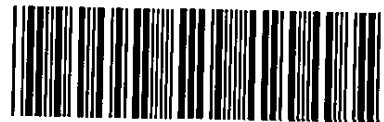


Tonstate (Hotels) Cardiff Limited

**Directors' report and financial
statements**

Registered number 05999250
For the year ended 31 March 2010

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Directors' report

The directors present their report and the audited financial statements of Tonstate (Hotels) Cardiff Limited ('the Company') for the year ended 31 March 2010

Principal activities

The principal activity of the Company during the year was that of a holding company

Business review

The company has met the requirements of the Companies Act 2006 to obtain exemption from the presentation of an enhanced business review

Results and dividends

The loss before taxation for the year was £1,769,185 (2009 £1,781,499) The directors consider that the results for the year are in line with expectations

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

The Company purchase and maintains a liability insurance for its directors and officers as permitted by Section 233 of the Companies Act 2006

Political and charitable contributions

The company made no political or charitable contributions during the year (2009 £nil)

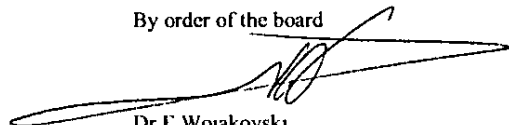
Statement as to disclosure of information to auditors

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 Tonstate (Hotels) Cardiff Limited

We have audited the financial statements of Tonstate (Hotels) Cardiff Limited for the year ended 31 March 2010 set out on page 5 to 12. 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 2, 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 loss 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 auditors report to the members of Tonstate (Hotels) Cardiff 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
Chartered Accountants
London

21 Dec 2010

Profit and loss account
for the year ended 31 March 2010

	<i>Note</i>	Year ended 31 March 2010	Year ended to 31 March 2009
		£	£
Administrative expenses		(196,719)	(226 691)
Operating loss	3	(196,719)	(226 691)
Other income		97,750	-
Interest receivable	5	10,792	179 624
Interest payable	6	(1,681,008)	(1,734 432)
Loss on ordinary activities before taxation		(1,769,185)	(1 781 499)
Tax on loss on ordinary activities	7	-	-
Loss on ordinary activities after taxation		(1,769,185)	(1 781 499)

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


The notes on pages 7 to 12 form part of these financial statements

Balance sheet
 at 31 March 2010

	Note	31 March 2010		31 March 2009	
		£	£	£	£
Fixed assets					
Investments	8	33,907,500		33,930,000	
Current assets					
Debtors	9	26,706		42,464	
Cash at bank and in hand		660,522		1,503,121	
		<u>687,228</u>		<u>1,545,585</u>	
Creditors amounts falling due within one year	10	(7,777,569)		(9,657,238)	
Net current liabilities		<u>(7,090,341)</u>		<u>(8,111,653)</u>	
Total assets less current liabilities		<u>26,817,159</u>		<u>25,818,347</u>	
Creditors amounts falling due after more than one year	11	(31,767,997)		(29,000,000)	
Net liabilities		<u>(4,950,838)</u>		<u>(3,181,653)</u>	
Capital and reserves					
Called up share capital	12	1		1	
Profit and loss account	13	(4,950,839)		(3,181,654)	
Shareholders deficit		<u>(4,950,838)</u>		<u>(3,181,653)</u>	

The notes on pages 7 to 12 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 Wojakowski
 Director

Notes

(forming part of the financial statements)

Accounting Policies

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 £7,090,341 (2009 £8,111,653)

Creditors amount falling due more than one year include £29m owed to the financial institutions the provision of which 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 intermediary parent company, Tonstate (Hotels) Limited, has confirmed that it has no intention to call the repayment of loan of £7.4m (classified as current liabilities), extended to the company by the Tonstate (Hotels) Limited and its fully owned subsidiaries for a period of at least 12 months from the signature of these financial statements
- The intermediary 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

The directors are therefore fully confident that it is appropriate to prepare the accounts on the stated basis of going concern

The Company is exempt by virtue of section 400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group

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

Notes (continued)

2 Accounting policies

Investments

Investments in subsidiary undertakings are stated at cost less provision for impairment

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

Post – retirement benefits

The company operates a defined benefit 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.

3 Loss on ordinary activities before taxation

	Year ended 31 March 2010 £	Year ended 31 March 2009 £
<i>Loss on ordinary activities before taxation is stated after charging</i>		

Auditors' remuneration		
Audit of these financial statements	25,000	25,000

4 Remuneration of directors

None of the directors received any emoluments during the financial period.

The company has no employees other than the directors.

