**Apex Hotels Limited**

Annual report and consolidated financial statements
Registered number SC073489
30 April 2014

# Contents

## Company information

| | |
|---|---|
| **Directors** | N Springford<br>D Springford<br>IK Springford<br>DB Springford<br>JC Harbisher<br>A Vickers<br>JM Wilkie<br>AC Wilson |
| **Secretary** | N Springford |
| **Registered office** | Apex Hotels House<br>32 Hailes Avenue<br>Edinburgh<br>EH13 0LZ |
| **Auditors** | KPMG LLP<br>191 West George Street<br>Glasgow<br>G2 2LJ |
| **Bankers** | The Royal Bank of Scotland plc<br>24-25 St Andrew Square<br>Edinburgh<br>EH2 1AF |
| **Solicitors** | DWF LLP<br>No.2 Lochrin Square<br>96 Fountainbridge<br>Edinburgh<br>EH3 9QA |

# Strategic Report

The directors present their strategic report and financial statements for the year ended 30 April 2014.

### Principal activities

The principal activity of the group consisted of the operation and management of hotels.

### Business review

Rooms performance was the key driver of an 11% increase in turnover year on year.

In the London market, the Group benefited from an upturn in market conditions following the 2012 Olympic Games. With strong growth in room occupancy (primarily in weekend bookings) and also in room rates achieved, the London portfolio delivered a year on year increase in RevPAR (Revenue per available room) of over 9%.

Likewise the results from the Scottish portfolio reflected increased corporate and leisure demand for hotel rooms, providing RevPAR growth of over 15%.

Tenancy agreements at the properties attached to the City of London and Temple Court hotels have not been renewed to facilitate the conversion of these sites into additional hotel bedrooms. Consequently, other income has declined from £678,000 last year to £270,000.

Profit before tax and exceptional items rose to £9.6 million, an increase of 37% over last year, reflecting the strong revenue growth and effective cost control across the portfolio.

#### Property – current portfolio

All hotels were revalued in accordance with the Group's policy of property revaluation, with a resultant increase in the revaluation reserve of £18.1 million. As in prior years, the value of the Groups' leasehold properties in Edinburgh's Grassmarket area are not reflected on the Balance Sheet, these assets having been valued separately at £1.4 million.

In addition, the Mark Lane property (previously a rental property but now designated for development as an extension to the City of London hotel) has been valued at £9.3 million, but is currently recognised on balance sheet at a cost of £5.3 million. Development of the site commenced in September 2014, with the expectation that an additional 30 rooms will be available in Autumn 2015.

#### Property – developments

The Apex laundry services division opened in September 2013, providing linen to all of the Apex hotels in Scotland.

Post year end, the Group acquired a new site for development in Bath via a new subsidiary company, Apex Hotels (Developments) Limited set up for this purpose. The site, currently a vacant office building, has planning consent for development of a 177 bedroom hotel with extensive conference facilities.

The full hotel development costs for Bath are estimated to be in the region of £35 million, with the construction of the new hotel scheduled to begin in May 2015, and expected to open towards the end of 2016.

Also in September 2014, the Group purchased the Custom House and Harbour Chambers in Dundee. This site is located adjacent to the Apex City Quay Hotel in Dundee, and expansion plans for the enlarged site are under consideration.

In October 2014, the Group agreed to purchase an existing hotel in Glasgow. The Group plan to close operations at the end of December and following a period of refurbishment, re-open the hotel as Apex City of Glasgow in Summer 2015.

## Strategic report *(continued)*

### Business review *(continued)*

#### Financing

During the year, a new bank facility was arranged to consolidate the existing loans, which includes an element of senior term debt (£69 million) plus a further revolving credit facility of £10 million. The term debt is repayable in quarterly instalments of £1.5 million from July 2015 with a final balloon repayment in October 2018.

The revolving credit facility will be utilised for investment in the existing portfolio, together with settlement of the terminal fee of £10 million payable in respect of previous bank facilities in October 2014. £2.7 million has been accrued in the financial statements in the current year in respect of this fee arrangement, recorded as an exceptional item in the profit and loss account, bringing the cumulative accrual to £8.6 million at the end of the April 2014.

In the current year, the European and City Quay hotels were sold under sale and leaseback arrangements, generating cash of £6.8 million (net of transaction costs) which was applied to reduce bank debt. Under these agreements, the Group retains uninterrupted rights to operate the hotels for the next 150 years, with the option to repurchase the properties at the end of the lease term at £1. Rent payable is subject to annual inflationary increases linked to RPI.

Post year end, a similar lease financing arrangement for entered into in respect of the City of London hotel, securing additional funds of £5 million.

New bank facilities with Bank of Scotland were arranged post year end, and initial borrowings of £13 million utilised to acquire the Bath site.

