

Registered number
3317941

Somerston Hotels (Salford Quays) Limited

Directors' report and financial statements

31 December 2007

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Somerston Hotels (Salford Quays) Limited
Directors' report and financial statements
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Somerston Hotels (Salford Quays) Limited

Directors' Report

The directors present their annual report and accounts for the year ended 31 December 2007

Principal activities

The Company is engaged in hotel management and ownership. The results for the period are set out in the profit and loss account on page 6.

The directors regard the results and future prospects of the Company to be satisfactory.

Dividends and directors' interests

Dividends amounting to £1,023,000 were paid during the year (2006: £2,261,000).

Directors

The directors who held office during the year were as follows:

C D Budden
K I Griffiths
J E Towers

The directors who held office at the end of the financial year did not hold any disclosable interest in the shares of the Company.

The directors believe that each of the transactions or arrangements referred to above and in notes to the accounts have been entered into on arms length terms.

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 they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

A resolution for the reappointment of KPMG LLP as auditors of the Company is to be proposed at the forthcoming annual general meeting.

Business Review

The results for the year are set out in the profit and loss account on page 6 and the Balance Sheet on page 8.

Key Performance Indicators (KPIs)

The Directors use a number of KPIs to monitor and measure business performance in order to achieve the strategic plan for the company. The main KPI used is:

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)

EBITDA is calculated both before and after repairs and maintenance expenditure as the Directors consider it essential to monitor the operating performance separately from the discretionary cost of repairs and maintenance. The strategy is to ensure repairs and maintenance expenditure, together with capital expenditure is a primary focus and that the level of spend is appropriate to maintain the high quality facility for our clientele and generates an optimum return for shareholders.

EBITDA before repairs and maintenance for the year ended 31 December 2007 was £1.2m, representing a 0.39% growth on the prior year.

Somerston Hotels (Salford Quays) Limited
Directors' Report

Market Position and Business Risks

The principal business continues to be the corporate and business traveller market, supported by travel and leisure guests in a domestic market. It attracts a number of price sensitive customers, however, management believe that the mid market positioning of the hotels helps to protect the revenue stream. An identified risk to the company is the success of the limited service hotels sector which, accordingly, is attracting interest from investors, developers and owners, leading to more new competition entering the sector. Despite this the hotel has continued to trade satisfactorily.

Future Development

The group is continuing its extensive program of refurbishment for the main public areas and bedroom refurbishment throughout its portfolio and is close to the completion of installing air cooling to all its rooms throughout the company.

Political and charitable contributions

The company has made no political or charitable donations in the year.

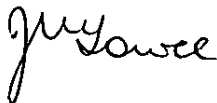
Creditor payment policy

It is group and hotel policy is to agree terms and conditions for purchases with suppliers. Payment is then made in accordance with those terms subject to the terms and conditions being met by the supplier.

Employees

The group and hotel policy in relation to disabled people is to offer the same opportunities as to all others in respect of recruitment and career advancement, provided their disability does not prevent them from carrying out the duties required of them.

By order of the board



J E Towers
Company Secretary

Ryon Hill House
Ryon Hill Park
Warwick Road
Stratford-upon-Avon

Somerston Hotels (Salford Quays) Limited

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)

The financial statements are required by law to 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 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 proper accounting records that 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 1985. 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

**Independent auditors' report
to the shareholders of Somerston Hotels (Salford Quays) Limited**

We have audited the accounts of Somerston Hotels (Salford Quays) Limited for the year ended 31 December 2007 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These accounts have been prepared under the accounting policies set out therein.

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 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

The directors' responsibilities for preparing the accounts in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the accounts 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 accounts.

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 other transactions with the company is not disclosed.

We read the Directors' Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 accounts. 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 accounts 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 shareholders of Somerston Hotels (Salford Quays) Limited**

Opinion

In our opinion the financial statements

- ♦ give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended,
- ♦ 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

8 Salisbury Square
London
EC4Y 8BB

5/6/08

Somerston Hotels (Salford Quays) Limited
Profit and Loss Account
for the year ended 31 December 2007

	Notes	2007 £	2006 £
Turnover	2	2,425,961	2,363,553
Cost of sales		(727,120)	(680,776)
Gross profit		<u>1,698,841</u>	<u>1,682,777</u>
Administrative expenses		(765,417)	(792,053)
Operating profit	3	<u>933,424</u>	<u>890,724</u>
Interest receivable	5	159,779	205,255
Interest payable	6	(414,161)	(411,197)
Profit on ordinary activities before taxation		<u>679,042</u>	<u>684,782</u>
Tax credit/(charge) on profit on ordinary activities	7	58,293	(139,411)
Profit for the financial year		<u><u>737,335</u></u>	<u><u>545,371</u></u>

