
PRESTBURY HOTEL HOLDINGS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013

FRIDAY



A81

A2NMAXLL

20/12/2013

#108

COMPANIES HOUSE

PRESTBURY HOTEL HOLDINGS LIMITED

COMPANY INFORMATION

DIRECTORS

S L Gumm
N M Leslau
J C McMahon
N S Burnett (resigned 30 August 2013)
A Hewitt (appointed 30 August 2013)

COMPANY SECRETARY

S L Gumm

REGISTERED NUMBER

5237994

REGISTERED OFFICE

Cavendish House
18 Cavendish Square
London
W1G 0PJ

INDEPENDENT AUDITORS

BDO LLP
2 City Place
Beehive Ring Road
Gatwick
West Sussex
RH6 0PA

PRESTBURY HOTEL HOLDINGS LIMITED

CONTENTS

| | Page |
|--|----------------|
| Directors' report | 1 - 3 |
| Directors' responsibilities statement | 4 |
| Independent auditors' report | 5 - 6 |
| Consolidated profit and loss account | 7 |
| Consolidated statement of total recognised gains and losses | 8 |
| Consolidated balance sheet | 9 |
| Company balance sheet | 10 |
| Consolidated cash flow statement | 11 |
| Notes to the financial statements | 12 - 27 |

PRESTBURY HOTEL HOLDINGS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013

The directors present their report and the financial statements for the year ended 31 March 2013

PRINCIPAL ACTIVITIES

The principal activity of the company is the holding of investments directly and indirectly in subsidiary undertakings

The principal activity of the group is that of property investment in the United Kingdom. Through its two sub-groups headed by Prestbury Hotels Limited (the "Hotels group") and Prestbury Hotels Finance Limited (the "Hotels Finance group"), the group owned a portfolio of 152 budget hotels that are leased to a hotel operator on long term leases. At 31 March 2013, the average unexpired lease terms for the Hotels group and the Hotels Finance group were 26.5 years and 35.3 years respectively and 28.5 years overall.

BUSINESS REVIEW AND EVENTS SINCE THE BALANCE SHEET DATE

The group has commissioned a directors' valuation of its real estate assets as at 31 March 2013. The resultant revaluation deficit in the year of £136 million (2012: £34 million) is a reflection of the impact of a Company Voluntary Arrangement ("CVA") undertaken in September 2012 by Travelodge Hotels Limited ("Travelodge"), the sole tenant of the group's investment property portfolio. However, it should be noted that the directors have reason to believe that once the tenant group stabilises and in particular after it has invested significant capital expenditure in the estate there are reasonable prospects for recovery of this valuation shortfall.

The impact of the tenant's CVA on the group is a reduction of annualised rental income of circa £5 million, but in compensation for the valuation impact of the rent reduction, an option to extend the leases to a minimum term of 25 years was exercised by group companies and rents were reallocated amongst properties to better reflect current and future trading potential. The tenant group has also given an undertaking to spend c. £42 million on refurbishment of the group's portfolio in the period from March 2013 to December 2015. Refurbishment of three hotels within the portfolio was completed on schedule by the balance sheet date with a further 43 sites refurbished by 30 September 2013. It is estimated that a further five sites will be completed each month, with 84% due to be completed by the end of 2014.

As part of the CVA arrangements the tenant surrendered the leases on eight sites with a book value of £6 million. After the balance sheet date the group disposed of seven of these properties for aggregate gross proceeds of £5.9 million against a book value of £5.6 million. Proceeds were applied in repayment of secured debt and interest rate swap break costs.

In December 2012 the company's secured bank debt was restructured as a result of the breach of certain terms of the credit agreement caused by the tenant's CVA. This did not include any breach of financial covenants and the breach was waived by the lenders after amendment to certain terms of the agreements. As a result of these changes the overall interest cost from the date of refinancing to the date of expiry increases by approximately 5%, from 6.6% to 6.9% per annum.

RESULTS

The profit for the year, after taxation, amounted to £27,584,344 (2012: loss £12,301,983). The profit is shown after the benefit of reversing £27.8 million of loan redemption premium previously recognised in the profit and loss account but no longer payable at current valuation levels.

PRESTBURY HOTEL HOLDINGS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013

DIRECTORS

The directors who served during the year were

S L Gumm
N M Leslau
J C McMahon
N S Burnett (resigned 30 August 2013)

PRINCIPAL RISKS AND UNCERTAINTIES

Market factors

The directors consider the properties owned by the group relatively well placed to withstand market fluctuations over time by virtue of the quality of the assets and, in particular, the longevity of income

As noted in the Business Review, while Travelodge's CVA had an initially negative impact on valuation the upwards only income profile and Travelodge's commitment to invest in room refurbishment combined with the length of the leases allows time for value to be recovered

Risk management objectives and policies

The management of risk is integral to the group's approach to running the business. The group utilises secured non-recourse bank debt to fund its property investment purchases. Cash resources generated from the group's operations, including those resulting from strict credit control over its short term debtors and creditors, are utilised in meeting the group's working capital requirements