The principal risks and uncertainties affecting the business include the following:

- Trade supplies availability and prices: the group monitors supplier sources closely and ensures that price and quality are delivered by key suppliers. In particular, the monitoring of utilities, hospitality food and catering supplies and maintenance service contracts is a key focus.
- Environmental risks: the group places considerable emphasis upon environmental compliance in each of its businesses and not only seeks to ensure ongoing compliance with relevant legislation, but also strives to ensure that environmental best practice is incorporated into its key processes. This has been recognised in a number of environmental awards for the Group.
- Debtors: the group maintains strong relationships with each of its key customers and has established credit control parameters. Appropriate credit terms are agreed with all customers and these are closely managed. The group has an excellent record of debt management and a very low incidence of bad debt.
- Major disruption/disaster: business continuity planning is reviewed and tested to ensure that risks are minimised in all properties, in particular ensuring the safety of employees and guests at all locations
- The effect of legislation or other regulatory activities: the Group monitors forthcoming and current legislation on a regular basis, including new regulations and developments in areas such as health and safety, food provisioning and waste management
- Economic and competitive risk: subdued demand for hotel rooms and events as a result of a downturn in the economy or increased supply into the market place. The Group operates in highly competitive markets. New hotel developments, product innovations or technical advances by competitors could adversely affect Group performance. The diversity of operations geographically has reduced the possible effect of action by any single competitor or in any one market place. The Group strives to improve its product at all times to sustain competitive advantage and also works continually to ensure that its cost base is competitive.

Key areas of strategic development and performance of the business include:

- Sales and marketing: the targeting of higher rate business through all sales channels; sourcing of new markets and wider recognition of the Apex brand.
- Competitive advantage: the Group focuses on areas where it has a competitive advantage in the four star market which places it well in terms of superior long term income/cash flow growth potential. Successful new openings have continued to secure this position.
- Expansion: Following the successful opening of Apex Temple Court in March 2012, the Group is focussed on the development of new sites in Bath, Glasgow and Customs House in Dundee, as well as extensions to existing London properties.

## Strategic report *(continued)*

**Business review** *(continued)*

Key financial performance indicators include the monitoring of overall profitability, room rate and occupancy.

Key non-financial indicators include the monitoring of guest comment cards, guest online surveys and third party web feedback sites such as TripAdvisor.

**Key performance indicators**

| | **2014** | 2013 |
|---|---|---|
| Rooms sold | **363,736** | 340,013 |
| Average room rate | **£120.24** | £115.45 |
| Occupancy | **87.2%** | 81.4% |

By order of the board

**Norman Springford**
*Director*

Apex Hotels House
32 Hailes Avenue
Edinburgh
EH13 0LZ

24 October 2014

## Directors' report

The directors present their annual report and financial statements for the year ended 30 April 2014.

### Dividends

The directors have paid interim dividends of £1,487,500 *(2013: £100,000)* and they do not recommend the payment of a final dividend.

### Fixed assets

All movements in the fixed assets of the group during the year are shown in the notes to the accounts.

### Directors

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

N Springford
D Springford
IK Springford
DB Springford
JC Harbisher
A Vickers
JM Wilkie
AC Wilson

### Employees

It is group policy to treat all its employees fairly and specifically to prohibit discrimination on the grounds of race, religion, sex, age, nationality or ethnic origin. Disabled people are given equal consideration for all job vacancies for which they are suitable. If employees become disabled the company continues employment wherever possible and arranges retraining.

### Political and charitable contributions

The group made no political contributions during the year. Donations to UK charities of £35,752 were made during the year *(2013: £16,553)*.

### 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 group'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 group's auditor is aware of that information.

### Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board

N. Springford

**Norman Springford**
*Director*

Apex Hotels House
32 Hailes Avenue
Edinburgh
EH13 0LZ

Date
24th October 2014

## Statement of directors' responsibilities in respect of the Strategic Report, the Annual Report and the financial statements

The directors are responsible for preparing the Strategic Report, the Annual 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 group and parent company 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 group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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;
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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 group and to prevent and detect fraud and other irregularities.

KPMG

KPMG LLP
191 West George Street
Glasgow
G2 2LJ
United Kingdom

# Independent auditor's report to the members of Apex Hotels Limited

We have audited the financial statements of Apex Hotels Limited for the year ended 30 April 2014 set out on pages 8 to 25. 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 maters 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 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

**Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the group's and the parent company's affairs as at 30 April 2014 and of the group's 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 matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

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

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

BMarks.

**B Marks (Senior Statutory Auditor)**
**For and on behalf of KPMG LLP, Statutory Auditor**
*Chartered Accountants*

24 October 2014

## Group profit and loss account
*for the year ended 30 April 2014*

| | Note | 2014 Recurring £000 | 2014 Exceptional £000 | 2014 Total £000 | 2013 Recurring £000 | 2013 Exceptional £000 | 2013 Total £000 |
|---|---|---|---|---|---|---|---|
| **Turnover** | | 56,064 | - | 56,064 | 50,554 | - | 50,554 |
| Cost of sales | | (2,758) | - | (2,758) | (2,577) | - | (2,577) |
| **Gross profit** | | 53,306 | - | 53,306 | 47,977 | - | 47,977 |
| Administrative expenses | | (39,416) | | (39,416) | (36,525) | - | (36,525) |
| Other operating income | | 270 | - | 270 | 678 | - | 678 |
| **Operating profit** | 3 | 14,160 | - | 14,160 | 12,130 | - | 12,130 |
| Interest payable and similar charges | 6 | (4,589) | (2,727) | (7,316) | (5,120) | (2,727) | (7,847) |
| **Profit on ordinary activities before taxation** | | 9,571 | (2,727) | 6,844 | 7,010 | (2,727) | 4,283 |
| Tax charge on profit on ordinary activities | 7 | | | (850) | | | (1,152) |
| **Profit on ordinary activities after taxation** | | | | 5,994 | | | 3,131 |

