

Registered number  
SC241505

**Somerston Hotels (Hemel Hempstead) Limited**

Directors' report and financial statements

31 December 2006

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**Somerston Hotels (Hemel Hempstead) Limited**  
**Directors' report and financial statements**  
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## **Somerston Hotels (Hemel Hempstead) Limited**

### **Directors' Report**

The directors present their annual report and accounts for the year ended 31 December 2006

#### **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 5.

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

#### **Dividends and directors' interests**

The directors do not recommend the payment of a dividend (2005 £nil).

#### **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 directors 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 5 and the Balance Sheet on page 7.

#### **Key Performance Indicators (KPI's)**

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

#### **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 2006 was £0.9m representing a 6.7% decline on the prior year.

**Somerston Hotels (Hemel Hempstead) Limited**  
**Directors' Report**

**Market Position and Business Risks**

Its principal business is the corporate and business traveller market, supported by travel and leisure guests from the UK. This market positioning offers less volatility compared to the international tourist market. There is also a readily available alternative national market during UK economic fluctuations as price sensitive corporate users switch their allegiances.

**Future Development**

The group currently has an extensive program of refurbishment for the main public areas, installation of air conditioning, and bedroom refurbishment throughout its portfolio which will affect all properties in the next 1 to 3 years.

**Political and charitable contributions**

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

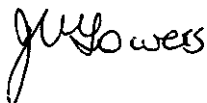
**Creditor payment policy**

It is group and hotel policy 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*

15 Atholl Crescent  
Edinburgh  
Midlothian  
EH3 8HA

## **Somerston Hotels (Hemel Hempstead) 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 (Hemel Hempstead) Limited**

We have audited the financial statements of Somerston Hotels (Hemel Hempstead) Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements 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 if, in our opinion, the Directors' Report is not consistent with the accounts, if 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 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.

**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 2006 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  
30 April 2007

8 Salisbury Square  
London  
EC4Y 8BB

**Somerston Hotels (Hemel Hempstead) Limited**  
**Profit and Loss Account**  
**for the year ended 31 December 2006**

	Notes	2006 £	2005 £
<b>Turnover</b>	2	1,928,228	2,099,150
Cost of sales		(642,826)	(667,075)
<b>Gross profit</b>		<u>1,285,402</u>	<u>1,432,075</u>
Administrative expenses		(733,223)	(844,992)
<b>Operating profit</b>	3	<u>552,179</u>	<u>587,083</u>
Interest receivable	5	30,904	634
Interest payable	6	(441,734)	(850,169)
<b>Profit/(loss) on ordinary activities before taxation</b>		<u>141,349</u>	<u>(262,452)</u>
Tax on profit/(loss) on ordinary activities	7	(2,804)	164,976
<b>Profit/(loss) for the financial year</b>		<u><u>138,545</u></u>	<u><u>(97,476)</u></u>

**Continuing operations**

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

The notes on pages 8 to 14 form part of these financial statements

**Somerston Hotels (Hemel Hempstead) Limited**  
**Statement of total recognised gains and losses**  
**for the year ended 31 December 2006**

	Notes	Year ended 31 December 2006 £	Period ended 31 December 2005 £
Profit/(loss) for the financial year		138,545	(97,476)
Unrealised surplus on revaluation of properties	12	959,355	2,142,880
Total recognised gains and losses related to the year		<u>1,097,900</u>	<u>2,045,404</u>

**Note of historical cost profits and losses**  
**for the year ended 31 December 2006**

	Year ended 31 December 2006 £	Period ended 31 December 2005 £
Reported profit/(loss) on ordinary activities before taxation	141,349	(262,452)
Difference between an historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	87,902	38,426
Historical cost profit /(loss) on ordinary activities before taxation	<u>229,251</u>	<u>(224,026)</u>
Historical cost profit/(loss) on ordinary activities after taxation	<u>226,447</u>	<u>(59,050)</u>