Set out below are the policies operated by the group for the management of the principal risks and uncertainties that it is exposed to in the conduct of its operations

General treasury policy

The group enters into hedging instruments, such as interest rate swaps, to manage the interest rate risks arising from those operations and its sources of finance. In addition, various financial instruments such as rental and other debtors and trade and other creditors arise directly from the group's operations. The group's operations are in the UK therefore it has no currency risk

Operations are predominantly financed by bank borrowings. Bank loans are at fixed rates, by way of use of interest rate swaps to fix interest on floating rate debt, and are secured on the group's assets

Working capital requirements are met principally by cash resources generated from the group's operations. Cash levels are monitored regularly to ensure sufficient resources are available to meet the group's short term and long term operational requirements. Short term money market deposits are used to manage liquidity giving due consideration to counterparty risk

The group maintains internal guidelines, set by reference to the requirements of the group's secured debt facilities, for interest cover and gearing. Management monitor the group's current and projected financial position against these guidelines on at least a quarterly basis

Policy in relation to interest rate risk

The group's policy is to substantially eliminate risk in respect of changes in interest rates such that, over the term of the group's debt facilities, changes in floating rates will have a minimal impact on the reported results and cash flows

PRESTBURY HOTEL HOLDINGS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 MARCH 2013

Policy in relation to liquidity risk

The group seeks to manage its liquidity risk by ensuring that sufficient liquidity is available to meet its foreseeable needs

The group's liquidity needs are very modest and managed principally through the deduction of the group's operating costs from rental receipts before those rental receipts are applied in payment of interest and repayment of debt as required by the credit agreements relating to the group's secured debt

Policy in relation to credit risk

The group's principal financial assets are bank balances, hedging instruments and shareholder loans. The group's credit risk on bank balances and hedging instruments is limited because the counterparties are banks with high credit ratings. The credit risk on shareholder loans is monitored by the Board and is not considered significant at the balance sheet date.

Policy in relation to inflation risk

The leases entered into by the group companies contain rent review provisions whereby rental income is linked to the Retail Price Index ("RPI"). However, the reviews are 'upwards only' therefore deflation cannot have the effect of reducing rental income. The group financing arrangements are such that even with no RPI increases in the future, the interest cover covenant in the group's credit agreements would continue to be met. In this way the group's affairs have been managed such that inflation presents opportunities on the upside, but no downside risks.

PROVISION OF INFORMATION TO AUDITORS

Each of the persons who are directors at the time when this directors' report is approved has confirmed that

- so far as that director is aware, there is no relevant audit information of which the company and the group's auditors are unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the company and the group's auditors in connection with preparing their report and to establish that the company and the group's auditors are aware of that information

AUDITORS

BDO LLP have expressed their willingness to continue in office

This report was approved by the board on 13 December 2013 and signed on its behalf



S L Guram
Director

PRESTBURY HOTEL HOLDINGS LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 MARCH 2013

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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting 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,
- 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 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.

PRESTBURY HOTEL HOLDINGS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PRESTBURY HOTEL HOLDINGS LIMITED

We have audited the financial statements of Prestbury Hotel Holdings Limited for the year ended 31 March 2013, which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom 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 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 explained more fully in the directors' responsibilities statement, 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 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 group's and the parent company's affairs as at 31 March 2013 and of the group's profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTER 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.

PRESTBURY HOTEL HOLDINGS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF PRESTBURY HOTEL HOLDINGS LIMITED

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company 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



Russell Field (senior statutory auditor)

for and on behalf of

BDO LLP

Statutory auditor

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

2 City Place
Beehive Ring Road
Gatwick
West Sussex
RH6 0PA

13 December 2013

PRESTBURY HOTEL HOLDINGS LIMITED

**CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2013**

| | Note | 2013 £ | 2012 £ |
|---|-------------|--------------------------|---------------------|
| TURNOVER | 1,2 | 38,310,993 | 39,217,617 |
| Cost of sales | | <u>(1,616,851)</u> | <u>(1,588,479)</u> |
| GROSS PROFIT | | 36,694,142 | 37,629,138 |
| Administrative expenses | | <u>(1,431,525)</u> | <u>(216,022)</u> |
| OPERATING PROFIT | 3 | 35,262,617 | 37,413,116 |
| Interest receivable and similar income | | 926,617 | 1,246,010 |
| Interest payable and similar charges | 5 | <u>(8,604,890)</u> | <u>(50,961,109)</u> |
| PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION | | 27,584,344 | (12,301,983) |
| Tax on profit/(loss) on ordinary activities | 6 | <u>-</u> | <u>-</u> |
| PROFIT/(LOSS) FOR THE FINANCIAL YEAR | 16 | <u>27,584,344</u> | <u>(12,301,983)</u> |

All amounts relate to continuing operations

There are no material differences between the profit/(loss) on ordinary activities before taxation and the retained profit/(loss) for the financial year stated above and their historical cost equivalents