5 Interest receivable

	Year ended 31 March 2010 £	Year ended 31 March 2009 £
Bank interest receivable	10,792	179,624
	<u>10,792</u>	<u>179,624</u>

Notes (continued)

6 Interest payable

	Year ended 31 March 2010	Year ended 31 March 2009
		£
On bank loans	1,681,008	1 734 432

7 Taxation

There is no tax charge for current or prior period

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	Year ended 31 March 2009
		£
<i>Current tax reconciliation</i>		
Loss on ordinary activities before tax	(1 769 185)	(1 781 499)
Current tax at 28 % (2009 28%)	(495,372)	(498 820)
<i>Effects of</i>		
Expenses not deductible for tax purposes	5,600	5 600
Trading losses carried forward	489,772	493 220
Total current tax charge (see above)	-	-

Factors affecting the future tax charge

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

Notes (continued)

8 Investments

	Subsidiary undertakings
	£
<i>Cost</i>	
At 1 April 2009	33,930,000
Adjustment re completion fees	(22,500)
	<hr/>
At 31 March 2010	33,907,500
	<hr/>

The investment represents the Company's interest in 100% of the share capital of its subsidiary undertaking, Hotel Innovations (Cardiff) Limited. Hotel Innovations (Cardiff) Limited is incorporated in England and its principal activity is that of a holding company.

9 Debtors

	31 March 2010	31 March 2009
	£	£
Amounts owed by group undertakings	26,706	26,706
Other debtors	-	15,758
	<hr/>	<hr/>
	26,706	42,464
	<hr/>	<hr/>

10 Creditors: amounts falling due within one year

	31 March 2010	31 March 2009
	£	£
Amounts due to group undertakings	7,362,240	9,084,905
Other creditors and accruals	415,329	572,333
	<hr/>	<hr/>
	7,777,569	9,657,238
	<hr/>	<hr/>

Amounts due to group undertakings are included in amounts due within one year where there are no specific repayment 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.

Notes (continued)

11 Creditors: amounts falling due after more than one year

	31 March 2010	31 March 2009
		£
Amounts due to group undertakings	2,767,997	-
Bank loan	29,000,000	29,000,000
	<hr/>	<hr/>
	31,767,997	29,000,000
	<hr/>	<hr/>

The above bank loan is repayable after more than 5 years and is secured by a charge over all of the assets of the Company and its subsidiary undertakings

12 Derivatives and Other Financial Instruments

The principal objective of the Company's policy is the management and control of risks to earnings and net assets that arise in the Company's business. It is a fundamental principle that the Company does not speculate in the currency markets nor enter into artificial treasury transactions that may enhance earnings at the expense of net assets.

The company may enter derivative contracts to protect specific interest rate.

Short-debtors and creditors that meet the definition of a financial asset or liability under FRS 13 *Derivatives and other financial investments* have been excluded from the disclosures as permitted by the Standard.

Financial liabilities

The Company's financial liabilities comprise only the sterling bank loan as disclosed in note 11.

These financial liabilities fall due in more than one year.

Hedging

The Company has a number of interest rate hedges to mitigate its exposure on the variable interest rates of the bank loan. All expire November 2026. The amounts hedged, and details of the hedges are as follows:

<i>Loan</i>	<i>Type of hedge</i>	<i>Fixed rate</i>	<i>Value at 31 March 2010</i>
Bank Loan	Swap	4.93%	£6,479,336

Fair value of financial assets, financial liabilities and hedging

There are no material differences between the carrying values and the fair values of the financial assets and financial liabilities disclosed above. The fair value of derivatives is not recognised on the balance sheet in accordance with the UK GAAP.

13 Called up share capital

	31 March 2010	31 March 2009
	£	£
<i>Allotted, called up and fully paid</i>		
1 ordinary share of £1 each	1	1

14 Reconciliation of movement in shareholders' funds

	Share capital	Profit and loss account	Shareholders' funds
	£	£	£
At 1 April 2009	1	(3,181,654)	(3,181,653)
Loss for the period	-	(1,769,185)	(1,769,185)
At 31 March 2010	1	(4,950,839)	(4,950,838)

15 Related parties

At the period end, the following amounts were owed to / by group undertakings

	31 March 2010	31 March 2009
	£	£
Owed by Tonstate Metropole Hotels Limited	(26,706)	(26,706)
Owed to Hotel Innovations (Cardiff) Limited	271,099	271,399
Owed to Summerhill Properties Limited	3,985,387	3,038,755
Owed to Tonstate Group Limited	2,767,997	1,508,819
Owed to TPD Investments Limited	3,105,754	4,265,932

During the year management fee of £100,000 (2009: £100,000) was charged by Tonstate Group Limited

16 Contingent liability

As part of the loan agreements, the Company has a liability to pay 10% of the change in market value from acquisition of the Cardiff Hilton hotel. This is payable on the sale of the hotel or full repayment of the loans.

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

The company is a subsidiary undertaking of Tonstate (Hotels) 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.