**Somerston Hotels (Hemel Hempstead) Limited**  
**Balance Sheet**  
**as at 31 December 2006**

	Notes	2006 £	2005 £
<b>Fixed assets</b>			
Tangible assets	8	12,430,000	11,710,000
Investments		<u>12,430,000</u>	<u>11,710,000</u>
<b>Current assets</b>			
Stocks		3,013	3,446
Debtors	9	1,111,516	305,357
Cash at bank and in hand		<u>161,578</u>	<u>663,572</u>
		1,276,107	972,375
<b>Creditors: amounts falling due within one year</b>	10	(7,959,436)	(8,033,604)
<b>Net current liabilities</b>		<u>(6,683,329)</u>	<u>(7,061,229)</u>
<b>Net assets</b>		<u><u>5,746,671</u></u>	<u><u>4,648,771</u></u>
<b>Capital and reserves</b>			
Called up share capital	11	1,000	1,000
Revaluation reserve	12	5,788,860	4,917,407
Profit and loss account	13	(43,189)	(269,636)
<b>Shareholders' funds</b>	14	<u><u>5,746,671</u></u>	<u><u>4,648,771</u></u>

These financial statements were approved by the board of directors on 30 April 2007 and were signed on its behalf by



**C D Budden**  
*Director*

**Somerston Hotels (Hemel Hempstead) Limited**  
**Notes to the Accounts**  
**for the year ended 31 December 2006**

**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

The directors have received an assurance from Somerston Hotels Limited that it will provide all necessary resources for the Company to meet its liabilities as they fall due. On the grounds of this assurance the financial statements have been prepared on a going concern basis.

***Basis of accounting***

The financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings. The comparatives are for a period of 14 months.

***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 Ltd. 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.

***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 operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

**Somerston Hotels (Hemel Hempstead) Limited**  
**Notes to the Accounts**  
**for the year ended 31 December 2006**

**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**

	2006 £	2005 £
This is stated after charging		
Depreciation of owned fixed assets	249,115	223,589
Operating lease rentals other		5,021
Auditors' remuneration for audit services	4,500	4,700
Auditors' remuneration for tax services	1,500	
	<u>255,115</u>	<u>233,310</u>

**4 Staff costs**

	2006 £	2005 £
Wages and salaries	226,065	258,704
Social security costs	17,909	20,960
Other pension costs	1,279	3,392
	<u>245,253</u>	<u>283,056</u>

**Average number of employees during the year**

	Number	Number
Directors	4	4
Hotel administration	18	20
	<u>22</u>	<u>24</u>

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

**5 Interest receivable and similar income**

	2006 £	2005 £
Bank interest receivable	2,397	634
Interest receivable from parent undertaking	28,507	
	<u>30,904</u>	<u>634</u>

**6 Interest payable**

	2006 £	2005 £
Interest payable on bank loans		263,587
Interest payable to parent undertaking	441,734	586,582
	<u>441,734</u>	<u>850,169</u>

**Somerston Hotels (Hemel Hempstead) Limited**  
**Notes to the Accounts**  
**for the year ended 31 December 2006**

**7 Tax charge on profit / (loss) on ordinary activities**

	2006 £	2005 £
<b>(i) Analysis of (charge) / credit for the year</b>		
Current tax		
Deferred tax		
Depreciation in excess of capital		
Accelerated capital allowances	(2,805)	12,785
Unutilised trading losses		36,008
Prior year adjustment	1	116,183
	<u>(2,804)</u>	<u>164,976</u>
 Tax on profit / (loss) on ordinary activities	 <u>(2,804)</u>	 <u>164,976</u>

**(ii) Factors affecting the tax charge for the year**

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

	2006 £	2005 £
Profit/(loss) on ordinary activities before tax	<u>141,349</u>	<u>(262,452)</u>
Standard rate of corporation tax in the UK	30%	30%
	£	£
Profit on ordinary activities multiplied by the standard rate of corporation tax	42,405	(78,736)
Effects of		
Expenses not deductible for tax purposes	26,370	67,076
Transfer pricing	(28,254)	(15,258)
Capital allowances for period in excess of depreciation	7,689	(47,457)
Group relief	(719)	(102)
Utilisation of tax losses	(47,491)	74,477
 Current tax charge for period	 <u></u>	 <u></u>