The notes on pages 12 to 27 form part of these financial statements

PRESTBURY HOTEL HOLDINGS LIMITED

**CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 MARCH 2013**

| | Note | 2013 £ | 2012 £ |
|---|-------------|----------------------|---------------------|
| PROFIT/(LOSS) FOR THE FINANCIAL YEAR | 16 | 27,584,344 | (12,301,983) |
| Unrealised deficit on revaluation of investment properties | 16 | (135,881,647) | (34,438,000) |
| TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR | | (108,297,303) | (46,739,983) |

The notes on pages 12 to 27 form part of these financial statements

PRESTBURY HOTEL HOLDINGS LIMITED
REGISTERED NUMBER 5237994

CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2013

| | Note | £ | 2013 £ | 2012 £ |
|---|------|-------------------|---------------------|--------------------|
| FIXED ASSETS | | | | |
| Investment property | 7 | | 453,280,000 | 589,181,000 |
| CURRENT ASSETS | | | | |
| Debtors | 10 | 17,730,720 | 16,832,281 | |
| Cash at bank and in hand | | 9,054,042 | 9,834,363 | |
| | | <u>26,784,762</u> | <u>26,666,644</u> | |
| CREDITORS amounts falling due within one year | 12 | (26,409,715) | (26,181,056) | |
| NET CURRENT ASSETS | | | <u>375,047</u> | <u>485,588</u> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | <u>453,655,047</u> | <u>589,666,588</u> |
| CREDITORS , amounts falling due after more than one year | 13 | | (546,264,365) | (573,978,603) |
| NET (LIABILITIES)/ASSETS | | | <u>(92,609,318)</u> | <u>15,687,985</u> |
| CAPITAL AND RESERVES | | | | |
| Called up share capital | 15 | | 20,000 | 20,000 |
| Revaluation reserve | 16 | | (80,319,131) | 55,562,516 |
| Profit and loss account | 16 | | (12,310,187) | (39,894,531) |
| SHAREHOLDERS' (DEFICIT)/FUNDS | 17 | | <u>(92,609,318)</u> | <u>15,687,985</u> |

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 13 December 2013


S L Gumm
 Director

The notes on pages 12 to 27 form part of these financial statements

PRESTBURY HOTEL HOLDINGS LIMITED
REGISTERED NUMBER: 5237994

COMPANY BALANCE SHEET
AS AT 31 MARCH 2013

| | Note | £ | 2013 £ | 2012 £ |
|--|------|--------|-----------|-----------|
| FIXED ASSETS | | | | |
| Investments | 8 | | 20,001 | 20,001 |
| CURRENT ASSETS | | | | |
| Cash at bank | | 12,021 | | 12,509 |
| CREDITORS: amounts falling due within one year | 12 | (780) | | (16) |
| NET CURRENT ASSETS | | | 11,241 | 12,493 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | | 31,242 | 32,494 |
| CREDITORS: amounts falling due after more than one year | 13 | | (15,713) | (14,869) |
| NET ASSETS | | | 15,529 | 17,625 |
| CAPITAL AND RESERVES | | | | |
| Called up share capital | 15 | | 20,000 | 20,000 |
| Profit and loss account | 16 | | (4,471) | (2,375) |
| SHAREHOLDERS' FUNDS | 17 | | 15,529 | 17,625 |

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 13 December 2013.


S L Gurnin
 Director

The notes on pages 12 to 27 form part of these financial statements

PRESTBURY HOTEL HOLDINGS LIMITED

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2013**

| | Note | 2013 £ | 2012 £ |
|---|------|------------------|-------------------|
| Net cash flow from operating activities | 19 | 34,127,447 | 46,514,450 |
| Returns on investments and servicing of finance | 20 | (27,772,091) | (28,474,380) |
| Capital expenditure and financial investment | 20 | 19,353 | - |
| CASH INFLOW BEFORE FINANCING | | 6,374,709 | 18,040,070 |
| Financing | 20 | (7,155,030) | (8,843,543) |
| (DECREASE)/INCREASE IN CASH IN THE YEAR | | (780,321) | 9,196,527 |

**RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/DEBT
FOR THE YEAR ENDED 31 MARCH 2013**

| | | 2013 £ | 2012 £ |
|---|----|----------------------|----------------------|
| (Decrease)/Increase in cash in the year | | (780,321) | 9,196,527 |
| Cash outflow from changes in debt financing | | 7,661,346 | 8,843,543 |
| CHANGE IN NET DEBT RESULTING FROM CASH FLOWS | | 6,881,025 | 18,040,070 |
| Other non-cash changes | 22 | 19,342,011 | (22,404,095) |
| MOVEMENT IN NET DEBT IN THE YEAR | | 26,223,036 | (4,364,025) |
| Net debt at 1 April 2012 | | (575,167,470) | (570,803,445) |
| NET DEBT AT 31 MARCH 2013 | | (548,944,434) | (575,167,470) |

The notes on pages 12 to 27 form part of these financial statements

PRESTBURY HOTEL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

1. ACCOUNTING POLICIES

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

1.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention as modified by the revaluation of investment properties and in accordance with applicable accounting standards

1.2 Basis of consolidation

The financial statements consolidate the accounts of Prestbury Hotel Holdings Limited and all of its subsidiary undertakings ('subsidiaries')

Subsidiaries are those entities controlled by the group. Control is assumed when the group has the power to govern the financial and operating policies of an entity to benefit from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The reporting year for subsidiaries ends on 31 March 2013.

