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Metropole Hotels (Holdings) Limited

Directors' report and financial statements

Registered number 00465603

For the period from 1 January 2007 to 31 March 2008

Contents

Directors' report

The directors present their report and the audited financial statements for the 15 month period ended 31 March 2008.

Principal activities

The principal activity of the company is that of owning and operating hotels situated in London and Birmingham. The directors are continually analysing the viability of having further rooms to be added in the hotels.

During the period the company changed its accounting reference date from 31 December to 31 March. Accordingly, these financial statements are prepared for a 15 month period. Comparative information is for the year ended 31 December 2006.

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.

The directors consider that the results for the period are in line with expectations. 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 £377,000,000 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 and trends in the second half of 2008 and most of 2009. 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.

Key financial and performance indicators

During the 15 month period ended 31 March 2008, the turnover was £117,620,000 (31 December 2006: £98,682,000) and the gross profit was £46,321,000 (31 December 2006: £43,820,000). The operating profit was £33,088,000 (31 December 2006: £30,246,000), which was a 9% like for like improvement over the previous year. Profit on ordinary activities before taxation was £33,241,000 (31 December 2006: £26,537,000).

The directors do not recommend the payment of a dividend (31 December 2006: £100,000,000).

Directors

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

A Matyas	(appointed 10 July 2007)
E Wojakovski	(appointed 10 July 2007)

Subsequent to the period end I Robertson was appointed as a director on 1 July 2008.

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 310(3) of the Companies Act 1985.

Political and charitable contributions

The company made no political or charitable contributions during the year. (2006; £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 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

In accordance with section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Dr E Wojakovski
Director

3 Park Place
St James'
London
SW1A 1LP

30 September 2009

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 period. 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).

The financial statements are required to give a true and fair view of the state of affairs of the company and of the profit or loss for that period.

In preparing those 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 .

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. 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

KPMG LLP
8 Salisbury Square
London
EC4Y 8BB

Independent auditors report to the members of Metropole Hotels (Holdings) Limited

We have audited the financial statements of Metropole Hotels (Holdings) Limited for the period ended 31 March 2008 which comprise the Profit & Loss account, the Balance Sheet, Note of Historical Cost Profit and Loss and the related notes. These financial statements have been prepared under the accounting policies set out herein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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

The directors' responsibility for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 3.

Our responsibility is to audit the financial statements in accordance with the relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors report to the members of Metropole Hotels (Holdings) Limited *(continued)*

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2008 and of its profit for the period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and;
- the information given in the Directors' Report is consistent with the financial statements.

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor
London

30 September 2009

Profit and loss account

for the 15 month period ended 31 March 2008

	Note	15 month period ended 31 March 2008	Year ended 31 December 2006
		£'000	£'000
Turnover	2	117,620	98,682
Cost of sales		(71,299)	(54,862)
Gross profit		46,321	43,820
Depreciation		(6,758)	(6,096)
Administrative expenses	4	(6,475)	(7,478)
Operating profit	3,5	33,088	30,246
Loss on disposal of tangible fixed assets and fixed assets investments		-	(4,189)
Interest receivable	6	153	1,021
Interest payable	7	-	(541)
Profit on ordinary activities before taxation	3	33,241	26,537
Tax (charge)/credit on profit on ordinary activities	8	(904)	636
Profit on ordinary activities after taxation		32,337	27,173

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 9 to 16 form an integral part of these financial statements.

Note of Historical Cost Profit and Loss

for the 15 month period ended 31 March 2008

	15 month period ended 31 March 2008	Year ended 31 December 2006
	£'000	£'000
Reported profit on ordinary activities before taxation	**33,241**	26,537
Transfer of depreciation on revaluation	**2,618**	2,094
Realised revaluation surplus on sale of fixed assets	-	7,792
Historical cost profit on ordinary activities before taxation	**35,859**	36,423
Tax credit on profit on ordinary activities	**(904)**	636
Dividends	-	(100,000)
Historical cost profit retained for the year after taxation and dividends	34,955	(62,941)

Balance sheet
at 31 March 2008

	Note	31 March 2008		31 December 2006	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	*9*		334,572		338,103
Current assets					
Stock	*10*	264		281	
Debtors	*11*	44,692		7,499	
Cash at bank and in hand		10,327		8,678	
		55,283		16,458	
Creditors: amounts falling due within one year	*12*	(42,334)		(40,281)	
Net current assets / (liabilities)			12,949		(23,823)
Total assets less current liabilities			347,521		314,280
Provisions for liabilities and charges	*13*		(24,913)		(24,009)
Net assets			322,608		290,271
Capital and reserves					
Called up share capital	*14,15*		7,500		7,500
Share premium account	*15*		174,891		174,891
Revaluation reserve	*15*		67,399		70,017
Profit and loss account	*15*		72,818		37,863
Shareholders' funds			322,608		290,271

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

These financial statements were approved by the board of directors on 30 September 2009 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 £377,000,000 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 and trends in the second half of 2008 and most of 2009. 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).

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

	15 month period ended 31 March 2008 £'000	Year ended 31 December 2006 £'000
Profit on ordinary activities before taxation is stated after charging		
Auditor's remuneration	**100**	100
Management charge payable to a group undertaking	**375**	4,759
Royalty fees payable to a group undertaking	**-**	2,718
Depreciation	**6,758**	6,096
Operating lease rentals - property	**-**	905
Operating lease rentals – Equipment	**-**	599

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.

