

Summerhill Properties Limited

**Directors' report and financial
statements**

Registered number 3454201
For the year ended 31st March 2010

WEDNESDAY



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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 2010

Principal activities

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

Business review

During the year ended 31 March 2010, the turnover was £8,925,000 (2009 £9,710,000) and the gross profit was £4,907,000 (2009 £5,496,000). Profit on ordinary activities before taxation was £1,259,000 (2009 £1,047,000), which was a 20% like for like improvement over the previous year. The directors consider that the results for the year are in line with expectations.

The business was trading in extremely difficult economic circumstances and the Directors were satisfied that their actions have still managed to produce organic growth within the business. The Company was prepared to face the challenges of the credit crisis and the loss of business confidence in the UK which resulted in challenging curtailment of corporate activity.

Measures have been taken by management in order to allow the maintenance of good activity level and profits.

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.

In addition, management have delivered direct initiatives to implement cost savings and efficiencies, particularly in areas of food and beverage procurement, energy and payroll.

Management was encouraged to look more carefully into yield management by arbitrating occupancy with average room rates.

The corporate conference and banqueting has experienced a decline in large events. Management combated the decline in swiftly shifting efforts towards the smaller events and transient leisure market, a strategy which has proved beneficial.

Management has decided to implement a re-positioning of the Cardiff asset by reconfiguring its lobby, ground floor and adjoining restaurant, enhancing guest experience and making the hotel ground floor a destination by itself. Half a Million Pounds was invested for a successfully completed project which was launched and named Metropole Lounge.

The aggressive procurement drive has resulted in achieving a reduction of approximately 5% in cost of sales, and an efficient use of the labour force and closer monitoring of agency staff has resulted in approximately 4% saving in the payroll expenditure.

The combination of the various initiatives, together with the market showing signs of recovery especially in corporate activity, is already filtering through the forward booking system and definite orders on the books for the coming year are gathering satisfactory pace, the majority of which have been converted.

Management will continue with its rolling enhancement programme for each individual asset in order to improve quality and guest expectations, using this as a revenue enhancement tool. Management has encouraged re-training and re-focussing of key staff members to achieve its objective.

Whilst still cautious, we can clearly see the efforts put to date filtering through to next year which, with the added benefit of even a slightly re-balancing of the economy, will allow us to achieve a satisfactory profit conversion.

Management now is focussing on composing also a medium term asset management programme for each individual asset so to cater for the changing UK trading leisure environment, especially in the provinces, and to protect local trade.

The directors do not recommend the payment of a dividend (2009 £nil).

Directors

The directors who held office during the period were as follows

A Matyas

Dr E Wojakowski

I Robertson (Deceased 30 08 2010)

N Smith (Appointed 01 10 2010)

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 (2009 £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 (2009 9 days)

Employee involvement

The Company has continued to operate a monthly communications cycle that requires the General Manager 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

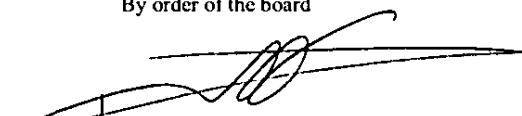
Statement as to disclosure of information to auditors

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



Dr E Wojakowski
Director

3 Park Place
St James'
London
SW1A 1LP

21 Dec 2010

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.



KPMG LLP
15 Canada Square
Canary Wharf, London
E14 5GL

Independent auditors' report to the members of Summerhill Properties Limited

We have audited the financial statements of Summerhill Properties Limited for the year ended 31 March 2010 set out on page 6 to 15. 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 auditors

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 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 APB's web-site at www.frc.org.uk/apb/scope/UKNP.

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 2010 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.

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.