1.3 Turnover

Turnover represents rents receivable during the year from the letting of commercial properties at invoiced amounts excluding value added tax.

1.4 Investments

Investments in subsidiaries are valued at cost less provision for impairment. Any impairment in value is written off to the profit and loss account.

1.5 Operating leases

Annual rentals receivable or payable under operating leases are credited or charged to the profit and loss account on a straight-line basis over the term of the lease.

1.6 Investment properties

Investment properties are included in the balance sheet at their open market value at the balance sheet date, on the basis of an annual valuation. Aggregate surpluses or deficits arising on valuation are transferred to the revaluation reserve. Permanent diminutions in the value of the properties are charged directly to the profit and loss account.

Additions to investment properties include only costs of a capital nature. Costs such as interest and other property outgoings are treated as revenue expenditure and are written off as incurred.

In accordance with SSAP 19 (as amended), no depreciation or amortisation is provided in respect of freehold or long leasehold investment properties. This treatment is a departure from the requirements of the Companies Act 2006 concerning depreciation of fixed assets. However, the company's investment properties are held not for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy is therefore necessary for the accounts to give a true and fair view. Depreciation or amortisation is only one of the factors reflected in the annual valuation and the amount which might otherwise have been shown cannot be separately identified or quantified.

PRESTBURY HOTEL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

1 ACCOUNTING POLICIES (continued)

1.7 Deferred taxation

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that deferred tax is not recognised on timing differences arising on revalued properties unless the group has entered into a binding sale agreement and is unable to utilise existing capital losses within the group. The recognition of deferred tax assets is limited to the extent that the group anticipates to make sufficient taxable profits in the future to absorb the reversal of the underlying timing differences.

Deferred tax balances are not discounted.

1.8 Financial instruments

The group does not trade in derivative financial instruments. Hedging instruments are used to protect the group's exposure to movements in interest rates. Gains or losses are deferred until the related interest in the hedging instrument is realised.

1.9 Cash

For the purposes of the cash flow statement, cash comprises cash in hand and deposits repayable on demand.

1.10 Financing costs

Costs relating to the raising of bank loan facilities are amortised over the life of the loan and charged to the profit and loss account as part of the group's financing costs. The bank loans are disclosed net of the unamortised loan issue costs.

Premiums or fees arising on the redemption or maturity of bank loan facilities are accrued over the life of the loan to the extent that it is considered probable that such a premium or fee will become payable in the future. They are charged to the profit and loss account as part of the group's financing costs.

2. TURNOVER

The whole of the turnover is attributable to the principal activity of the group.

All turnover arose within the United Kingdom.

PRESTBURY HOTEL HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013**

3. OPERATING PROFIT

The operating profit is stated after charging

| | 2013 £ | 2012 £ |
|--|-----------|-----------|
| Fees payable to the company's auditor for the audit of the company's annual accounts | 6,600 | 6,600 |
| Head lease rentals | 1,569,457 | 1,543,063 |

Head lease rental payments are recoverable from tenants and that recovery is disclosed within turnover

Total fees payable to the company's auditors for the audit of the company and its subsidiaries are £56,000 (2012 £52,100)

4. STAFF COSTS

The company has no employees and no director received any remuneration during the year (2012 - £nil)

5. INTEREST PAYABLE

| | 2013 £ | 2012 £ |
|--------------------------------------|--------------|------------|
| On bank loans and overdrafts | 31,915,407 | 31,925,295 |
| Amortisation of prepaid finance fees | 945,522 | 803,657 |
| Loan redemption premiums | (24,864,378) | 17,622,261 |
| Loan maturity fee | 568,339 | 569,896 |
| Agency fees | 40,000 | 40,000 |
| | 8,604,890 | 50,961,109 |

6. TAXATION

| | 2013 £ | 2012 £ |
|---|-----------|-----------|
| UK corporation tax charge on profit/loss for the year | - | - |

PRESTBURY HOTEL HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013**

6. TAXATION (continued)

Factors affecting tax charge for the year

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

| | 2013 £ | 2012 £ |
|---|--------------------|--------------|
| Profit/(loss) on ordinary activities before tax | 27,584,344 | (12,301,983) |
| Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 24% (2012 - 26%) | 6,620,243 | (3,198,516) |
| Effects of: | | |
| Expenses not deductible for tax purposes | 1,998 | 26 |
| Net movement in losses available to carry forward | (6,622,241) | 3,198,490 |
| Current tax charge for the year (see note above) | - | - |

No provision for UK corporation tax has been made for the year and it is not expected that one will arise for the foreseeable future, due to the availability of losses

