Metropole Hotels (Holdings) Limited

Directors' Report and Financial Statements

Registered number 00465603

For the year ended 31 March 2012

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Contents

Directors' Report – registered number 00465603

The directors present their report and the audited financial statements for the year ended 31 March 2012

Principal activities

The principal activity of the Company is that of owning and operating hotels situated in London and Birmingham Both hotels operate under the brand name of Hilton The directors are continually analysing the viability of having further rooms to be added in the hotels

The directors consider the market value of the hotels to be in excess of their book value

Business review

It is recognised that there are inherent risks and uncertainties in the current economic environment associated with the operation of hotels which the directors review on a regular basis

Despite curtailment of corporate activity, challenging competition and trading in extremely difficult economic times the company's positive actions has managed to produce organic growth within the business
The cost saving procurement drive and aggressive marketing is being continued by the management ensuring that the balance is maintained between customer satisfaction and profitability Management is continually re-training and encouraging staff to achieve this strategy

The continued aggressive marketing has resulted in an increase in the SME and the transient market in smaller events and leisure activity part of the hotel business

The hotels have continued with a meticulously planned CAPEX programme accordingly since the year end the London hotel's lobby reception area has been going through extensive refurbishment which the directors hope will attract additional transient trade This project is expected to be completed by summer 2013 Despite this disruption and non-availability of rooms immediately above the lobby area the hotel has seen an increase in PBIT of £1 million in the period since the year end The directors are confident that upon completion of the refurbishment and the availability of all the rooms will enable the hotel to considerably increase the occupancy and F&B revenue

The Birmingham hotel which has also seen an enhancement in revenue is continuing with the programme of room upgrade and refurbishment to improve quality and guest expectations to increase conversion level in line with the directors' expectations Management has also approved repositioning of the Warwick Wing of the hotel to attract new "Business Class" guest segment and increase the Goodwill of asset

Key financial and performance indicators

During the year ended 31 March 2012, the turnover was £94,231,000 (2011 £93,382,000) and the gross profit was £43,799,000 (2011 £43,858,000) The operating profit was £24,177,000 (2011 £24,573,000), which was 2% decrease on the like for like comparison over the previous year Profit on ordinary activities before taxation was £24,177,000 (2011 £24,573,000) The directors consider that the results for the year are in line with expectations

The directors do not recommend the payment of a dividend (2011 £nil)

Directors

The directors who held office during the period and up until the date of this report were as follows

A Matyas

Dr E Wojakovski

N Smith

Directors' and officers' liability insurance

Tonstate Metropole Hotels Limited purchase and maintain on behalf of the Company, 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 (2011 Nil)

Employee involvement

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

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

and other matters those attending the meeting wish to raise

Disabled employees

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

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

Disclosure of information to auditor

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 auditor is unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor are aware of that information

Auditor

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

By order of the board

Dr E Wojakovski
Director

3 Park Place
St James'
London
SW1A 1LP

20 December 2012

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for the period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities

Independent auditor's report to the members of Metropole Hotels (Holdings) Limited

We have audited the financial statements of Metropole Hotels (Holdings) Limited for the year ended 31 March 2012 which comprise the Profit & Loss account, the Balance Sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice)

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www frc org uk/apb/scope/private cfm

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 2012 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

Matters on which we are required to report by exception

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

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

Mark Summerfield (Senior Statutory Auditor)
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
21 December 2012

Profit and loss account

for the year ended 31 March 2012

	Note	Year ended 31 March 2012	Year ended 31 March 2011
		£'000	£'000
Turnover	2	**94,231**	93,382
Cost of sales		**(50,432)**	(49,524)
Gross profit		**43,799**	43,858
Depreciation		**(6,937)**	(6,714)
Administrative expenses		**(13,073)**	(12,571)
Other operating income		**388**	-
Operating profit	3-5	**24,177**	24,573
Profit on ordinary activities before taxation	3	**24,177**	24,573
Tax charge on profit on ordinary activities	6	**1,282**	1,965
Profit on ordinary activities after taxation		**25,459**	26,538

