013

Principal activities

The principal activity of the Company during the year was that of owning and operating a hotel situated in Cardiff operated under the Hilton brand. No change in that activity is envisaged.

Business review

During the year ended 31 March 2013, the turnover was £8,275,000 (2012 £8,102,000) and the gross profit was £4,420,000 (2012 £4,204,000). The operating profit was £824,000 (2012 loss of £4,823,000).

The directors consider that the results for the year are in line with expectations.

It is recognised that there are inherent risks and uncertainties in the current economic environment associated with the operation of hotels which the directors review on a regular basis. Although trading in difficult economic and competitive circumstances the Directors were satisfied that their actions have managed to produce results in line with expectations.

The cost saving drive and aggressive marketing is being continued by management, and this, together with targeted capital expenditure, ensures that a balance is maintained between customer satisfaction and profitability. Management invests in training and encourages staff to participate in and achieve success with this core strategic aim.

The Company's strategy is relationship driven activity to deliver growth and profitability by controlling the brand manager tightly to deliver and maximise returns within the trading environment and long term value.

The directors have agreed approved changes to the Management Contract in respect of the Cardiff hotel to reflect the professional ownership and relationship with the operator, which will expedite its rolling enhancement programme including room upgrade and refurbishment of the hotel in the near future in order to improve quality and guest expectations. The directors believe that this will yield additional revenue and profit conversion in line with directors' expectations.

The directors do not recommend the payment of a dividend (2012 £nil).

Going concern

The financial statements have been prepared on a going concern basis. The basis for this is described in detail in note 1 to the financial statements.

Directors

The directors who held office during the period were as follows:

A Matyas

Dr E Wojakowski

N Smith

R Robertson (appointed 1 July 2013)

Directors' and officers' liability insurance

Summerhill Properties Limited purchases and maintains liability insurance for its directors and officers.

Political and charitable contributions

The Company made no political or charitable contributions during the year (2012 £nil)

Policy and practice on payment of creditors

It is the Company policy whenever possible to agree terms of payment with supplier in advance to ensure that suppliers are made aware of the terms of payment and both parties abide by these terms. At the year end The Company's average payment days was 19 days (2012 19 days)

Employee involvement

The Company has continued to operate a monthly communications cycle that requires the General Managers of each hotel to meet with Departmental Managers and then meet with their supervisors and/or staff to discuss

- (a) performance to date
- (b) problems or difficulties being experienced
- (c) future plans

and other matters those attending the meeting wish to raise

Disabled employees

The Company gives full consideration to applicants for employment from disabled persons where the requirements of the job can be adequately fulfilled by such individuals

Where existing employees become disabled, it is the Company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever applicable

Statement as to disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he / she ought to have taken as a director to make himself / herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Auditors

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be re-appointed and KPMG LLP will therefore continue in office

By order of the board



Mrs R E Robertson
Director

3 Park Place
St James'
London
SW1A 1LP

8 July 2013

Statement of directors' responsibilities in respect of the directors' report and the financial statements

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for the period. In preparing these 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 UK 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 adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

Independent auditor's report to the members of Summerhill Properties Limited

We have audited the financial statements of Summerhill Properties Limited for the year ended 31 March 2013 set out on pages 6 to 16. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31st March 2013 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Emphasis of matter – Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in note 1 to the financial statements concerning the company's ability to continue as a going concern. In particular, we noted the pledge of Company assets against the bank debt of its intermediary parent company. This, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you, if in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Mark Summerfield (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

8 July 2013

Profit and loss account
for the year ended 31 March 2013

	<i>Note</i>	Year ended 31 March 2013	Year ended 31 March 2012
		£'000	£'000
Turnover	2	8,275	8,102
Cost of sales		(3,855)	(3,898)
Gross profit		4,420	4,204
Depreciation		(894)	(846)
Administrative expenses	3,5	(2,702)	(3,181)
Impairment of fixed assets		-	(5,000)
Profit / (loss) on ordinary activities before taxation		824	(4,823)
Tax credit on profit on ordinary activities	6	60	156
Profit / (loss) on ordinary activities after taxation		884	(4,667)

The results shown above are derived wholly from continuing operations

There were no recognised gains or losses in either the current or prior period except as shown above. Consequently, a statement of total recognised gains and losses has not been prepared.

There is no difference between the profit on ordinary activities before taxation in either the current or prior period stated and the historical cost equivalents.

The notes on pages 8 to 16 form part of these financial statements.