UNPROVIDED DEFERRED TAX BALANCES

The group and company has an unprovided deferred tax asset / (liability) which is made up as follows

| | Group | | Company | |
|---|---------------------|--------------|----------------|-----------|
| | 2013 £ | 2012 £ | 2013 £ | 2012 £ |
| Losses available to carry forward | 9,945,122 | 16,999,758 | 398 | 370 |
| Inherent capital gain arising on investment properties at valuation | (39,445,032) | (66,264,337) | - | - |
| Total | (29,499,910) | (49,264,579) | 398 | 370 |

The unprovided deferred tax balances have been measured at the tax rates substantively enacted at the balance sheet date

PRESTBURY HOTEL HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013**

7. INVESTMENT PROPERTY

| Group | Freehold investment property £ | Long term leasehold investment property £ | Total £ |
|---|---|--|--------------------|
| Valuation | | | |
| At 1 April 2012 | 324,806,000 | 264,375,000 | 589,181,000 |
| Additions at cost net of dilapidation payments received | (19,353) | - | (19,353) |
| Deficit on revaluation | (75,965,647) | (59,916,000) | (135,881,647) |
| At 31 March 2013 | <u>248,821,000</u> | <u>204,459,000</u> | <u>453,280,000</u> |

The group's investment properties were valued as at 31 March 2013 by Nick Leslau BSc (Hons) FRICS, a chartered surveyor and director of the company, on an arm's length open market basis

The historical cost of the investment properties to the group is £533,599,131 (2012 £533,618,484)

The group's investment properties are held as security by a fixed charge in respect of bank borrowings provided to subsidiary undertakings, Prestbury Hotels Limited and Prestbury Hotels Finance Limited

8 FIXED ASSET INVESTMENTS

| Company | Investments in subsidiary companies £ |
|-----------------------------------|--|
| Cost or valuation | |
| At 1 April 2012 and 31 March 2013 | <u>20,001</u> |

PRESTBURY HOTEL HOLDINGS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2013

9 PRINCIPAL SUBSIDIARIES

The following companies were the principal subsidiary undertakings at the end of the year

| Company name | Country of incorporation | Percentage Shareholding | Description |
|----------------------------------|---------------------------------|--------------------------------|---|
| Prestbury Hotels Limited | England | 100 | Provision of finance to group companies |
| Prestbury Hotels Finance Limited | England | 100 | Provision of finance to group companies |
| Prestbury Hotels Assets Limited | England | 100 | Property investment* |
| TLLC Bridgeco1 Limited | England | 100 | Property investment** |
| TLLC Bridgeco2 Limited | England | 100 | Property investment** |
| TLLC Bridgeco3 Limited | England | 100 | Property investment*** |
| TLLC Bridgeco4 Limited | England | 100 | Property investment*** |
| TLLC Bridgeco5 Limited | England | 100 | Property investment** |
| TLLC Bridgeco6 Limited | England | 100 | Property investment** |
| TLLC Bridgeco7 Limited | England | 100 | Property investment*** |
| TLLC Bridgeco10 Limited | England | 100 | Property investment*** |
| TLLC CMpropco1 Limited | England | 100 | Property investment** |
| TLLC CMpropco2 Limited | England | 100 | Property investment** |
| TLLC CMpropco3 Limited | England | 100 | Property investment** |
| TLLC CMpropco4 Limited | England | 100 | Property investment** |
| TLLC CMpropco5 Limited | England | 100 | Property investment** |
| TLLC CMpropco8 Limited | England | 100 | Property investment** |
| TLLC CMpropco9 Limited | England | 100 | Property investment** |
| TLLC CMpropco10 Limited | England | 100 | Property investment** |
| TLLC CMpropco11 Limited | England | 100 | Property investment** |
| TLLC CMpropco12 Limited | England | 100 | Property investment** |
| TLLC Levpropco2 Limited | England | 100 | Property investment** |
| TLLC Levpropco8 Limited | England | 100 | Property investment** |
| TLLC Levpropco9 Limited | England | 100 | Property investment** |
| TLLC Levpropco10 Limited | England | 100 | Property investment** |

* Prestbury Hotels Limited holds the group's 100% interest in these undertakings

** Prestbury Hotels Limited holds the group's 100% interest in these undertakings, each of which acts as an intermediate parent company to a wholly owned subsidiary undertaking which undertakes property investment activities

*** Prestbury Hotels Finance Limited holds the group's 100% interest in these undertakings

For all undertakings listed above, the country of operation is the same as its country of incorporation

PRESTBURY HOTEL HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013**

10 DEBTORS

| | Group | | Company | |
|--------------------------------|-------------------|-------------|----------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| | £ | £ | £ | £ |
| Trade debtors | 78,812 | 63,005 | - | - |
| Amounts due from shareholders | 17,172,445 | 16,258,655 | - | - |
| Prepayments and accrued income | 479,463 | 510,621 | - | - |
| | 17,730,720 | 16,832,281 | - | - |

The amounts due from the shareholders are unsecured, have no fixed repayment date, and prior to 11 December 2013, bore interest at a rate of 8% pa compounding half yearly. Thereafter the interest on these loans no longer accrues. The above amount includes interest of £6,832,175 (2012 £5,918,385) of which £913,790 (2012 £1,229,843) accrued during the year.