Continuing operations

None of the company's activities were acquired or discontinued during the above two financial years

The notes on pages 9 to 15 form part of these financial statements

Somerston Hotels (Salford Quays) Limited
Statement of total recognised gains and losses
for the year ended 31 December 2007

	Notes	2007 £	2006 £
Profit for the financial year		737,335	545,371
Unrealised (deficit)/surplus on revaluation of properties	8	(2,276,063)	1,226,528
Total recognised gains and losses related to the year		<u>(1,538,728)</u>	<u>1,771,899</u>

Note of historical cost profits and losses
for the year ended 31 December 2007

	2007 £	2006 £
Reported profit on ordinary activities before taxation	679,042	684,782
Difference between an historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	100,418	149,907
Historical cost profit on ordinary activities before taxation	<u>779,460</u>	<u>834,689</u>
Historical cost profit on ordinary activities after taxation	<u>837,753</u>	<u>695,278</u>

Somerston Hotels (Salford Quays) Limited
Balance Sheet
as at 31 December 2007

	Notes	2007 £	2006 £
Fixed assets			
Tangible assets	8	12,030,000	14,108,206
Current assets			
Stocks		2,551	1,544
Debtors	9	1,998,435	2,309,395
Cash at bank and in hand		154,033	273,291
		<u>2,155,019</u>	<u>2,584,230</u>
Creditors: amounts falling due within one year	10	(345,926)	(242,445)
Net current assets		<u>1,809,093</u>	<u>2,341,785</u>
Total assets less current liabilities		<u>13,839,093</u>	<u>16,449,991</u>
Creditors: amounts falling due after more than one year	11	(6,115,504)	(6,106,381)
Provisions for liabilities			
Deferred taxation	12	(245,015)	(303,308)
Net assets		<u><u>7,478,574</u></u>	<u><u>10,040,302</u></u>
Capital and reserves			
Called up share capital	13	2	2
Revaluation reserve	14	7,192,572	9,569,053
Profit and loss account	15	286,000	471,247
Shareholders' funds	17	<u><u>7,478,574</u></u>	<u><u>10,040,302</u></u>

These financial statements were approved by the board of directors on 5 June 2008 and were signed on it's behalf by



K I Griffiths
Director

Somerston Hotels (Salford Quays) Limited
Notes to the Accounts
for the year ended 31 December 2007

1 Accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom, which have been applied consistently, and with the Companies Act 1985

Basis of accounting

The financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings

Cash flow

The Company is a wholly owned subsidiary of Somerston Hotels Limited and its cash flows are included in the consolidated group cash flow statement of the intermediate parent undertaking Somerston Hotels UK Limited. Consequently the Company is exempt under the terms of Financial Reporting Standard 1 from publishing a cash flow statement

Depreciation

Depreciation is provided to write off the cost or valuation less the estimated residual value of tangible fixed assets by equal instalments over their estimated useful economic lives as follows

Fixtures and fittings		3 to 10 years
Hotel buildings	(core)	50 years
	(Surface finishes and services)	20 years

In line with FRS 15, and the Guidance Notes for the Hotel Industry on Tangible Fixed Assets, issued by the British Association of Hospitality Accounts, the Company splits the hotel properties into two elements: the core of the building and the surface finishes and services. The core is written off over 50 years with a suitable residual value and the surface finishes and services are written off over 20 years.

Assets in the course of construction are included as a fixed asset, and are depreciated at the appropriate category rate on the completion of the project.

Hotels properties are carried at valuation.

Land has been subject to revaluation and is not depreciated.

Stocks

Stock is valued at the lower of cost and net realisable value.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is provided in respect of all timing differences that have originated but not reversed at the balance sheet date where an event has occurred that results in an obligation to pay more or less tax in the future, except that:

- (i) Provision is not made in respect of revaluation surpluses
- (ii) Deferred tax assets are recognised only to the extent that it is more likely than not that there will be suitable taxable profits in the future.

Deferred tax is measured on a non-discounted basis at the tax rate applying on the balance sheet date.

Pensions

The company participates in the Somerston Hotels UK Limited group pension scheme which is a defined contribution plan. Contributions are charged to the company's profit and loss account as they become payable in accordance with the rules of the scheme.