Balance sheet

at 31 March 2013

	Note	31 March 2013		31 March 2012	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	7		17,877		18,460
Current assets					
Stock	8	27		71	
Debtors	9	8,495		6,560	
Cash at bank and in hand		856		1,196	
		<u>9,378</u>		<u>7,827</u>	
Creditors, amounts falling due within one year	10	<u>(23,547)</u>		<u>(23,373)</u>	
Net current liabilities			<u>(14,169)</u>		<u>(15,546)</u>
Total assets less current liabilities			<u>3,708</u>		<u>2,914</u>
Provisions for liabilities and charges	11		<u>(2,309)</u>		<u>(2,399)</u>
Net assets			<u><u>1,399</u></u>		<u><u>515</u></u>
Capital and reserves					
Called up share capital	12		3,500		3,500
Profit and loss account	13		<u>(2,101)</u>		<u>(2,985)</u>
Shareholders' funds			<u><u>1,399</u></u>		<u><u>515</u></u>

The notes on pages 8 to 16 form part of these financial statements

These financial statements were approved by the board of directors on behalf by

8 July 2013 and were signed on its



Mrs R E Robertson
Director

Notes

(forming part of the financial statements)

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements

1 Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules

At 31 March 2013 the Company had net current liabilities of £14,169,000 (2012 £15,546,000) This includes a current debt of £22.0m owed to associated undertakings

The Company's assets are pledged against a bank loan of £29m provided to its intermediary parent company Tonstate (Hotels) Cardiff Limited. The provision of this loan is linked to a range of financial covenants. During the current year, the covenants related to interest rate cover and loan to value were breached on this loan. As per the management forecasts, these covenants will continue to be breached for foreseeable future. As a consequence of the breach, the bank has the right to cancel all obligations and declare all facilities immediately payable as per facilities agreement. The Company's assets may not be sufficient to meet the obligation if the cross guarantee is called.

The intermediary parent has disclosed the following in its financial statements

'The Company has been comfortably able to service the debt requirements on all its loans during the year. The bank is fully aware of the covenant breach for more than one year but no notice of breach has been issued so far as the negotiation to refinance is still ongoing. Management is confident that banking facility will continue to be available to the Company owing to the overall financial health of the Tonstate Hotels Group and strong relationship with the bankers.

The intermediary parent company Tonstate (Hotels) Limited, has confirmed that it has no intention to call the repayment of loan of £12.6 million owed to Tonstate (Hotels) Limited and its subsidiary companies. It further confirmed its intention to continue to support the Company in meeting its liabilities as they fall due for at least one year from the date of these financial statements.

Should repayment of the bank facility be demanded, management is confident that Tonstate (Hotels) Limited has sufficient resources to comply with the demand. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe it will not do so.'

The directors have considered the above disclosure by the intermediary parent company. Further, the directors have considered the letter of support provided to the Company by the intermediary parent company Tonstate (Hotels) Limited indicating its intention to support the Company for at least 12 months from the date of these financial statements, and continue to make available such funds as are needed by the company and in particular not seek repayment of the amounts currently made available, including £22m owed to other group companies. The directors consider that this should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment.

As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Based on these indicators the directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

2 Accounting policies

Turnover

Turnover comprises the value of sales of goods and services supplied in the normal course of operations of a hotel business (excluding Value Added Tax)

Depreciation

No depreciation is provided on freehold land. Buildings are depreciated to residual values over a period of 50 years or estimated length of the life of the building on a straight line basis. Fixtures, fittings and equipment are depreciated on a straight line basis over the estimated useful life of between 3 and 30 years.

Notes (continued)

2 Accounting policies (continued)

Taxation

The charge for taxation is based on the loss for the period 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

Capitalisation of interest

Interest is capitalised on major development projects and capital works in progress where appropriate

Post-retirement benefits

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

Operating leases

Rentals applicable to operating leases, under which substantially all of the benefits and risks of ownership remain with the lessor, are charged to the profit and loss account on a straight line basis over the lease term.

Stock

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

3 Profit on ordinary activities before taxation

	Year ended 31 March 2013	Year ended 31 March 2012
	£'000	£'000
<i>Profit on ordinary activities before taxation is stated after charging</i>		
Auditor's remuneration		
Audit of these financial statements	9	9
Operating lease rentals - property	201	201
Depreciation	894	846
Impairment of fixed assets	-	5,000
	<hr/>	<hr/>

In 2013 and 2012 auditors' remuneration was paid by another group company.

The fees paid to the Company's auditors, KPMG LLP and its associates for the services other than the statutory audit of the Company are not disclosed in these financial statements. This is on the basis that such non-audit fees are disclosed in the accounts of the Company's immediate parent Tonstate (Hotels) Limited.

Notes (continued)

4 Remuneration of directors

The directors for the year were paid by other undertakings

5 Staff costs and employee information

The average number of employees during the period was

	Year ended 31 March 2013	Year ended 31 March 2012
Operations	88	91
Management and administration	50	52
	<u>138</u>	<u>143</u>

The aggregate payroll costs of these employees were as follows

	Year ended 31 March 2013	Year ended 31 March 2012
	£'000	£'000
Wages and salaries	2,371	2,407
Social security costs	186	186
Pension costs	37	47
	<u>2,594</u>	<u>2,640</u>

Notes (continued)

6 Taxation

Analysis of charge / (credit) in period

	Year ended 31 March 2013	Year ended 31 March 2012
	£'000	£'000
<i>UK corporation tax</i>		
Current tax on income for the period	30	-
Adjustment in respect of prior period	-	-
Total current tax	30	-
<i>Deferred tax</i>		
Origination of timing difference	(13)	23
Effect of decreased tax rate	(101)	(198)
Adjustment in respect of prior period	24	19
	(90)	(156)
Tax credit on profit on ordinary activities	(60)	(156)