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 8 to 16 form an integral part of these financial statements

Note of Historical Cost Profit and Loss Account

for the year ended 31 March 2012

	Year ended 31 March 2012	Year ended 31 March 2011
	£'000	£'000
Reported profit on ordinary activities before taxation	**24,177**	24,573
Transfer of depreciation on revaluation	**2,094**	2,094
Realised revaluation surplus on sale of fixed assets	-	-
Historical cost profit on ordinary activities before taxation	**26,271**	26,667
Tax credit on profit on ordinary activities	**1,282**	1,965
Dividends	-	-
Historical cost profit retained for the year after taxation and dividends	**27,553**	28,632

The notes on pages 9 to 16 form an integral part of these financial statements

Balance sheet
at 31 March 2012

	Note	31 March 2012		31 March 2011	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	7		325,046		329,559
Current assets					
Stock	8	170		201	
Debtors	9	141,155		112,580	
Cash at bank and in hand		18,996		17,204	
		160,321		129,985	
Creditors: amounts falling due within one year	10	(42,138)		(40,492)	
Net current assets			118,183		89,493
Total assets less current liabilities			443,229		419,052
Provisions for liabilities and charges	11		(20,815)		(22,097)
Net assets			422,414		396,955
Capital and reserves					
Called up share capital	12,13		7,500		7,500
Share premium account	13		174,891		174,891
Revaluation reserve	13		59,023		61,117
Profit and loss account	13		181,000		153,447
Shareholders' funds			422,414		396,955

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

These financial statements were approved by the board of directors on 20 Dec 2012 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

The financial statements have been prepared on a going concern basis In assessing the risks to the Company's financial stability posed by the deterioration of the market for hotel services, the directors are mindful that the Company's assets are secured by a fixed and floating charge to Bank of Scotland in respect of a loan of £393,899,000 provided to Tonstate Metropole Hotels Limited, an intermediate parent undertaking This loan is available so long as specific financial covenants are complied with in relation to the trading of Metropole Hotels (Holdings) Limited The directors have reviewed forecasts for the components of the financial covenants, taking account of the actual experience in the second half of 2012 and forecasts for 2013 We also have access to third party information about the performance of the hotel industry With the benefit of that information and taking account of action the directors have taken and can take to mitigate the effect on performance and covenants from the downturn that has taken place, the directors have concluded that it is unlikely that any financial covenant will be breached in the foreseeable future If the Company were not in compliance with the covenants, the lenders would have the rights to demand the repayment of the funds advanced, but the directors believe it more likely that the lenders would require adjustments to the terms of the facility but without demanding repayment The directors are therefore fully confident that it is appropriate to prepare the accounts on the stated basis of going concern

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 hotels is recognised at the point at which the accommodation and related services are provided

Tangible fixed assets

The transitional rules of FRS 15 were adopted for the Company's freehold and leasehold hotels, which permit the retention of the carrying values at the previous revalued amounts These hotels will not be subject to revaluation and were last revalued at 31 December 1999

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

Notes *(continued)*

2 Accounting policies *(continued)*

Post-retirement benefits

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

Operating leases

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

Stock

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

3 Profit on ordinary activities before taxation

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Profit on ordinary activities before taxation is stated after charging		
Auditor's remuneration		
Audit of these financial statements	100	100
Management charge payable to a group undertaking	300	300
Depreciation	6,937	6,714
Operating lease rentals - property	916	916
Operating lease rentals – Equipment	231	231

In 2012 and 2011, auditor's 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 consolidated accounts of the Company's intermediary parent Tonstate (Hotels) Ltd

4 Remuneration of directors

The directors of the Company were also directors of other undertakings within the Tonstate group The directors' remuneration for the period was paid by other undertakings The directors do not believe that is practicable to apportion this amount between services as directors of the Company and their services as directors of fellow subsidiary undertakings