## Balance sheet
*as at 30 April 2014*

| | Note | Group 2014 £000 | Group 2013 £000 | Company 2014 £000 | Company 2013 £000 |
|---|---|---|---|---|---|
| **Fixed assets** | | | | | |
| Investment property | *9* | **1,065** | 1,065 | **1,065** | 1,065 |
| Tangible assets | *10* | **297,460** | 278,825 | **209,070** | 192,684 |
| Investments | *11* | **-** | - | **-** | - |
| | | **298,525** | 279,890 | **210,135** | 193,749 |
| **Current assets** | | | | | |
| Stocks | *12* | **320** | 324 | **277** | 285 |
| Debtors | *13* | **3,526** | 3,395 | **50,219** | 46,522 |
| Cash at bank and in hand | | **19** | 12 | **17** | 2 |
| | | **3,865** | 3,731 | **50,513** | 46,809 |
| **Creditors:** amounts falling due within one year | *14* | **(17,129)** | (15,763) | **(16,649)** | (12,211) |
| **Net current (liabilities)/assets** | | **(13,264)** | (12,032) | **33,864** | 34,598 |
| **Total assets less current liabilities** | | **285,261** | 267,858 | **243,999** | 228,347 |
| **Creditors:** amounts falling due after more than one year | *15* | **(103,154)** | (108,558) | **(103,414)** | (102,303) |
| **Accruals and deferred income** | *16* | **(187)** | (192) | **(187)** | (192) |
| **Provisions for liabilities** | *17* | **(7,769)** | (7,587) | **(7,479)** | (8,198) |
| **Net assets** | | **174,151** | 151,521 | **132,919** | 117,654 |
| **Capital and reserves** | | | | | |
| Called up share capital | *19* | **30** | 30 | **30** | 30 |
| Share premium account | *20* | **50** | 50 | **50** | 50 |
| Revaluation reserve | *20* | **99,209** | 81,386 | **66,045** | 50,750 |
| Profit and loss account | *20* | **74,862** | 70,055 | **66,793** | 66,824 |
| **Shareholders' funds** | *21* | **174,151** | 151,521 | **132,918** | 117,654 |

These financial statements were approved by the board of directors on 24 October 2014 and were signed on its behalf by:

N. Springford

**Norman Springford**
*Director*

Company Registered Number: SC073489

## Group cash flow statement
*for the year ended 30 April 2014*

| | | 2014 £000 | 2014 £000 | 2013 £000 | 2013 £000 |
|---|---|---|---|---|---|
| **Cash inflow from operating activities** | *24* | | 17,447 | | 14,520 |
| **Returns on investment and servicing of finance** | | | | | |
| Interest paid | | (4,798) | | (5,154) | |
| **Net cash outflow from returns on investment and servicing of finance** | | | (4,798) | | (5,154) |
| **Taxation** | | | | | |
| Corporation tax paid | | | (419) | | - |
| **Capital expenditure and financial investment** | | | | | |
| Payments to acquire tangible assets | | (3,611) | | (1,336) | |
| Payments to acquire investment properties | | - | | (13) | |
| **Net cash outflow from capital expenditure and financial investment** | | | (3,611) | | (1,349) |
| Equity dividends paid | | | (1,487) | | (100) |
| **Net cash inflow before financing** | | | 7,132 | | 7,917 |
| **Financing** | | | | | |
| Bank loans repaid | | (14,295) | | (37,868) | |
| Costs incurred on financing transactions | | (235) | | - | |
| Finance leases entered into | | 6,967 | | 28,650 | |
| Costs incurred on finance lease transactions | | (145) | | (428) | |
| Movement of directors' loan | | (52) | | (125) | |
| **Net cash outflow from financing** | | | (7,760) | | (9,771) |
| **Decrease in cash in the period** | | | (628) | | (1,854) |

## Statement of total recognised gains and losses
*for the year ended 30 April 2014*

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **£000** | £000 | **£000** | £000 |
| **Profit for the financial year** | **5,994** | 3,131 | **1,250** | 770 |
| Unrealised surplus/(deficit) on revaluation of properties | **18,123** | (4,262) | **15,501** | (9,941) |
| **Total recognised gains and losses relating to the financial year** | **24,117** | (1,131) | **16,751** | (9,171) |

## Consolidated note of historical cost profits and losses
*for the year ended 30 April 2014*

| | **2014** | 2013 |
|---|---|---|
| | **£000** | £000 |
| **Reported profit on ordinary activities before taxation** | **6,844** | 4,283 |
| Difference between a historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount | **300** | 282 |
| **Historical cost profit on ordinary activities before taxation** | **7,144** | 4,565 |
| **Historical cost profit for the year retained after taxation** | **6,294** | 3,413 |

# Notes
*(forming part of the financial statements)*

## 1 Accounting policies

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

***Basis of preparation***

The financial statements have been prepared under the historical cost convention, modified to include the revaluation of certain fixed assets.

The group has consistently applied all relevant accounting standards.

In accordance with Section 408 of the Companies Act 2006, the company is exempt from the requirement to file an individual profit and loss account.

***Going concern***

The Group's business activities and future trading prospects are outlined in the Strategic report on page 2.