**(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 £1,713,261 (2005 £1,541,826)

**Somerston Hotels (Hemel Hempstead) Limited**  
**Notes to the Accounts**  
**for the year ended 31 December 2006**

**8 Tangible fixed assets**

	<b>Freehold land and buildings £</b>	<b>Fixtures and fittings £</b>	<b>Total £</b>
<b>Cost</b>			
At 1 January 2006	11,214,802	718,787	11,933,589
Additions		9,760	9,760
Surplus on revaluation	959,355		959,355
At 31 December 2006	<u>12,174,157</u>	<u>728,547</u>	<u>12,902,704</u>
<b>Depreciation</b>			
At 1 January 2006	135,319	88,270	223,589
Charge for the year	170,953	78,162	249,115
At 31 December 2006	<u>306,272</u>	<u>166,432</u>	<u>472,704</u>
<b>Net book value</b>			
At 31 December 2006	<u>11,867,885</u>	<u>562,115</u>	<u>12,430,000</u>
At 31 December 2005	<u>11,079,483</u>	<u>630,517</u>	<u>11,710,000</u>

The Company's hotel was externally valued at £12,430,000 on 30 June 2006 as a fully equipped operating hotel by CBRE Hotels Limited, registered Chartered Surveyors (at 26 October 2005 £11,710,000). 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. At 31 December 2006, the Directors believe the valuation of £12,430,000 is still appropriate and therefore have adopted this (at 31 December 2005 £11,710,000). The depreciated historical cost of the property is £6,610,650 (2005 £6,762,104).

Interest capitalised within fixed assets amounts to £170,404 (2005 £170,404)

**Somerston Hotels (Hemel Hempstead) Limited**  
**Notes to the Accounts**  
**for the year ended 31 December 2006**

<b>9 Debtors</b>	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Trade debtors	46,216	99,590
Amounts due from parent undertaking	862,134	
Other debtors		3,504
Prepayments and accrued income	40,994	37,287
Deferred tax (i)	162,172	164,976
	<u>1,111,516</u>	<u>305,357</u>

	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
<b>(i) Deferred tax</b>		
At 1 January	164,976	
Credit for the year	(2,804)	164,976
	<u>162,172</u>	<u>164,976</u>
At 31 December		

	<b>1 January</b>	<b>Charge</b>	<b>31 December</b>
	<b>2006</b>		<b>2006</b>
	<b>£</b>	<b>£</b>	<b>£</b>
Representing			
Accelerated capital allowances	12,785	18,174	30,959
Unutilised trading losses (gross)	152,191	(20,978)	131,213
	<u>164,976</u>	<u>(2,804)</u>	<u>162,172</u>

**Somerston Hotels (Hemel Hempstead) Limited**  
**Notes to the Accounts**  
**for the year ended 31 December 2006**

<b>10 Creditors: amounts falling due within one year</b>	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Trade creditors	95,570	100,548
Amounts owed to group undertakings	7,729,530	7,621,729
Other creditors including taxation and social security	62,664	157,789
Accruals and deferred income	71,672	153,538
	<u>7,959,436</u>	<u>8,033,604</u>
<b>11 Share capital</b>	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Authorised 1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Allotted, called up and fully paid 1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
<b>12 Revaluation reserve</b>	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
At 1 January	4,917,407	2,812,953
Arising on revaluation during the year	959,355	2,142,880
Transfer in respect of depreciation on revalued tangible fixed assets	(87,902)	(38,426)
At 31 December	<u>5,788,860</u>	<u>4,917,407</u>
<b>13 Profit and loss account</b>	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
At 1 January	(269,636)	(210,586)
Profit/(loss) for the financial year	138,545	(97,476)
Transfer in respect of depreciation on revalued tangible fixed assets	87,902	38,426
At 31 December	<u>(43,189)</u>	<u>(269,636)</u>

**Somerston Hotels (Hemel Hempstead) Limited**  
**Notes to the Accounts**  
**for the year ended 31 December 2006**

<b>14 Reconciliation of movement in shareholders' funds</b>	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
At 1 January	4,648,771	2,603,367
Profit/(loss) for the financial year	138,545	(97,476)
Other recognised gains and losses	959,355	2,142,880
At 31 December	<u>5,746,671</u>	<u>4,648,771</u>

**15 Other financial commitments**

At the year end the company had annual commitments under non cancellable operating leases as set out below

	<b>Other</b>	<b>Other</b>
	<b>2006</b>	<b>2005</b>
	<b>£</b>	<b>£</b>
Operating leases which expire within two to five years	<u>2,678</u>	<u>2,678</u>

**16 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

**17 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 Ltd, a company registered and incorporated in England and Wales. Copies of the consolidated financial statements of Somerston Hotels UK Ltd can be obtained from Companies House.

The directors regard Carlton International Holdings Limited ("Carlton"), a BVI registered company to be the ultimate holding 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.