11. CASH - GROUP

Included within the cash balances at 31 March 2013 is £8,021,202 (2012 £9,159,422) of cash held in accounts held as security by the provider of the secured bank debt.

12. CREDITORS

Amounts falling due within one year

| | Group | | Company | |
|---------------------------------|-------------------|-------------|----------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| | £ | £ | £ | £ |
| Secured bank loans (note 13) | 11,734,111 | 11,023,230 | - | - |
| Trade creditors | 278,828 | 213,518 | - | - |
| Social security and other taxes | 1,244,653 | 1,520,655 | - | - |
| Other creditors | 28,976 | 5,591 | 1 | 1 |
| Accruals and deferred income | 13,123,147 | 13,418,062 | 779 | 15 |
| | 26,409,715 | 26,181,056 | 780 | 16 |

PRESTBURY HOTEL HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013**

13. CREDITORS

Amounts falling due after more than one year

| | Group | | Company | |
|---------------------------------------|--------------------|-------------|----------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| | £ | £ | £ | £ |
| Secured bank loans | 520,782,783 | 524,237,408 | - | - |
| Prepaid finance fees | (2,041,908) | (2,078,334) | - | - |
| Amounts owed to group undertakings | - | - | 15,713 | 14,869 |
| Secured bank loan redemption premiums | 9,396,341 | 34,260,719 | - | - |
| Secured bank loan maturity fee | 1,801,557 | 1,233,218 | - | - |
| Shareholders' loans | 16,325,592 | 16,325,592 | - | - |
| | 546,264,365 | 573,978,603 | 15,713 | 14,869 |

Included within the above are amounts falling due as follows

| | Group | | Company | |
|-----------------------------------|--------------------|-------------|----------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |
| | £ | £ | £ | £ |
| Between one and two years | | | | |
| Secured bank loans | 520,782,783 | 12,773,299 | - | - |
| Between two and five years | | | | |
| Secured bank loans | - | 511,464,109 | - | - |

The bank loans are secured by charges over the shares in the subsidiary undertakings and by fixed and floating charges over the assets of all the group companies, including fixed charges on investment properties

The group's strategy in respect of the use of financial instruments is to hedge future interest rate risk for the term of the loan to ensure that expected loan balances are substantially hedged

The bank loans bear interest at 3 month LIBOR plus a lenders' margin. Interest on 100% (2012: 100%) of the loans has been fixed by way of purchases of interest rate swaps which fix the interest rate payable (inclusive of the lenders' margin) at approximately 6.73% (2012: 6.47%). In addition premiums and fees are payable on the redemption or maturity of certain of the loans, which are currently being accrued over the loan term to the extent that it is considered probable to be payable.

Bank loans are repayable quarterly from rental surpluses, net of operating costs and the balance is repayable in full by no later than October 2014.

The shareholders' loans are unsecured, interest free and have no fixed repayment date.

The amounts owed to group undertakings are unsecured, bear interest at a rate of 8% and have no fixed repayment date. These amounts include interest accrued of £3,406 (2012: £2,412).

PRESTBURY HOTEL HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013**

14. FINANCIAL INSTRUMENTS

The narrative disclosures required by FRS 25 in relation to the principal risks arising from the group's financial instruments and the policies in respect of them are shown in the Directors' Report

The following financial instruments were in place at 31 March 2013

| | 2013 £ | 2012 £ |
|--|------------------|------------------|
| Market value | | |
| £388 million (2012 £393 million) amortising/accreting 5.044% swap, July 2018 | (89,363,186) | (83,510,329) |
| £27 million (2012 £28 million) amortising 2.44% swap, October 2014 | (772,917) | (936,374) |
| £117 million (2012 £117 million) accreting 4.72% swap, September 2014 | (7,462,629) | (10,698,603) |
| Total net loss pre-tax | (97,598,732) | (95,145,306) |
| Total net loss post-tax at 23% (2012 24%) | (75,151,023) | (72,310,433) |

The market value of the hedging portfolio changes with interest rate fluctuations, but the exposure of the group to movements in interest rates is protected by way of the hedging products listed above. In accordance with accounting standards, the valuations are struck using a mid-market interest rate. The valuation therefore does not reflect the cost or gain to the group of cancelling its interest rate protection at the period end, which is generally a marginally higher cost (or smaller gain) than a market valuation.

PRESTBURY HOTEL HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013**

15. SHARE CAPITAL

| | 2013 £ | 2012 £ |
|---|---------------|---------------|
| Allotted, called up and fully paid | | |
| 2,000 A ordinary shares of £1 each | 2,000 | 2,000 |
| 8,500 B ordinary shares of £1 each | 8,500 | 8,500 |
| 5,500 C ordinary shares of £1 each | 5,500 | 5,500 |
| 2,000 D ordinary shares of £1 each | 2,000 | 2,000 |
| 2,000 M ordinary shares of £1 each | 2,000 | 2,000 |
| | <u>20,000</u> | <u>20,000</u> |

Class rights

All ordinary shares rank pari passu in relation to income and capital. Voting rights are pari passu for all shares except in relation to the procedure for the appointment and removal of directors.