Cashflow forecasts for the Group for the twelve months following the date of signature of these consolidated financial statements has been prepared, reflecting the directors' assessment of current market conditions. Further, the directors have considered amended projections after the application of downside scenarios, together with the assessment of mitigating actions that could be taken in the event that market conditions worsen, such as cost savings and the deferral of capital expenditure.

Both the forecasts and the sensitised forecasts demonstrate that the Group will be able to operate within existing bank facilities with ongoing compliance with financial covenants.

Consequently, the directors are of the opinion that the group has sufficient resources to continue in operation existence for the foreseeable future by meeting its liabilities as they fall due for payment. Based on the factors described above, the directors believe that it is appropriate to prepare the financial statements on a going concern basis.

***Turnover***

Turnover represents the total invoice value, excluding value added tax, of sales made during the year.

***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 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. Where relevant, deferred taxation balances are reduced by tax losses available to the group in the future where directors consider there is likely to be suitable profits in the future to absorb such losses.

***Fixed assets and depreciation***

The group's operating hotels, comprising land and buildings and related contents, are incorporated into the accounts at a valuation as fully operational business units including trade furniture, furnishings and equipment.

Hotels in development are held at cost until the hotel is operational.

Expenditure on hotels is capitalised if it provides new or enhanced revenue streams. The cost of other fixed assets is their purchase cost together with any incidental costs of acquisition.

It is the group's policy to maintain its operating hotels to a high standard in order to protect its trade. Within hotels contents, a base level of hotel fixtures and fittings is maintained. The cost of replacing these fixtures, fittings and other contents is charged against profits in the year in which it is incurred as the cost of maintaining the overall standard of performance.

## Notes *(continued)*

### 1 Accounting policies *(continued)*

***Fixed assets and depreciation (continued)***

Depreciation is provided to write off the cost (or valuation where applicable) less the estimated residual value of tangible instalments over their estimated useful economic lives. Based upon a review of hotel fixed assets, further asset categories have been introduced in the current year and useful economic lives estimated as follows:

| | |
|---|---|
| Land | - not depreciated |
| Hotel buildings (including fixtures and fittings) | - 50 years |
| Leasehold buildings | - remaining lease term |
| Building enhancements | - 10-15 years |
| Fixtures & fittings | - 7-10 years |
| Plant & machinery | - 5-10 years |
| IT equipment and software | - 4-8 years |
| Hotels under development | - not depreciated |

Any impairment in the value of hotel properties is charged to the profit and loss account or statement of recognised gains and losses, as appropriate, in the financial period in which it arises.

Interest and related finance costs incurred in funding hotels under development are capitalised up until completion of the development.

***Investment properties***

Investment properties are defined as properties held for their investment potential. Such properties are held in the balance sheet at their open market value at the balance sheet date on the basis of a directors' valuation.

In accordance with SSAP 19, (i) investment properties are revalued annually and the aggregate surplus or deficit is transferred to a revaluation reserve; and (ii) no depreciation or amortisation is provided in respect of investment properties. This may be a departure from the requirements of the Companies Act concerning depreciation of fixed assets. However, these properties are not held for consumption but for investment and the directors consider that systematic annual depreciation would be inappropriate. The accounting policy adopted is therefore necessary for the financial statements to give a true and fair view. Depreciation or amortisation is only one of many factors reflected in the annual valuation and the amount which might otherwise have been shown cannot separately be identified or quantified.

***Revaluation reserve***

An amount equal to the excess of the depreciation charge on revalued assets over the notional historic depreciation charge on those assets is transferred annually from the revaluation reserve to the profit and loss reserve.

***Leasing***

Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

***Investments***

Fixed asset investments are stated at cost less provision for diminution in value.

***Stocks***

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

***Hotels in development***

Pre trading expenditure of a revenue nature related to hotels in development is written off on opening.

***Government grants***

Grants are credited to deferred revenue. Grants towards capital expenditure are released to the profit and loss account over the expected useful life of the assets. Grants towards revenue expenditure are released to the profit and loss account as the related expenditure is incurred.

***Financing costs***

Costs incurred in relation to debt financing are expensed to the profit and loss account over the period of the loan.

# Notes *(continued)*

## 2 Turnover

The total turnover of the company for the year has been derived from its principal activity wholly undertaken in the UK.

## 3 Operating profit

| | 2014 | 2013 |
|---|---|---|
| ***Profit on ordinary activities before taxation is stated after charging/ (crediting):*** | **£000** | £000 |
| Depreciation | **3,090** | 3,465 |
| Loss on disposal of fixed assets | **8** | 57 |
| Auditor's remuneration | | |
| - audit | **19** | 18 |
| - taxation | **15** | 6 |
| Operating leases – operating hotels | **4,071** | 4,071 |
| Government grants | **(5)** | (4) |

## 4 Remuneration of directors

| | 2014 | 2013 |
|---|---|---|
| | **£000** | £000 |
| Directors' emoluments | **602** | 459 |

The emoluments of the highest paid director were £337,000 *(2013: £245,000)*.