Independent auditor's report to the members of Summerhill Properties Limited *(continued)*

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
London

21 Dec 2010

Profit and loss account
for the year ended 31 March 2010

| | Note | Year ended 31 March 2010 | Year ended 31 March 2009 |
|--|------|--------------------------|--------------------------|
| | | £'000 | £ 000 |
| Turnover | 2 | 8,925 | 9 710 |
| Cost of sales | | (4,018) | (4 214) |
| | | <hr/> | <hr/> |
| Gross profit | | 4,907 | 5 496 |
| Depreciation | | (631) | (862) |
| Administrative expenses | 3 5 | (3,017) | (3 587) |
| | | <hr/> | <hr/> |
| Profit on ordinary activities before taxation | 3 | 1,259 | 1 047 |
| Tax credit on profit on ordinary activities | 6 | 46 | 117 |
| | | <hr/> | <hr/> |
| Profit on ordinary activities after taxation | | 1,305 | 1 164 |
| | | <hr/> <hr/> | <hr/> <hr/> |

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.

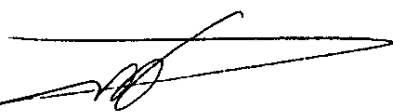
The notes on pages 8 to 15 form part of these financial statements.

Balance sheet
at 31 March 2010

| | <i>Note</i> | 31 March 2010 | | 31 March 2009 | |
|--|-------------|----------------------|-----------------|----------------------|-----------------|
| | | £'000 | £'000 | £'000 | £'000 |
| Fixed assets | | | | | |
| Tangible assets | 7 | | 24,327 | | 24,839 |
| Current assets | | | | | |
| Stock | 8 | 83 | | 89 | |
| Debtors | 9 | 4,740 | | 4,086 | |
| Cash at bank and in hand | | 1,097 | | 484 | |
| | | <u>5,920</u> | | <u>4,659</u> | |
| Creditors amounts falling due within one year | 10 | (23,417) | | (23,927) | |
| Net current liabilities | | | <u>(17,497)</u> | | <u>(19,268)</u> |
| Total assets less current liabilities | | | <u>6,830</u> | | <u>5,571</u> |
| Provisions for liabilities and charges | 11 | | (2,854) | | (2,900) |
| Net assets | | | <u>3,976</u> | | <u>2,671</u> |
| Capital and reserves | | | | | |
| Called up share capital | 12 | | 3,500 | | 3,500 |
| Profit and loss account | 13 | | 476 | | (829) |
| Shareholders' funds | | | <u>3,976</u> | | <u>2,671</u> |

The notes on pages 8 to 15 form part of these financial statements

These financial statements were approved by the board of directors on 21 Dec 2010 and were signed on its behalf by



Dr E Wojakovski
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 2010 the Company had net current liabilities of £17,497,000 (2009: £19,268,000)

The Company's assets are cross guaranteed 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. Subsequent to year end, in the covenant testing as at 30 June and 30 September 2010, the covenant related to interest rate cover was breached in respect of financing arrangements related to the Cardiff Hotel. As per the management forecasts this covenant 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 bank loan has not been reclassified under current liabilities and financial statements have been prepared on going concern basis due to the following reasons:

- Management has reached an agreement with the bank that the covenant breaches will be remedied each quarter by payment of a specified amount in a restricted account held with the bank. The required amounts were deposited in the bank for breaches for quarters ended 30 June 2010 and 30 September 2010 to the bank's satisfaction. The management believes that the funds will continue to be available in future to rectify the breaches by payment of specified amounts.

The holding company Tonstate (Hotels) Limited, has confirmed that it has no intention to call the repayment of loan of £22.0million (classified as current liabilities) extended to the Company by its intermediary parent Hotel Innovation Cardiff Limited for a period of at least 12 months from the signature of these financial statements.

The holding company Tonstate (Hotels) Limited has further confirmed to provide financial support as necessary to enable the Company to meet its ongoing financial obligations as and when they fall due for the foreseeable future and in any event for a period no less than twelve months from the date of signature of these financial statements.

The directors have no reason to believe that the Tonstate (Hotels) Limited will not be in a position to provide the support referred to above. Accordingly, the financial statements have been prepared on the 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). Income from ownership and operations of the hotel is recognised at the point at which the accommodation and related services are provided.