Factors affecting the tax charge for current period

The current tax charge for the period is lower (2012 higher) than the standard rate of corporation tax in the UK of 24% (2012 26%). The differences are explained below

	Year ended 31 March 2013	Year ended 31 March 2012
	£'000	£'000
<i>Current tax reconciliation</i>		
Profit / (loss) on ordinary activities before tax	824	(4,823)
Current tax at 24% (2012 26%)	198	(1,254)
<i>Effects of</i>		
Expenses not deductible for tax purposes	129	1,474
Capital allowances less than depreciation	13	(25)
Group relief claimed from fellow group company free of charge	(310)	(195)
Adjustment in respect of prior period	-	-
Total current tax charge (see above)	30	-

Factors affecting the tax charge for future period

The rate of tax is expected to follow the standard rate of UK corporation tax in future years

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly.

Notes (continued)

7 Tangible assets

	Freehold land and buildings	Surface finishing's	Fixtures and fittings	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 April 2012	21,936	5,282	4,796	32,014
Additions	-	-	311	311
At 31 March 2013	21,936	5,282	5,107	32,325
Depreciation				
At 1 April 2012	5,832	3,978	3,744	13,554
Charge for the period	65	510	319	894
Impairment	-	-	-	-
At 31 March 2013	5,897	4,488	4,063	14,448
Net book value				
At 31 March 2013	16,039	794	1,044	17,877
At 31 March 2012	16,104	1,304	1,052	18,460

Included in the cost of freehold land and buildings are cumulative capitalised interest costs of £670,000 (2012 £670,000). No interest was capitalised during the period (2012 £nil). In addition, freehold land and buildings includes £5,075,000 of land that is not depreciable (2012 £5,075,000).

8 Stocks

	31 March 2013 £'000	31 March 2012 £'000
Goods for resale and consumables	27	71

9 Debtors

	31 March 2013 £'000	31 March 2012 £'000
Trade debtors	557	249
Prepayments and other debtors	101	82
Amounts due from group undertakings	7,837	6,229
	8,495	6,560

Notes (continued)

10 Creditors: amounts falling due within one year

	31 March 2013 £'000	31 March 2012 £'000
Trade creditors	553	601
Other taxes and social security	243	280
Other creditors and accruals	676	447
Amounts owed to group undertakings	22,045	22,045
Corporation tax	30	-
	<u>23,547</u>	<u>23,373</u>

Amounts due to group undertakings are included in amounts due within one year where there are no specified repayments terms. While amounts due to group undertakings are technically repayable on demand the directors are of the opinion that in the ordinary course of business, repayment within such a timescale would not be required.

11 Provisions for liabilities and charges

	Deferred taxation 31 March 2013 £'000	31 March 2012 £'000
Balance at 1 April	2,399	2,555
Origination and reversal of timing differences (note 6)	11	42
Effect of decreased tax rate	(101)	(198)
Balance at 31 March	<u>2,309</u>	<u>2,399</u>

The provision at 31 March 2013 and 2012 relates primarily to timing differences arising from accelerated capital allowances. The Company has no unprovided deferred tax liabilities and no unrecognised deferred tax assets (2012: £nil).

12 Called up share capital

	31 March 2013 £'000	31 March 2012 £'000
<i>Allotted, called up and fully paid</i>		
3,500,002 ordinary shares of £1 each	<u>3,500</u>	<u>3,500</u>

Notes (continued)

13 Reconciliation of movement in shareholders' funds

	Share capital	Profit and loss account	Shareholders' funds
	£'000	£'000	£'000
At 1 April 2012	3,500	(2,985)	515
Profit for the year	-	884	884
	<hr/>	<hr/>	<hr/>
At 31 March 2013	3,500	(2,101)	1,399
	<hr/>	<hr/>	<hr/>

14 Financial commitments

The annual commitment under non-cancellable operating leases is as follows

	Land and buildings	Land and buildings
	31 March 2013	31 March 2012
	£'000	£'000
Leases expiring		
After five years	200	200
	<hr/>	<hr/>

Notes (continued)

15 Related parties

The following amounts were owed to group undertakings

	31 March 2013	31 March 2012
	£'000	£'000
Owed to Hotel Innovations (Cardiff) Limited	22,045	22,045
Owed by Tonstate (Hotels) Cardiff Limited	7,837	6,229

16 Contingent liabilities

The Company's assets are secured by a fixed and floating charge to Bank of Scotland in respect of a loan provided to Tonstate (Hotels) Cardiff Limited, an intermediate parent undertaking. The amount outstanding on this facility at 31 March 2013 was £29,000,000 (2012 £29,000,000)

17 Ultimate parent company and parent undertaking of larger group of which the Company is a member

The Company is a subsidiary undertaking of Hotel Innovations (Cardiff) Limited, incorporated in England

The largest group in which the results of the Company are consolidated is that headed by Tonstate (Hotels) Limited, incorporated in England. The consolidated accounts of this group are available to the public and may be obtained from 3 Park Place, St James', London, SW1A 1LP

The ultimate parent company is Overseas Holdings Capital Group Limited, registered in the British Virgin Islands