## 5 Staff numbers and costs

The average number of persons employed by the Group and Company (including directors) during the year, analysed by category, was as follows:

| | Number of employees | |
|---|---|---|
| | **2014** | 2013 |
| Administration | **88** | 77 |
| Sales | **628** | 593 |
| | **716** | 670 |

The aggregate payroll costs of these persons were as follows:

| | 2014 | 2013 |
|---|---|---|
| | **£000** | £000 |
| Wages and salaries | **14,192** | 12,305 |
| Social security costs | **1,149** | 1,034 |
| | **15,341** | 13,339 |

## Notes *(continued)*

### 6 Interest payable and similar charges

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Interest charged on bank loans and overdrafts | 3,382 | 4,625 |
| Bank fees expensed | 3,006 | 3,063 |
| Amounts paid on finance leases (net of amortisation) | 928 | 159 |
| | 7,316 | 7,847 |

### 7 Taxation

Analysis of the tax charge for the year

| | 2014 £000 | 2013 £000 |
|---|---|---|
| Current tax | | |
| UK corporation tax – current year | 668 | 6 |
| – adjustment in respect of prior years | - | (5) |
| Total current tax charge | 668 | 1 |
| Deferred tax – current year | 131 | 1,563 |
| Adjustment in respect of prior years: | 7 | (87) |
| Change in rate | 44 | (325) |
| Total deferred tax charge (note 17) | 182 | 1,151 |
| Total tax charge for the year | 850 | 1,152 |

*Factors affecting the tax charge for the current period*

The current tax charge for the period is higher *(2013: lower)* than the standard rate of corporation tax in the UK. In 2014 the main factor affecting the total tax credit is deferred tax which is provided at 20%, and therefore the standard rate used in the analysis set out below is 23% *(2013: 24%)*. The differences are explained below:

| | 2014 £000 | 2013 £000 |
|---|---|---|
| *Current tax reconciliation* | | |
| Profit on ordinary activities before tax | 6,844 | 4,283 |
| Current tax at 22.84% *(2013: 23.92%)* | 1,563 | 1,024 |
| *Effects of:* | | |
| Expenses not deductible for tax purposes | 7 | 20 |
| Income not taxable | - | (2) |
| Movements in deferred tax provided | (638) | (1,036) |
| Losses utilised | (271) | |
| Change in tax rates | 7 | - |
| Current tax charge | 668 | 6 |

# Notes *(continued)*

## 7 Taxation *(continued)*

*Factors that may affect future current and total tax charges*

Based on current capital investment plans, the group expects to be able to claim capital allowances in excess of depreciation in future years. In accordance with FRS 19, no provision has been made for deferred taxation on gains recognised on revaluing the group's properties to market value. Such tax would become payable only if the properties were sold without it being possible to claim rollover relief. At 30 April 2014, there was no obligation to dispose of any revalued properties. The amount of unprovided tax is shown at note 17.

## 8 Dividends

| | **2014** | 2013 |
|---|---|---|
| | **£000** | £000 |
| Dividends on equity shares: | | |
| Ordinary shares – interim paid | **1,487** | 100 |

## 9 Investment properties

| | **Group** | **Company** |
|---|---|---|
| | **£000** | **£000** |
| ***Valuation*** | | |
| At beginning and end of year | 1,065 | 1,065 |

## 10 Tangible fixed assets

### Group

| | **Operating hotels** | **Hotels in development** | **Head office property and equipment** | **Total** |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| ***Cost or valuation*** | | | | |
| At beginning of year | 270,756 | 10,697 | 2,965 | 284,418 |
| Additions | 2,188 | 18 | 1,451 | 3,657 |
| Disposals | - | - | (772) | (772) |
| Transfer | 100 | (100) | - | - |
| Revaluations | 17,500 | - | - | 17,500 |
| At end of year | 290,544 | 10,615 | 3,644 | 304,803 |
| ***Depreciation*** | | | | |
| At beginning of year | 3,847 | - | 1,746 | 5,593 |
| Charge for year | 2,799 | - | 291 | 3,090 |
| Disposals | - | - | (718) | (718) |
| Revaluation | (622) | - | - | (622) |
| At end of year | 6,024 | - | 1,319 | 7,343 |
| ***Net book value*** | | | | |
| **At 30 April 2014** | **284,520** | **10,615** | **2,325** | **297,460** |
| At 30 April 2013 | 266,909 | 10,697 | 1,219 | 278,825 |

# Notes *(continued)*

## 10 Tangible fixed assets *(continued)*

### Company

| | Operating hotels | Hotels in development | Head office property and equipment | Total |
|---|---|---|---|---|
| | £000 | £000 | £000 | £000 |
| ***Cost or valuation*** | | | | |
| At beginning of year | 189,814 | 5,307 | 2,965 | 198,086 |
| Additions | 2,120 | 14 | 1,451 | 3,585 |
| Disposals | - | - | (772) | (772) |
| Transfer from investment properties | 100 | (100) | - | - |
| Revaluation | 15,120 | - | - | 15,120 |
| At end of year | 207,154 | 5,221 | 3,644 | 216,019 |
| ***Depreciation*** | | | | |
| At beginning of year | 3,656 | - | 1,746 | 5,402 |
| Charge for year | 2,355 | - | 291 | 2,646 |
| Disposals | - | - | (718) | (718) |
| Revaluation | (381) | - | - | (381) |
| At end of year | 5,630 | - | 1,319 | 6,949 |
| ***Net book value*** | | | | |
| **At 30 April 2014** | **201,524** | **5,221** | **2,325** | **209,070** |
| At 30 April 2013 | 186,158 | 5,307 | 1,219 | 192,684 |

Capitalised interest costs included above total £15,275,000 *(2013: £15,275,000)* for the group and £10,016,000 *(2013: £10,016,000)* for the company at an average rate of nil% *(2013: nil%)* for the year.