5 Staff costs and employee information

The average number of employees during the period was:

	15 month period ended 31 March 2008	Year ended 31 December 2006
Operations	**1,176**	1,132
Management and administration	**146**	169
	1,322	1,301

Notes *(continued)*

5 Staff costs and employee information (continued)

The aggregate payroll costs of these employees were as follows:

	15 month period ended 31 March 2008 £'000	Year ended 31 December 2006 £'000
Wages and salaries	**24,780**	19,732
Social security costs	**1,775**	1,321
Pension costs	**299**	405
	26,854	21,458

6 Interest receivable

	15 month period ended 31 March 2008 £'000	Year ended 31 December 2006 £'000
Receivable from third party - Bank	**153**	-
Interest receivable from fellow group undertakings	**-**	1,021
	153	1,021

7 Interest payable

	15 month period ended 31 March 2008 £'000	Year ended 31 December 2006 £'000
Interest payable to fellow group undertakings	**-**	541

8 Taxation

Analysis of charge in period

	15 month period ended 31 March 2008		Year ended 31 December 2006	
	£'000	**£'000**	£'000	£'000
UK corporation tax				
Current tax on income for the period	**-**		1	
Total current tax		**-**		1
Deferred tax				
Origination of timing difference		**926**		622
Adjustment in respect of prior period		**(22)**		13
Tax on profit on ordinary activities		**904**		636

Notes *(continued)*

8 Taxation *(continued)*

Factors affecting the tax charge for current period

The current tax charge for the period is different from the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	15 month period ended 31 March 2008	Year ended 31 December 2006
	£'000	£'000
Current tax reconciliation		
Profit on ordinary activities before tax	**33,241**	26,537
Current tax at 30 % *(2006:30 %)*	**9,972**	7,961
Effects of:		
Expenses not deductible for tax purposes	**768**	439
Non- taxable income	**-**	(2,049)
Deferred tax timing differences in respect of capital allowances	**(925)**	635
Group relief surrendered from fellow subsidiary company free of charge	**(9,815)**	(6,972)
Short term timing differences	**-**	(13)
Total current tax charge (see above)	**-**	1

Factors affecting the future tax charges

No provision has been made for deferred tax approximately £23,765,000 (2006: £23,765,000) 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 £21,005,000 (2006: £21,005,000) 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.

Notes *(continued)*

9 Tangible assets

	Freehold land and properties	Long leasehold properties	Fixtures and fittings & equipment	Total
	£'000	£'000	£'000	£'000
Cost				
At 1 January 2007	236,954	106,096	40,756	383,806
Additions	483	1,435	1,309	3,227
Disposals	-	-	(1,085)	(1,085)
At 31 March 2008	237,437	107,531	40,980	385,948
Representing assets stated at:				
Valuation in 1999	205,630	100,578	-	306,208
Cost	31,807	6,953	40,980	79,740
At 31 March 2008	237,437	107,531	40,980	385,948
Depreciation				
At 1 January 2007	16,831	8,530	20,342	45,703
Charge for the period	2,427	1,767	2,564	6,758
Disposals	-	-	(1,085)	(1,085)
At 31 March 2008	19,258	10,297	21,821	51,376
Net book value				
At 31 March 2008	**218,179**	**97,234**	**19,159**	**334,572**
At 31 December 2006	220,123	97,566	20,414	338,103

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

	15 month period ended 31 March 2008	Year ended 31 December 2006
	£'000	£'000
Historic cost	**261,515**	259,597
Depreciation	**(21,211)**	(19,635)
Net book value	**240,304**	239,962

Notes *(continued)*

10 Stocks

	31 March 2008 £'000	31 December 2006 £'000
Goods for resale and consumables	**264**	281

11 Debtors

	31 March 2008 £'000	31 December 2006 £'000
Trade debtors	**10,643**	6,352
Prepayments and other debtors	**751**	1,147
Amounts due from group undertakings	**33,298**	-
	44,692	7,499

12 Creditors: amounts falling due within one year

	31 March 2008 £'000	31 December 2006 £'000
Trade creditors	**7,475**	5,356
Other taxes and social security	**1,509**	1,199
Other creditors and accruals	**7,632**	7,983
Amounts owed to group undertakings	**25,718**	25,743
	42,334	40,281

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)*

13 Provisions for liabilities and charges

	Deferred taxation	
	31 March 2008	31 December 2006
	£'000	£'000
Balance at beginning of period	**24,009**	24,644
Origination and reversal of timing differences (note 8)	**904**	(635)
Balance at end of period	**24,913**	24,009

The provision at 31 March 2008 relates primarily to capital allowances.

14 Called up share capital

	31 March 2008	31 December 2006
	£'000	£'000
Authorised		
30,000,000 deferred ordinary shares of 25p each	**7,500**	7,500
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.

15 Reconciliation of movement in shareholders' funds

	Share capital £'000	**Share premium account £'000**	**Revaluation reserve £'000**	**Profit and loss ac £'000**	**Total £'000**
At 1 January 2007	7,500	174,891	70,017	37,863	290,271
Profit for the period	-	-	-	32,337	32,337
Transfer of depreciation on revaluation reserve			(2,618)	2,618	-
At 31 March 2008	7,500	174,891	67,399	72,818	322,608

Notes *(continued)*

16 Financial commitments

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

	Land and buildings	
	31 March 2008	31 December 2006
	£'000	£'000
Leases expiring:		
After five years	**822**	977

	Plant and equipment	
	31 March 2008	31 December 2006
	£'000	£'000
Leases expiring:		
Within one year	**599**	426

17 Related parties

During the year a management fee was charged by Tonstate Group Limited amounting to £300,000 (2006: £25,000). At the period end £25,718,000 (2006: £25,743,000) was owed to Tonstate Group Limited.

18 Contingent liabilities

The company is party to a group loan facility over which the Group's bankers have cross guarantee. The amount outstanding on this facility at 31 March 2008 was £377,000,000 (2006: £377,000,000).

19 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.