Somerston Hotels (Salford Quays) Limited
Notes to the Accounts
for the year ended 31 December 2007

2 Turnover

Turnover, which is wholly generated in the United Kingdom, represents the amounts (excluding value added tax) derived from the provision of goods and services to customers

3 Operating profit

2007	2006
£	£

This is stated after charging

Depreciation of owned fixed assets	214,746	247,070
Auditors' remuneration for audit services	4,800	4,500
Auditors' remuneration for tax services	3,100	1,500
	<u>218,646</u>	<u>253,070</u>

4 Staff costs

2007	2006
£	£

Wages and salaries	242,504	239,060
Social security costs	17,447	16,159
Other pension costs	1,829	1,629
	<u>261,780</u>	<u>256,848</u>

Average number of employees during the year

Number	Number
---------------	---------------

Directors	3	3
Hotel administration	19	19
	<u>22</u>	<u>22</u>

Directors' remuneration for K I Griffith and J E Towers is borne by the Company's immediate parent undertaking, Somerston Hotels Limited, and for C D Budden by a related Company, Somerston Capital Limited

5 Interest receivable and similar income

2007	2006
£	£

Interest receivable from parent undertaking	154,916	188,387
Bank interest receivable	4,863	16,868
	<u>159,779</u>	<u>205,255</u>

Somerston Hotels (Salford Quays) Limited
Notes to the Accounts
for the year ended 31 December 2007

6 Interest payable	2007	2006
	£	£
Interest payable on bank loans	405,038	402,068
Amortisation of loan costs	9,123	9,129
	<u>414,161</u>	<u>411,197</u>

7 Tax (credit) / charge on profit on ordinary activities	2007	2006
	£	£
(i) Analysis of (credit) / charge for the year		
Current tax	-	-
Deferred tax		
Origination and reversal of timing differences		
- Accelerated capital allowances	(58,293)	139,411
	<u>(58,293)</u>	<u>139,411</u>
 Tax (credit)/charge on profit on ordinary activities	 <u>(58,293)</u>	 <u>139,411</u>

(ii) Factors affecting the tax (credit) / charge for the year

The differences between the tax assessed for the year and the standard rate of corporation tax are explained as follows

	2007	2006
	£	£
Profit on ordinary activities before tax	<u>679,042</u>	<u>684,782</u>
Standard rate of corporation tax in the UK	30%	30%
	£	£
Profit on ordinary activities multiplied by the standard rate of corporation tax	203,713	205,435
Effects of		
Expenses not deductible for tax purposes	64,424	44,971
Transfer pricing	(73,675)	(66,273)
Capital allowances for period in excess of depreciation	(114,315)	(59,028)
Utilisation of tax losses	(80,147)	(125,105)
Current tax charge for period	<u>-</u>	<u>-</u>

Somerston Hotels (Salford Quays) Limited
Notes to the Accounts
for the year ended 31 December 2007

7 Tax charge on profit on ordinary activities (continued)

(iii) Factors that may affect future tax charges

No provision has been made for taxation which might become payable if the company's investment properties were sold at the net amount at which they are stated in the financial statements the additional tax liability could amount to approximately £1,756,942 (2006 £2,512,797)

8 Tangible fixed assets

	Assets in the course of construction £	Leasehold land and buildings £	Plant and machinery £	Total £
Cost				
At 1 January 2007	318,206	14,499,126	657,117	15,474,449
Additions	400,850	-	11,753	412,603
Deficit on revaluation	-	(2,276,063)	-	(2,276,063)
Transfers between categories	(709,454)	313,050	396,404	-
At 31 December 2007	<u>9,602</u>	<u>12,536,113</u>	<u>1,065,274</u>	<u>13,610,989</u>
Depreciation				
At 1 January 2007	-	787,013	579,230	1,366,243
Charge for the year	-	171,606	43,140	214,746
At 31 December 2007	<u>-</u>	<u>958,619</u>	<u>622,370</u>	<u>1,580,989</u>
Net book value				
At 31 December 2007	<u>9,602</u>	<u>11,577,494</u>	<u>442,904</u>	<u>12,030,000</u>
At 31 December 2006	<u>318,206</u>	<u>13,712,113</u>	<u>77,887</u>	<u>14,108,206</u>

The Company's hotel was externally valued at £12,030,000 on 31 December 2007 as a fully equipped operating hotel by CBRE Hotels Limited, registered Chartered Surveyors (at 20 June 2006 £13,790,000). Valuations are carried out on an open market value basis in accordance with the Appraisal and Valuation Manual of the Royal Institution of Chartered Surveyors. The depreciated historical cost of the property is £4,823,291 (2006 £4,539,156)