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.

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.

2 Profit on ordinary activities before taxation

| | Year ended 31 March 2010 | Year ended 31 March 2009 |
|---|-----------------------------|-----------------------------|
| | £'000 | £'000 |
| <i>Profit on ordinary activities before taxation is stated after charging</i> | | |
| Auditors' remuneration | 9 | 9 |
| Audit of these financial statements | 201 | 201 |
| Operating lease rentals – property | <u> </u> | <u> </u> |

In 2010 and 2009 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)

3 Remuneration of directors

Prior to and subsequent to the acquisition, the respective directors of the Company were also directors of other undertakings within the Hilton and Tonstate Groups respectively. The directors for the year were paid by other undertakings.

4 Staff costs and employee information

The average number of employees during the period was

| | Year ended 31 March 2010 | Year ended 31 March 2009 |
|-------------------------------|-----------------------------|-----------------------------|
| Operations | 115 | 215 |
| Management and administration | 23 | 29 |
| | <u>138</u> | <u>244</u> |

The aggregate payroll costs of these employees were as follows

| | Year ended 31 March 2010 | Year ended 31 March 2009 |
|-----------------------|-----------------------------|-----------------------------|
| | £'000 | £'000 |
| Wages and salaries | 2,460 | 2,563 |
| Social security costs | 197 | 211 |
| Pension costs | 34 | 46 |
| | <u>2,691</u> | <u>2,820</u> |

Notes (continued)

5 Taxation

Analysis of (credit) in period

| | Year ended 31 March 2010 | | Year ended 31 March 2009 | |
|---|-----------------------------|-------|-----------------------------|-------|
| | £'000 | £'000 | £ 000 | £ 000 |
| <i>UK corporation tax</i> | | | | |
| Current tax on income for the period | - | - | - | - |
| Adjustment in respect of prior period | - | - | (10) | - |
| | | | | |
| Total current tax | | | | (10) |
| <i>Deferred tax</i> | | | | |
| Origination of timing difference | (10) | - | 117 | - |
| Adjustment in respect of prior period | (36) | - | (224) | - |
| | | (46) | | (107) |
| | | | | |
| Tax credit on profit on ordinary activities | | (46) | | (117) |

Factors affecting the tax charge for current period

The current tax charge for the period is lower (2009 lower) than the standard rate of corporation tax in the UK of 28% (2009 28%). The differences are explained below

| | Year ended 31 March 2010 | 15 month period to 31 March 2009 |
|---|-----------------------------|-------------------------------------|
| | £'000 | £ 000 |
| <i>Current tax reconciliation</i> | | |
| Profit on ordinary activities before tax | 1,259 | 1,047 |
| | | |
| Current tax at 28 % (2009 28 %) | 353 | 293 |
| <i>Effects of</i> | | |
| Expenses not deductible for tax purposes | 49 | 60 |
| Capital allowances less than depreciation | 10 | 187 |
| Trading losses utilised | - | (304) |
| Group relief surrendered from fellow group company free of charge | (355) | (151) |
| Adjustment in respect of prior period | - | (10) |
| Industrial buildings allowance | (57) | (85) |
| | | |
| Total current tax charge (see above) | - | (10) |

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

Notes (continued)

6 Tangible assets

| | Freehold land and buildings | Surface finishing's | Fixtures and fittings | Total |
|-----------------------|--------------------------------|------------------------|--------------------------|--------|
| | £'000 | £'000 | £'000 | £'000 |
| Cost | | | | |
| At 1 April 2009 | 21 936 | 5 282 | 3 908 | 31 126 |
| Additions | - | - | 119 | 119 |
| At 31 March 2010 | 21 936 | 5 282 | 4 027 | 31 245 |
| Depreciation | | | | |
| At 1 April 2009 | 637 | 1 979 | 3 671 | 6 287 |
| Charge for the period | 65 | 531 | 35 | 631 |
| At 31 March 2010 | 702 | 2 510 | 3 706 | 6 918 |
| Net book value | | | | |
| At 31 March 2010 | 21,234 | 2,772 | 321 | 24,327 |
| At 31 March 2009 | 21 299 | 3 303 | 237 | 24 839 |

Included in the cost of freehold land and buildings are cumulative capitalised interest costs of £670,000 (2009 £670 000). No interest was capitalised during the period (2009 £nil). In addition, freehold land and buildings includes £5,075 000 of land that is not depreciable (2009 £5,075,000).