The group's operating hotel portfolio including the group's investment properties (note 9) were valued by the directors as at 30 April 2014, based upon open market valuations performed by Cushman & Wakefield LLP, Chartered Surveyors (in June 2013), in accordance with RICS Appraisal and valuation standards. The hotels were valued as fully equipped operational entities and with regard to trading potential.

During the year, the Group entered into agreements for the sale and leaseback of two properties, being the Apex City Quay, Dundee and Apex European, Edinburgh hotels. Under the terms of these agreements, the hotels are subject to ongoing rental obligations over the next 150 years, and the Company has an option at the end of the lease term to repurchase the sites for £1. In accordance with the accounting treatment outlined in section 21 of FRS 5, these hotels continue to be recognised on balance sheet on a freehold valuation as if the sale and leaseback transactions had not occurred.

In determining the amount of depreciation of hotel buildings, the land element of depreciable assets has been estimated, based on reasoned judgement, to be £40.1 million *(2013: £40.1 million)*.

Cost or valuation of operating hotels comprises:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **£000** | £000 | **£000** | £000 |
| 2014 valuation | **282,000** | 265,550 | **199,000** | 184,800 |
| Cost | **4,620** | 2,928 | **4,620** | 2,928 |
| | **286,620** | 268,478 | **203,620** | 187,728 |

# Notes *(continued)*

## 10 Tangible fixed assets *(continued)*

The historical cost and accumulated depreciation of fixed assets is shown below. Historic accumulated depreciation is written back when properties are revalued upwards.

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **£000** | £000 | **£000** | £000 |
| **Historical cost** | | | | |
| Operating hotels | **194,889** | 192,736 | **144,198** | 142,113 |
| Head office property and equipment | **3,622** | 2,943 | **3,622** | 2,943 |
| Hotels in development | **9,650** | 9,597 | **9,646** | 9,597 |
| | **208,161** | 205,276 | **157,466** | 154,653 |
| **Accumulated depreciation** | | | | |
| Operating hotels | **(9,628)** | (7,129) | **(8,770)** | (6,621) |
| Head office property and equipment | **(2,028)** | (1,737) | **(2,028)** | (1,737) |
| | **(11,656)** | (8,866) | **(10,798)** | (8,358) |
| Net book value | **196,505** | 196,410 | **146,668** | 146,295 |

## 11 Fixed assets – investments

| | Company |
|---|---|
| | £ |
| *Investment in subsidiaries* | |
| *Cost* | |
| At start and end of year | - |

**Principal subsidiary undertakings of the company included in the consolidation**

| **Company** | **Country of registration** | **Class of share** | **Proportion held** | **Nature of business** |
|---|---|---|---|---|
| Apex Hotels (London 3) Limited | Scotland | Ordinary | 100% | Hotel operation and management |

## 12 Stocks

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **£000** | £000 | **£000** | £000 |
| Bar, catering, marketing and stationery stock | **320** | 324 | **277** | 285 |

## Notes *(continued)*

### 13 Debtors

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **£000** | £000 | **£000** | £000 |
| Trade debtors | **2,182** | 2,389 | **1,640** | 1,862 |
| Amounts owed by Apex Hotels (London 3) Limited | **-** | - | **47,325** | 43,718 |
| Prepayments and accrued income | **1,344** | 1,006 | **1,254** | 942 |
| | **3,526** | 3,395 | **50,219** | 46,522 |

### 14 Creditors: amounts falling due within one year

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **£000** | £000 | **£000** | £000 |
| Trade creditors | **1,383** | 1,895 | **1,383** | 1,895 |
| Other creditors | **2,831** | 2,059 | **2,548** | 1,862 |
| Other taxes and social security | **1,089** | 1,039 | **1,089** | 1,034 |
| Accruals and deferred income | **1,304** | 1,323 | **1,101** | 973 |
| Finance leases | **251** | 191 | **251** | 191 |
| Bank loan | **1,000** | 9,231 | **1,000** | 6,231 |
| Bank overdraft | **635** | - | **641** | - |
| Financing costs accrued | **8,636** | - | **8,636** | - |
| Other loan | **-** | 25 | **-** | 25 |
| | **17,129** | 15,763 | **16,649** | 12,211 |

The bank loan is secured (see note 15).

### 15 Creditors: amounts falling due after more than one year

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **£000** | £000 | **£000** | £000 |
| Bank loan | **69,400** | 75,214 | **69,400** | 68,537 |
| Unamortised loan costs | **(1,026)** | (1,070) | **(766)** | (648) |
| Finance leases | **34,550** | 27,998 | **34,550** | 27,998 |
| Other loan | **-** | 225 | **-** | 225 |
| Directors' loan | **230** | 282 | **230** | 282 |
| Financing costs accrued | **-** | 5,909 | **-** | 5,909 |
| | **103,154** | 108,558 | **103,414** | 102,303 |

A fee of £10,000,000 is payable in October 2014, arising from a development term loan utilised for the development of Apex Temple Court. This loan has since been refinanced and the fee is being accrued evenly through the original term of the loan. As at 30 April 2014, £8,636,000 *(2013:£5,909,000)* of fees have been accrued.