16. RESERVES

| | Revaluation reserve | Profit and loss account |
|---|---------------------|-------------------------|
| Group | £ | £ |
| At 1 April 2012 | 55,562,516 | (39,894,531) |
| Profit for the year | - | 27,584,344 |
| Deficit on revaluation of freehold property | (75,965,647) | - |
| Deficit on revaluation of long leasehold property | (59,916,000) | - |
| | | |
| At 31 March 2013 | (80,319,131) | (12,310,187) |
| | | |
| | | Profit and loss account |
| Company | | £ |
| At 1 April 2012 | | (2,375) |
| Loss for the year | | (2,096) |
| | | |
| At 31 March 2013 | | (4,471) |

PRESTBURY HOTEL HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013**

17. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

| | 2013 | 2012 |
|---|----------------------|--------------|
| Group | £ | £ |
| Opening shareholders' funds | 15,687,985 | 62,427,968 |
| Profit/(loss) for the year | 27,584,344 | (12,301,983) |
| Other recognised gains and losses during the year | (135,881,647) | (34,438,000) |
| Closing shareholders' (deficit)/funds | (92,609,318) | 15,687,985 |
| | | |
| Company | 2013 | 2012 |
| | £ | £ |
| Opening shareholders' funds | 17,625 | 18,606 |
| Loss for the year | (2,096) | (981) |
| Closing shareholders' funds | 15,529 | 17,625 |

The company has taken advantage of the exemption contained within section 408 of the Companies Act 2006 not to present its own profit and loss account

The loss for the year dealt with in the accounts of the company was £2,096 (2012 - £981)

PRESTBURY HOTEL HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013**

18 RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption under Financial Reporting Standard 8, "Related Party Transactions", not to disclose details of any transactions with wholly owned subsidiary undertakings that are included in these consolidated financial statements

The aggregate loans due from shareholders are set out in note 10 and the aggregate loans due to shareholders are set out in note 13. These include the following amounts due to investors holding a 20% or more interest in the equity of the company

| | 2013 £ | 2012 £ |
|---------------------------------------|--------------------|--------------------|
| West Coast Capital Prestven Limited | | |
| - due from shareholder | 6,530,681 | 6,183,167 |
| - due to shareholder | <u>(6,898,469)</u> | <u>(6,898,469)</u> |
| Uberior Ventures Limited | | |
| - due from shareholder | 4,722,424 | 4,471,130 |
| - due to shareholder | <u>(4,988,375)</u> | <u>(4,988,375)</u> |
| Prestbury Investment Holdings Limited | | |
| - due from shareholder* | 3,434,488 | 3,251,731 |
| - due to shareholder | <u>(1,813,955)</u> | <u>(1,813,955)</u> |

*Includes an amount of £1,717,244 (2012 £1,625,865) due from PIHL Wentworth Manager Limited ("PIHLWML")

Prestbury Investment Holdings Limited ("PIHL"), a shareholder in Prestbury Hotel Holdings Limited, has a 100% interest in PIHLWML. PIHLWML holds 10% of PIHL's 20% interest in the company. PIHLWML has agreed, pursuant to a Management Agreement dated 12 October 2004, as amended 14 March 2005, to provide investment and property management and other services to the group. PIHL has agreed to guarantee the performance by PIHLWML of its obligations under the agreement. During the year management fees of £465,977 (2012 £nil) were payable to PIHLWML on an arm's length basis under the terms of the management agreement amended as part of the refinance in December 2012. Prepaid management fees amounting to £155,252 (2012 £nil) are included in prepayments and deferred income at the balance sheet date.

PRESTBURY HOTEL HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013**

18 RELATED PARTY TRANSACTIONS (continued)

Under the terms of the refinancing in January 2010, investors of the parent company are to receive a portion of the secured bank loan redemption premiums set out in note 13 as an Asset Management Promote Fee. Of the Asset Management Promote Fee, PIHLWML will receive a priority return ahead of other investors in recognition of the services it provides under the Management Agreement. The amounts included in the secured bank loan redemption premiums due to investors holding a 20% or more interest in the equity of the parent company are as below, there are no balances for the current year as on the basis of the valuation reported in these accounts the relevant redemption premium will no longer be payable

| | 2013 £ | 2012 £ |
|---|-----------|------------------|
| West Coast Capital Prestven Limited | <u>-</u> | <u>1,764,791</u> |
| Uberior Ventures Limited | <u>-</u> | <u>1,276,144</u> |
| Prestbury Investment Holdings Limited** | <u>-</u> | <u>4,331,081</u> |

**Includes an amount of £nil (2012 £3,867,029) due to PIHLWML of which £nil (2012 £3,402,976) relates to the priority return

PRESTBURY HOTEL HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013**

18. RELATED PARTY TRANSACTIONS (continued)

Uberior Ventures Limited, a shareholder in Prestbury Hotel Holdings Limited at the balance sheet date, is a wholly owned group undertaking of Lloyds Banking Group plc ("Lloyds") Lloyds provides banking and credit facilities to the group

