Registered number
05792123

Somerston Hotels (Borrowings) Limited

Directors' report and financial statements

31 December 2008

Somerston Hotels (Borrowings) Limited
Report and financial statements
Contents

Somerston Hotels (Borrowings) Limited
Directors' Report

The directors present their annual report and accounts for the year ended 31 December 2008.

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

C D Budden
K I Griffiths
J E Towers (resigned 27 June 2008)
S Robinson (appointed 27 June 2008)
H Ellingham (appointed 27 June 2008, resigned 21 October 2008)
D Lyko-Edwards (appointed 21 October 2008)

The directors believe that each of the transactions or arrangements referred to above and in note 18 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.

Dividends
Dividends amounting to £5,609,000 were paid during the year (2007:£4,002,000). The company had sufficient distributable reserves at the time the dividends were paid

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

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 in holding companies is:

Valuation of Investment
The carrying value of the Company's investment in subsidiaries is based on their net asset value at the year end.

Business Review

Introduction
The Company is engaged in hotel management and ownership. The Company exists as a holding Company and does not directly operate any trading activities.

As part of its banking arrangements the Company has provided Anglo Irish Banking Corporation ("AIBC") with security over its assets and these form part of a cross-collaterised facility with the rest of the Group companies.

Accordingly the remainder of the Directors' report refers to the performance of the Group due to the challenging current economic environment and its potential impact on the going concern of the Company, as disclosed in the Accounting Policy note 1.

Introduction *(continued)*

The principal business of the group continues to be the domestic corporate and business traveller market, supported by travel and leisure guests. The Express By Holiday Inn Brand is considered to be at the top end of the limited service Hotel Market in the United Kingdom and in addition the Directors feel that the significant levels of capital expenditure invested in the hotels in the past two years place the Somerston Hotels towards the top end of the Express by Holiday Inn brand in terms of the quality of the assets. Therefore, the hotels are well positioned to attract those customers wishing to stay in a limited-service hotel in locations where the hotels are situated. Despite increasingly fierce competition, published benchmarking information confirms the group's hotels in general achieve at least a fair share of the available levels of business within this market place.

The Group currently has 33 trading hotels within the portfolio, 32 operated under the Express by Holiday Inn brand and one under the Ramada Inn brand. A further hotel is under construction due to trade under the Hampton by Hilton brand. The changes during the year have been as follows:

• The Holiday Inn at Woking was sold on 28 February 2008 for £27.7m.

• A new Holiday Inn Express at Lincoln was opened on 15 December 2008.

• Construction commenced for a Hampton by Hilton at Hurst Street, Liverpool in August 2008 and is due to open in April 2010.

The Lincoln hotel build costs were directly financed using the proceeds from the Woking sale, whereas the Liverpool development is a turnkey operation supported by a bank guarantee from Anglo Irish Bank Corporation Limited ("AIBC") and will be fully funded out of existing bank facilities.

Trading Performance
Conditions in the UK hotel market have deteriorated significantly since October 2008 as the general economy contracted and consumer and business confidence levels fell. The combined impact of these pressures resulted in falling demand for hotel room nights and the Group has experienced a significant drop in occupancy levels (-5.8%) in the last quarter of 2008. Room rates remained largely unaffected.

Whilst the portfolio ended the year with trading revenue and EBITDA down only 0.6% and 4.1% compared to prior year respectively, trading revenue for the fourth quarter was down more markedly at -5.6% compared to prior year. Consequently, EBITDA for the fourth quarter fell sharply, down 11.6% compared to prior year.

All Hotels excluding Woking and Lincoln	**Year Ended 31 December 2008**		**Quarter Ended 31 December 2008**	
	Actual	**Prior Year**	**Actual**	**Prior Year**
Trading Revenue (excluding Rental Income of £1.1m)	£71.9m	£72.4m	£16.8m	£17.8m
EBITDA	£31.2m	£32.5m	£6.9m	£7.8m

In early anticipation of a slowdown in trading revenues, management has made considerable progress in implementing a cost reduction programme, which has resulted in annualised fixed cost savings at the hotel level of £0.8m (compared to prior year) and at central management level of £0.4m (compared to prior year). The full benefit of these cost savings will be seen in 2009.