# Notes *(continued)*

## 15 Creditors: amounts falling due after more than one year *(continued)*

### Bank loan

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **£000** | £000 | **£000** | £000 |
| Repayable in one year or less, or on demand (note 14) | **1,000** | 9,231 | **1,000** | 6,231 |
| Repayable between one and two years | **3,000** | 12,906 | **3,000** | 6,230 |
| Repayable between two and five years | **66,400** | 18,692 | **66,400** | 18,692 |
| Repayable in five years or more | **-** | 43,616 | **-** | 43,616 |
| | **70,400** | 84,445 | **70,400** | 74,769 |

On 17 October 2013, the Company entered into new bank facility agreement, repaying the existing senior term loan and development loan in full. The new facility comprises senior debt of £69,400,000 with a further £10,000,000 available under a revolving credit facility, and the interest payable on this loan is 2.60%– 2.85% per annum above LIBOR.

Commencing in July 2015, the loan will be repayable in quarterly instalments of £1.5 million with a final balloon repayment in October 2018.

The bank overdraft and loan are secured by standard securities over the group's properties and by a bond and floating charge over the group's assets.

In September 2014, the group arranged additional facilities of £13 million from Bank of Scotland with for the purchase of a site for development in Bath. This funding was arranged via a new wholly owned subsidiary company, Apex Hotels (Developments) Limited, set up for this purpose.

### Finance leases

| Group and Company | **2014** | 2013 |
|---|---|---|
| | **£000** | £000 |
| Repayable in one year or less, or on demand | **1,301** | 1,005 |
| Repayable between one and two years | **1,301** | 1,005 |
| Repayable between two and five years | **3,885** | 3,015 |
| Repayable in five years or more | **184,598** | 145,474 |
| | **191,085** | 150,499 |
| Less: future finance charges | **(156,284 )** | (122,310) |
| | **34,801** | 28,189 |

| Group and Company | **2014** | 2013 |
|---|---|---|
| | **£000** | £000 |
| Repayable between five and ten years | **6,414** | 5,025 |
| Repayable between ten and twenty years | **12,829** | 10,050 |
| Repayable between twenty and fifty years | **38,486** | 30,150 |
| Repayable in fifty years or more | **126,870** | 100,249 |
| | **184,599** | 145,474 |

## Notes *(continued)*

### 15 Creditors: amounts falling due after more than one year *(continued)*

During the year, the Group entered into an agreement for the sale and leaseback of two hotels, being the Apex European, Edinburgh and City Quay, Dundee hotels. Under the terms of the agreement, annual rent is payable of £250,000 on a long term lease expiring in 2163. The proceeds of these transactions have been applied to reduce bank borrowings.

In accordance with FRS5, these transactions are accounted for as financing arrangements and rent payable in treated as an interest expense in the Profit and Loss account, less amortisation of the capital sum received.

**Other Loan**

| *Group and Company* | 2014 £000 | 2013 £000 |
|---|---|---|
| Repayable in one year or less, or on demand (note 14) | - | 25 |
| Repayable between one and two years | - | 25 |
| Repayable between two and five years | - | 75 |
| Repayable in five years or more | - | 125 |
| | - | 250 |

The loan from Dundee City Council was repaid in full following the completion of the sale and leaseback of the City Quay, Dundee hotel in October 2014.

The directors' loans are interest free and not expected to be repaid within one year.

### 16 Accruals and deferred income

| **Group and Company** | 2014 £000 | 2013 £000 |
|---|---|---|
| *Government grants* | | |
| At beginning of year | 192 | 196 |
| Released in year | (5) | (4) |
| | 187 | 192 |

### 17 Provisions for liabilities

| | Group | | Company | |
|---|---|---|---|---|
| Deferred taxation | 2014 £000 | 2013 £000 | 2014 £000 | 2013 £000 |
| At beginning of year | 7,587 | 6,436 | 8,198 | 7,956 |
| Movements in the year (see note 7) | 182 | 1,151 | (719) | 242 |
| | 7,769 | 7,587 | 7,479 | 8,198 |

# Notes *(continued)*

## 18 Deferred taxation

Deferred tax is analysed over the following timing differences:

| | Group Provided | | Company Provided | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **£000** | £000 | **£000** | £000 |
| Accelerated capital allowances | **8,734** | 8,970 | **7,479** | 8,211 |
| Tax losses available | **(965)** | (1,383) | **-** | (13) |
| | **7,769** | 7,587 | **7,479** | 8,198 |

The capital gains tax liability which would arise on disposal of the hotel properties and related fixtures and fittings at their revalued amounts is approximately £19.1 million *(2013: £18.5 million)* and is not provided since there is no obligation to dispose of these properties at 30 April 2014.