7 Stocks

| | 31 March 2010 £'000 | 31 March 2009 £'000 |
|----------------------------------|------------------------|------------------------|
| Goods for resale and consumables | 83 | 89 |

8 Debtors

| | 31 March 2010 £'000 | 31 March 2009 £'000 |
|-------------------------------------|------------------------|------------------------|
| Trade debtors | 567 | 889 |
| Prepayments and other debtors | 188 | 158 |
| Amounts due from group undertakings | 3,985 | 3 039 |
| | 4,740 | 4 086 |

Notes (continued)

9 Creditors: amounts falling due within one year

| | 31 March 2010 £'000 | 31 March 2009 £'000 |
|------------------------------------|------------------------|------------------------|
| Trade creditors | 374 | 188 |
| Other taxes and social security | 149 | 449 |
| Other creditors and accruals | 849 | 1,245 |
| Amounts owed to group undertakings | 22,045 | 22,045 |
| Corporation tax | - | - |
| | <u>23,417</u> | <u>23,927</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.

10 Provisions for liabilities and charges

| | 31 March 2010 £'000 | 31 March 2009 £'000 |
|---|------------------------|------------------------|
| | Deferred taxation | |
| Balance at 1 April | 2,900 | 3,007 |
| Origination and reversal of timing differences (note 6) | (46) | (107) |
| | <u>2,854</u> | <u>2,900</u> |
| Balance at 31 March | | |

The provision at 31 March 2010 and 2009 relates primarily to timing differences arising from accelerated capital allowances. The Company has no unprovided deferred tax liabilities and no unrecognised deferred tax assets (2009: £nil).

11 Called up share capital

| | 31 March 2010 £'000 | 31 March 2009 £'000 |
|---|------------------------|------------------------|
| <i>Allotted, called up and fully paid</i> | | |
| 3,500,002 ordinary shares of £1 each | 3,500 | 3,500 |
| | <u>3,500</u> | <u>3,500</u> |

Notes *(continued)*

12 Reconciliation of movement in shareholders' funds

| | Share capital | Profit and loss account | Shareholders' funds |
|---------------------|---------------|-------------------------------|------------------------|
| | £'000 | £'000 | £'000 |
| At 1 April 2009 | 3 500 | (829) | 2 671 |
| Profit for the year | - | 1 305 | 1 305 |
| | <hr/> | <hr/> | <hr/> |
| At 31 March 2010 | 3 500 | 476 | 3 976 |
| | <hr/> | <hr/> | <hr/> |

13 Financial commitments

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

| | Land and buildings | Land and buildings |
|------------------|-----------------------|-----------------------|
| | 31 March 2010 | 31 March 2009 |
| | £'000 | £'000 |
| Leases expiring | | |
| After five years | 200 | 200 |
| | <hr/> | <hr/> |

Notes (continued)

14 Related parties

The following amounts were owed to group undertakings

| | 31 March 2010 | 31 March 2009 |
|---|-------------------|-------------------|
| | £'000 | £'000 |
| Owed to Hotel Innovations (Cardiff) Limited | 22,045 | 22,045 |
| Owed by Tonstate (Hotels) Cardiff Limited | 3,985 | 3,039 |
| | <u> </u> | <u> </u> |

15 Contingent liabilities

The Company's assets are secured by a fixed and floating charge to Bank of Scotland in respect of a loan of £29,000,000 provided to Tonstate (Hotels) Cardiff Limited, an intermediate parent undertaking.

16 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.