Management is continuing to seek efficiencies within the business to capitalise on revenue generation, to cut costs and to preserve cash.

Somerston Hotels (Borrowings) Limited
Directors' Report

Reconciliation of EBITDA to Group Operating Profit

	£ m
EBITDA excluding Woking & Lincoln	**31.2**
Net Rental Income	1.1
Central Office costs	(2.9)
Adjusted Operating Profit (before interest, tax, depreciation and non-recurring or discontinued items)	29.4
EBITDA for Woking & Lincoln	0.3
Depreciation	(8.9)
Developments costs written off	(0.7)
Restructuring costs	(0.2)
Other non-recurring costs	(0.2)
Loss on disposal of Woking	(0.3)
Group Operating Profit	**£19.4m**

Balance Sheet

Net Assets of the Group have been reduced by £135.6m to £2.3m (2007: £137.9m). The hotel portfolio has fallen in value by £146.9m (30.7%) to £331.4m. In addition to the hotels, other assets owned and used by the management company have increased from £0.2m to £0.4m. However, excluding the sale of the Holiday Inn Woking and the addition of the Holiday Inn Express Lincoln, the hotel portfolio has fallen in value by £127.5m (28.4%) to £321.4m. The valuation of the portfolio was performed by the Directors.

Holiday Inn Woking was sold for £27.7m in February 2008. Additions in the year of £17.3m were comprised of the Holiday Inn Express Lincoln hotel (£8.3m), significant capital expenditure in respect of air conditioning, bedroom and Great Room refurbishment (£7.5m) and other fixed asset additions (£1.5m). A net increase of £2.3m in other net assets accounted for the remaining movement in Net Assets of the Group.

The Directors believe the impairment in value of the hotels is temporary and the fall in value has therefore been charged to the revaluation reserve account. However, it is acknowledged that there is an inherent risk that in the short to medium term the hotel values may fall further as set out in the "Principle risks and uncertainties" section below. The Directors believe that values will recover within a 4 to 5 year time period.

Due to the write-down of asset values, the intercompany debtor owed to Somerston Hotels UK Limited has been impaired, and accordingly a provision has been made against the debtor which has been charged to the Profit and Loss account, creating a negative Profit & Loss reserve account in the Balance Sheet of Somerston Hotels UK Limited ("SHUK Ltd").

Accordingly, any future redemptions of preferred ordinary shares will have to be made out of capital until the negative Profit & Loss reserve account is restored to a positive balance. Such redemptions out of capital will require a Directors' declaration of solvency covering the next 12 months. This will also need to be accompanied by a statutory report by SHUK Ltd's auditors.

The Group cash position as at 31 December 2008 is £8.6m and after making an allowance for working capital, the Group has surplus cash balances of approximately £5.4m, which the Directors believe should be retained in the Group to protect the business during the current economic downturn.

Following the sale of the Holiday Inn in Woking in February 2008, the Group decided to repay £10m of its senior debt (comprising £9m debt together with £1m from surplus cash within Somerston Hotels (Woking) Ltd). Current indebtedness stands at £332.18m (2007: £342.18m) which matures in May 2015. Total annual interest rate payable, including margin and fees is 6.72%. The underlying rate is fixed using swap instruments until May 2015, the margin and fee element is subject to change should any aspects of the facility be required to be renegotiated.

Capital Expenditure

During 2007 and 2008 the Group has invested heavily in the quality of its hotels with a total spend of approximately £19m and management believe the portfolio is in good order. This investment over the past few years should help mitigate the effects of a deteriorating business environment and help the individual hotels withstand an increasingly competitive market place.

In order to preserve cash, the Board has put all major capital projects on hold for 2009 including the rebranding of all the hotels.

It should be noted that the Group is obligated to rebrand all hotels by 31 December 2010 and the capital commitment for this project is estimated at approximately £1.5m although none of this expenditure is planned for 2009.