Notes (continued)

5 Staff costs and employee information

The average number of employees during the year was

	Year ended 31 March 2012	Year ended 31 March 2011
Operations	**1,089**	1,033
Management and administration	**208**	203
	1,297	1,236

The aggregate payroll costs of these employees were as follows

	Year ended 31 March 2012 £'000	Year ended 31 March 2011 £'000
Wages and salaries	**19,067**	18,781
Social security costs	**1,421**	1,313
Pension costs	**219**	222
	20,707	20,316

6 Taxation

Analysis of charge in period

	£'000	Year ended 31 March 2012 £'000	£'000	Year ended 31 March 2011 £'000
UK corporation tax				
Current tax on income for the period	-		-	
Total current tax		-		-
Deferred tax				
Origination of timing difference		**515**		341
Effect of decreased tax rate		**(1,692)**		(1,700)
Adjustment in respect of prior period		**(105)**		(606)
Tax on profit on ordinary activities		**(1,282)**		(1,965)

Notes *(continued)*

6 Taxation *(continued)*

Factors affecting the tax charge for current year

The current tax charge for the period is different from the standard rate of corporation tax in the UK of 28 % (2011 28%) The differences are explained below

	Year ended 31 March 2012	Year ended 31 March 2011
	£'000	£'000
Current tax reconciliation		
Profit on ordinary activities before tax	**24,177**	24,573
Current tax at 26% *(2011 28 %)*	**6,286**	6,880
Effects of		
Expenses not deductible for tax purposes	**946**	577
Non- taxable income	**-**	-
Deferred tax timing differences in respect of capital allowances	**(558)**	(340)
Group relief surrendered from fellow subsidiary company free of charge	**(6,674)**	(6,836)
Industrial buildings allowance	**-**	(281)
Total current tax charge (see above)	**-**	-

Factors affecting the future tax charges

No provision has been made for deferred tax of approximately £19,012,000 (2011 £22,068,000) where potentially taxable gains have been rolled over into replacement assets Such gains would only be taxable if the assets were sold without it being possible to claim roll-over relief of offset capital allowances

No provision has been made for deferred tax of £13,971,000 (2011 £19,505,000) in respect of tax on gains arising from the revaluation of fixed assets, as the Company is not committed to the disposal of these assets

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

The 2012 Budget on 23 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014 A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and further reductions to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively

This will reduce the company's future current tax charge accordingly and further reduce the deferred tax liability at 31 March 2012 (which has been calculated based on the rate of 24% substantively enacted at the balance sheet date) by £867,000

It has not yet been possible to quantify the full anticipated effect of the announced further 1% rate reduction, although this will further reduce the company's future current tax charge and reduce the company's deferred tax liability accordingly

Notes (continued)

7 Tangible assets

	Freehold land and properties	Long leasehold properties	Fixtures and fittings & equipment	Total
	£'000	**£'000**	**£'000**	**£'000**
Cost				
At 1 April 2011	237,437	107,531	54,632	399,600
Additions	-	-	2,424	2,424
Disposals	-	-	-	-
At 31 March 2012	237,437	107,531	57,056	402,024
Representing assets stated at:				
Valuation in 1999	205,630	100,578	-	306,208
Cost	31,807	6,953	57,056	95,816
At 31 March 2012	237,437	107,531	57,056	402,024
Depreciation				
At 1 April 2011	25,080	14,310	30,651	70,041
Charge for the period	1,941	1,376	3,620	6,937
At 31 March 2012	27,021	15,686	34,271	76,978
Net book value				
At 31 March 2012	**210,416**	**91,845**	**22,785**	**325,046**
At 31 March 2011	212,357	93,221	23,981	329,559

The amount of freehold and long leasehold property determined according to the historic cost accounting rules is as follows