## 19 Called up share capital

| **Group and Company** | **2014** | 2013 |
|---|---|---|
| | **£000** | £000 |
| ***Allotted, called up and fully paid*** | | |
| 30,500 ordinary shares of £1 each | **30** | 30 |

# Notes *(continued)*

## 20 Share premium and reserves

### Group

| | Share premium account £000 | Revaluation reserve £000 | Profit and loss account £000 | Total £000 |
|---|---|---|---|---|
| At beginning of year | 50 | 81,386 | 70,055 | 151,491 |
| Profit for the year | - | - | 5,994 | 5,994 |
| Dividends | - | - | (1,487) | (1,487) |
| Reclassification | - | (300) | 300 | - |
| Property revaluations | - | 18,123 | - | 18,123 |
| **At end of year** | **50** | **99,209** | **74,862** | **174,121** |

### Company

| | Share premium account £000 | Revaluation reserve £000 | Profit and loss account £000 | Total £000 |
|---|---|---|---|---|
| At beginning of year | **50** | **50,750** | **66,824** | **117,624** |
| Profit for the year | - | - | 1,250 | 1,250 |
| Dividends | - | - | (1,487) | (1,487) |
| Reclassification | - | (206) | 206 | - |
| Property revaluations | - | 15,501 | - | 15,501 |
| **At end of year** | **50** | **66,045** | **66,793** | **132,888** |

## 21 Reconciliation of movements in shareholders' funds

| | Group | | Company | |
|---|---|---|---|---|
| | **2014 £000** | 2013 £000 | **2014 £000** | 2013 £000 |
| Profit for the year | **5,994** | 3,131 | **1,250** | 770 |
| Dividends | **(1,487)** | (100) | **(1,487)** | (100) |
| Revaluations | **18,123** | (4,262) | **15,501** | (9,941) |
| Net addition to shareholders' funds | **22,630** | (1,231) | **15,264** | (9,271) |
| Opening shareholders' funds | **151,521** | 152,752 | **117,654** | 126,925 |
| | **174,151** | 151,521 | **132,918** | 117,654 |

## Notes *(continued)*

### 22 Operating leases

The commitments payable in the next financial year in respect of non-cancellable operating leases are:

| | Group | | Company | |
|---|---|---|---|---|
| | **2014** | 2013 | **2014** | 2013 |
| | **£000** | £000 | **£000** | £000 |
| *Leases which expire in:* | | | | |
| More than five years | 4,012 | 4,085 | 3,741 | 3,820 |

The group leases two hotels under operating leases expiring in 2041.

### 23 Capital commitments

Capital commitments at the end of the financial year, for which no provision has been made, are as follows:

| | **2014** | 2013 |
|---|---|---|
| | **£000** | £000 |
| Contracted for but not provided | - | 450 |

### 24 Reconciliation of operating profit to net cash flow from operating activities

| | **2014** | 2013 |
|---|---|---|
| | **£000** | £000 |
| Operating profit | **14,160** | 12,130 |
| Depreciation and amortisation charges | **3,090** | 3,465 |
| Loss on disposal of fixed assets | **8** | 57 |
| Amortisation of financing costs | **279** | 336 |
| Decrease/(Increase) in stocks | **4** | (16) |
| Increase in debtors | **(131)** | (350) |
| Increase/(Decrease) in creditors | **42** | (1,098) |
| Government grant released | **(5)** | (4) |
| | **17,447** | 14,520 |

### 25 Reconciliation of net cash flow to movement in net debt

| | **2014** | 2013 |
|---|---|---|
| | **£000** | £000 |
| Increase/(Decrease) in cash in the year | **7** | (1,854) |
| Decrease in debt financing | **7,125** | 9,772 |
| Change in net debts resulting from cash flows | **7,132** | 7,918 |
| Loan and financing costs | **(69)** | (303) |
| Movement in net debt in the year | **7,063** | 7,615 |
| Net debt at the start of the year | **(112,084)** | (119,699) |
| **Net debt at the end of the year** | **(105,021)** | (112,084) |

## Notes *(continued)*

### 26 Analysis of net debt

| | At beginning of year £000 | Cash flow £000 | Non cash movement £000 | At end of year £000 |
|---|---|---|---|---|
| Cash in hand, at bank | 12 | 7 | - | 19 |
| Bank overdraft | - | (635) | - | (635) |
| Debt due within one year | (9,231) | 8,231 | - | (1,000) |
| Debt due after one year | (75,214) | 5,814 | - | (69,400) |
| Loan costs | 1,070 | 235 | (279) | 1,026 |
| Finance leases | (28,189) | (6,822) | 210 | (34,801) |
| Other loans | (250) | 250 | - | - |
| Directors' loans | (282) | 52 | | (230) |
| | (112,096) | 7,125 | (69) | (105,040) |
| **Total** | (112,084) | 7,132 | (69) | (105,021) |

### 27 Related party transactions

During the year the group incurred architectural fees totalling £59,983 *(2013: £79,990)* from Ian Springford Architects. Of this amount £nil *(2013: £7,024)* is outstanding at the year end. Ian Springford is a director of Apex Hotels Limited.

Also during the year, Apex Hotels Limited incurred design fees from Atom Design Limited totalling £44,115 *(2013: £16,765)*. Of this amount £12,200 *(2013: £Nil)* is outstanding at the year end. Atom Design Limited is a company owned by DB Springford, a director of Apex Hotels Limited.

Until November 2013, the company rented the head office building from Zest Capital Management under a short term lease agreement. This building was purchased from Zest Capital Management for £1,000,000. The company paid professional fees totalling £296,706 *(2013: £149,167)* to Zest Capital Management during the year, relating to both rent for the Group's head office and director's fees. Of this amount £nil *(2013: £21,250)* is outstanding at the year end. JM Wilkie, a director of Apex Hotels Limited, is a Partner in Zest Capital Management.