The construction of Hampton by Hilton hotel in Liverpool is underway and is expected to be completed by April 2010, with a longstop date of December 2010. This is a turnkey development agreement with a capital commitment of £14.3m supported by a guarantee from AIBC.

Banking Relationship and Facility Agreement

The relationship with AIBC, the Group's provider of senior loan funding, is considered by the directors to be both positive and very supportive. The covenants attached to the senior debt have been reviewed with AIBC and agreement has been reached in December 2008 to amend these covenants in the light of current and anticipated future trading conditions. In particular, (i) the annual requirement for a third party valuation (ii) the loan to value covenant and (iii) the tangible net worth covenant have been waived until 30 April 2010. In addition, the trading covenant ratios (interest cover and EBITDA Multiple) have been increased marginally. A fee of 0.2% per annum of the loan amount has been agreed to be paid for the waivers and amendments to the loan covenants.

Looking forward, the Directors believe the Group will trade within the amended trading covenant limits as long as the recession does not become any more severe than currently anticipated by the consensus of commentators in this sector.

Trading patterns in January and February 2009 provide management with some comfort that this should be achievable, although March shows a further softening in demand. More concerning, is that recent trading shows signs of more aggressive competition for room nights which is leading to pressure on rates, and this increases the likelihood of the Group trading towards the lower end of its internal forecasts.

The Directors also believe that conditions in the wider UK economy could result in the Group trading towards the lower end of its internal trading forecasts.

These risks represent a material uncertainty, which may require the Group to revisit its covenants with AIBC and, if necessary, re-set its covenant package. In this instance, a failure to agree a revision, or to obtain other funding, may cast significant doubt about the Group's ability to continue as a going concern such that the Group could be unable to realise its assets and discharge its liabilities in the normal course of business.

Somerston Hotels (Borrowings) Limited
Directors' Report

Principal risks and uncertainties

The Directors have assessed each of the risk areas affecting the group and have categorised each as either Low, Medium or High Risk. Each risk area is considered below:

• Access to senior loan facility - the current facility with AIBC has a further six years before expiring in May 2015. Accordingly, the Group does not need to finance or refinance the loan within the foreseeable future. Access to senior debt is not seen as a key risk - subject to the other risks noted below - to the business during the review period and management has assessed this as Low Risk.

• Ability to service the interest - bank interest is paid quarterly in arrears. The cash flow forecast shows EBITDA would have to fall by over 30% before interest could not be paid within the 12 month review period and accordingly, management has assessed this as Low Risk.

• Ability to trade profitably (at Group Operating Profit Level) - revenue would need to fall in excess of 50% before the Group reported a Trading Loss. Therefore, this is not considered a key risk to the business and management has assessed this as Low Risk.

• Likelihood of breaching a senior loan trading covenant - whilst the directors believe the Group will trade within its trading covenants for the review period, this is the area in which the business is potentially at risk. Given the deterioration of trading experienced in the fourth quarter of 2008 and the acceleration in the deterioration of trading in the first quarter of 2009, management consider there is a Medium Risk that trading covenants could be breached during the next 12 months.

• Potential Negative Net Asset Position – the Balance Sheet as at 31 December 2008 shows a positive net asset position. However, the value of the hotels represent - by far - the biggest asset on the balance sheet. Given the current state of the investment market the Group's balance sheet may show a negative net asset position, following a revaluation of the portfolio as at 31 December 2009, should investment yields for limited service hotels increase compared to those applied to the current valuation as at 31 December 2008 or should the Group experience a further deterioration in trading. Management presently believe that any negative net asset position should be considered temporary and that the Group should continue to be able to meet its liabilities as and when they fall due. However, the Directors consider the likelihood of a negative net asset position to be High Risk.

Political and charitable contributions
The company has made no political or charitable donations in the year (2007: £nil).

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

30 APRIL 2009

D Lyko-Edwards
Company Secretary

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

Somerston Hotels (Borrowings) 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Independent auditors' report
to the members of Somerston Hotels (Borrowings) Limited

We have audited the financial statements of Somerston Hotels (Borrowings) Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet 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 financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 6.