Interest capitalised within fixed assets amounts to £198,214 (2006 £198,214)

9 Debtors

	2007 £	2006 £
Trade debtors	22,751	1,876
Amounts due from parent undertaking	1,934,479	2,272,422
Prepayments and accrued income	<u>41,205</u>	<u>35,097</u>
	<u>1,998,435</u>	<u>2,309,395</u>

Somerston Hotels (Salford Quays) Limited
Notes to the Accounts
for the year ended 31 December 2007

10 Creditors amounts falling due within one year	2007	2006
	£	£
Trade creditors	100,468	83,054
Other creditors	86,270	67,923
Accruals and deferred income	159,188	91,468
	<u>345,926</u>	<u>242,445</u>

11 Creditors amounts falling due after one year	2007	2006
	£	£
Bank loans	<u>6,115,504</u>	<u>6,106,381</u>

	2007	2006
	£	£
Bank loans are repayable		
After 5 years	6,174,090	6 174 090
	<u>6,174,090</u>	<u>6,174,090</u>
Less Capitalised loan costs	(58,586)	(67,709)
	<u>6,115,504</u>	<u>6,106 381</u>

The bank loan is secured by charges over the hotel property and being swapped into a blended fixed interest rate of 6.52%

12 Provisions for liabilities and charges Deferred tax	2007	2006
	£	£
Deferred tax		
At 1 January	303,308	163 897
Credit for the year	(58,293)	139 411
At 31 December	<u>245,015</u>	<u>303,308</u>

	1 January	Credit	31 December
	2007		2007
	£	£	£
Representing			
Accelerated capital allowances	303,308	(58,293)	245,015
	<u>303,308</u>	<u>(58,293)</u>	<u>245,015</u>

Somerston Hotels (Salford Quays) Limited
Notes to the Accounts
for the year ended 31 December 2007

13 Share capital	2007	2006
	£	£
Authorised		
100 Ordinary shares of £1 each	<u>100</u>	<u>100</u>
	2007	2006
	£	£
Allotted called up and fully paid		
2 Ordinary shares of £1 each	<u>2</u>	<u>2</u>
14 Revaluation reserve	2007	2006
	£	£
At 1 January	9,569,053	8,492,432
Arising on revaluation during the year	(2,276,063)	1,226,528
Transfer in respect of depreciation on revalued tangible fixed assets	(100,418)	(149,907)
At 31 December	<u>7,192,572</u>	<u>9,569,053</u>
15 Profit and loss account	2007	2006
	£	£
At 1 January	471,247	2,036,969
Profit for the financial year	737,335	545,371
Dividends	(1,023,000)	(2,261,000)
Transfer in respect of depreciation on revalued tangible fixed assets	100,418	149,907
At 31 December	<u>286,000</u>	<u>471,247</u>
16 Dividends	2007	2006
	£	£
Dividends for which the company became liable during the year		
Dividends paid	<u>1,023,000</u>	<u>2,261,000</u>
17 Reconciliation of movement in shareholders' funds	2007	2006
	£	£
At 1 January	10,040,302	10,529,403
Profit for the financial year	737,335	545,371
Dividends	(1,023,000)	(2,261,000)
Other recognised gains and losses	(2,276,063)	1,226,528
At 31 December	<u>7,478,574</u>	<u>10,040,302</u>

Somerston Hotels (Salford Quays) Limited
Notes to the Accounts
for the year ended 31 December 2007

18 Related party transactions

The Company has taken advantage of the exemption, allowed by Financial Reporting Standard 8, not to disclose transactions with related parties which are at least 90% owned within the same group and whose consolidated financial statements are publicly available

19 Holding company

The Company's immediate parent undertaking is Somerston Hotels Limited, a company registered and incorporated in England and Wales. The parent undertaking of the smallest group for which financial statements are drawn up is Somerston Hotels UK Limited, a company registered and incorporated in England and Wales. Copies of the consolidated financial statements of Somerston Hotels UK Limited can be obtained from Companies House.

The directors regard Carlton International Holdings Limited ("Carlton"), a BVI registered company to be the ultimate controlling company. The shares of Carlton are ultimately owned by Stornaway Limited acting as trustees of a settlement governed by the laws of Jersey ("the Jersey trust"). The directors regard the Jersey trust as the controlling party of Carlton.