The following is a summary of the significant transactions undertaken by the group with Lloyds during the year and balances with Lloyds at 31 March 2013

| | 2013 £ | 2012 £ |
|---|---------------------|--------------------|
| Profit and loss account | | |
| Bank loan interest payable* | <u>27,622,602</u> | <u>27,652,801</u> |
| Finance costs amortised | <u>711,869</u> | <u>630,446</u> |
| Loan redemption premiums | <u>(18,097,021)</u> | <u>14,189,699</u> |
| Loan maturity fee | <u>568,339</u> | <u>569,896</u> |
| Agency fees | <u>40,000</u> | <u>40,000</u> |
| Bank interest receivable | <u>12,739</u> | <u>15,264</u> |
| Balance sheet | | |
| Unamortised finance costs | <u>1,492,568</u> | <u>1,681,003</u> |
| Bank loans falling due within one year* | <u>4,367,047</u> | <u>4,275,212</u> |
| Bank loans falling due in more than one year* | <u>385,503,181</u> | <u>384,079,230</u> |
| Bank loan redemption fees | <u>9,369,341</u> | <u>27,493,632</u> |
| Bank loan maturity fee | <u>1,801,557</u> | <u>1,233,218</u> |
| Accrued interest payable* | <u>4,563,298</u> | <u>4,403,389</u> |

* Part of the group's drawn bank facilities are syndicated Only the part of the total bank indebtedness and interest charge due to Lloyds are disclosed above

19 NET CASH FLOW FROM OPERATING ACTIVITIES

| | 2013 £ | 2012 £ |
|--|-------------------|-------------------|
| Operating profit | 35,262,617 | 37,413,116 |
| Decrease/(increase) in debtors | 15,350 | (212,461) |
| (Decrease)/increase in creditors | (1,150,520) | 9,313,795 |
| Net cash inflow from operating activities | <u>34,127,447</u> | <u>46,514,450</u> |

PRESTBURY HOTEL HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013**

20. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN CASH FLOW STATEMENT

| | 2013 £ | 2012 £ |
|--|---------------------|---------------------|
| Returns on investments and servicing of finance | | |
| Interest received | 12,827 | 16,164 |
| Interest paid | (27,278,602) | (28,490,544) |
| Finance fees paid and capitalised | (506,316) | - |
| Net cash outflow from returns on investments and servicing of finance | (27,772,091) | (28,474,380) |
| | 2013 £ | 2012 £ |
| Capital expenditure and financial investment | | |
| Dilapidation payments received | 19,353 | - |
| | 2013 £ | 2012 £ |
| Financing | | |
| Repayment of loans | (7,155,030) | (8,843,543) |
| Net cash outflow from financing | (7,155,030) | (8,843,543) |

21 ANALYSIS OF CHANGES IN NET DEBT

| | 1 April 2012 £ | Cash flow £ | Other non-cash changes £ | 31 March 2013 £ |
|--|----------------------|------------------|-----------------------------------|-----------------------|
| Cash at bank and in hand | 9,834,363 | (780,321) | - | 9,054,042 |
| Debt | | | | |
| Bank debt due within one year | (11,023,230) | 7,155,031 | (7,865,912) | (11,734,111) |
| Bank debt due after more than one year | (557,653,011) | 506,315 | 27,207,923 | (529,938,773) |
| Loans due to shareholders | (16,325,592) | - | - | (16,325,592) |
| Net debt | (575,167,470) | 6,881,025 | 19,342,011 | (548,944,434) |

PRESTBURY HOTEL HOLDINGS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2013**

22. NON CASH TRANSACTIONS

| | 2013 £ | 2012 £ |
|--------------------------------------|---------------------|-------------------|
| Amortisation of prepaid finance fees | 945,522 | 803,657 |
| Accrual of interest on bank loans* | 4,411,287 | 3,404,781 |
| Accrued redemption premiums | (24,864,378) | 17,622,261 |
| Accrued maturity fee | 568,339 | 569,896 |
| Accrued finance fees | (402,781) | 3,500 |
| | <u>(19,342,011)</u> | <u>22,404,095</u> |

*Interest on bank loans which is added to the loan principal

23. HEAD LEASE RENTAL COMMITMENTS

At 31 March 2013 the group had annual commitments under non-cancellable operating leases as follows

| | Land and buildings 2013 £ | 2012 £ |
|-------------------------|---------------------------------|------------------|
| Group | | |
| Expiry date: | | |
| After more than 5 years | <u>1,342,052</u> | <u>1,317,052</u> |

The group has the right to recover the above costs from tenants

24. POST BALANCE SHEET EVENTS

After the balance sheet date the group disposed of seven properties for aggregate gross proceeds of £5.9 million against a book value of £5.6 million. Net proceeds of sale were applied in repayment of bank debt and hedging break costs.

25. CONTROLLING PARTY

Prestbury Hotel Holdings Limited is a joint venture company and is not controlled by any one individual or entity.