	Year ended 31 March 2011	Year ended 31 March 2011
	£'000	£'000
Historic cost	**261,515**	261,515
Depreciation	**(25,987)**	(24,764)
Net book value	**235,528**	236,751

Notes *(continued)*

8 Stocks

	31 March 2012	31 March 2011
	£'000	£'000
Goods for resale and consumables	**170**	201

9 Debtors

	31 March 2012	31 March 2011
	£'000	£'000
Trade debtors	**5,925**	4,890
Prepayments and other debtors	**1,040**	1,082
Amounts due from group undertakings	**134,190**	106,608
	141,155	112,580

10 Creditors: amounts falling due within one year

	31 March 2012	31 March 2011
	£'000	£'000
Trade creditors	**8,368**	3,898
Other taxes and social security	**1,212**	1,741
Other creditors and accruals	**6,838**	9,133
Amounts owed to group undertakings	**25,720**	25,720
	42,138	40,492

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

Notes *(continued)*

11 Provisions for liabilities and charges

	Deferred taxation	
	31 March 2012	31 March 2011
	£'000	£'000
Balance at 1 April 2011	**22,097**	24,062
Origination and reversal of timing differences	**410**	(265)
Effect of decrease in tax rate	**(1,692)**	(1,700)
Balance at 31 March 2012	**20,815**	22,097

The provision at 31 March 2012 and 2011 relates primarily to timing differences arising from accelerated capital allowances The Company has no un provided deferred tax liabilities and no unrecognised deferred tax assets (2011 £nil)

12 Called up share capital

	31 March 2012	31 March 2011
	£'000	£'000
Allotted, called up and fully paid		
30,000,000 deferred ordinary shares of 25p each	**7,500**	7,500

The holders of deferred ordinary shares have no right to receive dividends On liquidation, reduction of capital or otherwise, the surplus assets of the Company shall be applied first in repaying to the holders of ordinary shares an amount in US dollars of £2,400,000 at a determined rate of exchange and secondly repaying to the holders of the deferred ordinary shares the amount paid up on such shares, the balance of the surplus assets shall be distributed to the holders of the ordinary shares in proportion to their respective holding Deferred shares carry no voting rights

13 Reconciliation of movement in shareholders' funds

	Share capital £'000	**Share premium account £'000**	**Revaluation reserve £'000**	**Profit and loss account £'000**	**Total £'000**
At 1 April 2011	7,500	174,891	61,117	153,447	396,955
Profit for the year	-	-	-	25,459	25,459
Transfer of depreciation on revaluation reserve	-	-	(2,094)	2,094	-
At 31 March 2012	**7,500**	**174,891**	**59,023**	**181,000**	**422,414**

Notes *(continued)*

14 Financial commitments

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

	Land and buildings	
	31 March 2012	31 March 2011
	£'000	£'000
Leases expiring		
After five years	**916**	916

	Plant and equipment	
	31 March 2012	31 March 2011
	£'000	£'000
Leases expiring		
Within one year	-	-

15 Related parties

During the year a management fee was charged by Tonstate Group Limited amounting to £300,000 (2011 £300,000) At the period end £25,720,000 (2011 £25,720,000) was owed to Tonstate Metropole Hotels Limited, £2,225,000 was owed by Tonstate Hotels Limited and £131,965,000 (2011 £106,608,000) was owed by Tonstate Metropole Hotels Limited

16 Contingent liabilities

The Company's assets are secured by a fixed and floating charge to Bank of Scotland in respect of a loan provided to Tonstate Metropole Hotels Limited, an intermediate parent undertaking The amount outstanding on this facility at 31 March 2012 was £393,899,000 (2011 £393,899,000)

17 Capital commitment

A contract has been entered into with Hilton in respect of the refurbishment of the Birmingham Metropole Hotel The total commitment is £20 6m, of which £8 5m has been spent to date

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

The Company is a subsidiary undertaking of Tonstate Metropole 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 British Virgin Islands