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

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

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the 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 financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Independent auditors' report
to the members of Somerston Hotels (Borrowings) Limited

Emphasis of matter: Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosure made in the Accounting Policies note on page 12 concerning the company's ability to continue as a going concern and in particular the continued availability of the company's borrowings. These conditions, along with the other matters explained in the Accounting Policies note, indicate the existence of a material uncertainty which may cast significant doubt on the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its loss 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

30/4/09

KPMG LLP
Chartered Accountants
Registered Auditor

8 Salisbury Square
London
EC4Y 8BB

Somerston Hotels (Borrowings) Limited
Profit and Loss Account
for the year ended 31 December 2008

	Notes	2008 £	2007 £
Operating loss	3	(15)	-
Income from investments	4	3,442,000	10,937,000
Interest payable	6	(3,823,500)	(3,315,010)
(Loss) / profit on ordinary activities before taxation		(381,515)	7,621,990
Tax on (loss) / profit on ordinary activities	7	-	-
(Loss) / profit for the financial year		(381,515)	7,621,990

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

There is no difference between the results as disclosed in the profit and loss account and the results on an unmodified historical cost basis.

The notes on pages 12 to 18 form part of these financial statements.

Somerston Hotels (Borrowings) Limited
Statement of total recognised gains and losses
for the year ended 31 December 2008

	Notes	2008 £	2007 £
(Loss) / profit for the financial year		(381,515)	7,621,990
Unrealised (deficit)/surplus on revaluation of investments	8	(127,468,795)	30,842,590
Total recognised gains and losses related to the year		(127,850,310)	38,464,580

Somerston Hotels (Borrowings) Limited
Balance Sheet
as at 31 December 2008

	Notes		2008		2007
			£		£
Fixed assets					
Investments	8		34,598,192		162,066,987
Current assets					
Debtors	9	14,379,001		10,937,001	
Cash at bank and in hand		-		-	
		14,379,001		10,937,001	
Creditors: amounts falling due within one year	10	(90,239,307)		(80,910,760)	
Net current liabilities			(75,860,306)		(69,973,759)
Total assets less current liabilities			(41,262,114)		92,093,228
Creditors: amounts falling due after more than one year	11		(47,962,238)		(47,858,270)
Net assets/(liabilities)			(89,224,352)		44,234,958
Capital and reserves					
Called up share capital	12		1		1
Revaluation reserve	13		(85,401,808)		42,066,987
Profit and loss account	14		(3,822,545)		2,167,970
Shareholders' funds	16		(89,224,352)		44,234,958

These financial statements were approved by the board of directors on 30 April 2009 and were signed on its behalf by:

K I Griffiths
Director

Somerston Hotels (Borrowings) Limited
Notes to the Accounts
for the year ended 31 December 2008

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements, except for investments which are now carried at valuation.

Basis of accounting
The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules. The Company is not required to produce consolidated accounts as it is a subsidiary of Somerston Hotels UK Limited, which does produce consolidated accounts.

Going Concern
In determining the appropriate basis of preparation of the financial statements, the Directors are required to consider whether the Company can continue in operation for at least the next 12 months. Notwithstanding the fact that the Company has net liabilities, the directors have prepared the accounts on the going concern basis. The directors have received confirmation from Somerston Hotels UK Limited, the Company's immediate parent company, of its intention to support financially the Company such that the Company can meet its obligations as they fall due for a period of at least twelve months from the date of the directors' approval of these accounts.The Company is a wholly owned subsidiary within the Somerston Hotels UK Limited group (the "Group").

The Company has a term loan, expiring in May 2015, with AIBC secured on the Company's shares. The Company's term loan forms part of the Group's overall term loan, which includes certain financial covenants which are subject to testing at a Group level only. The Company's term loan is tied to the Group's term loan as a whole via certain cross-guarantees within the senior loan facility with AIBC.

Accordingly, due to the nature of the cross-guarantee within the senior loan facility with AIBC , and the related covenants, it is necessary to consider the going concern position of the Group in order to assess that of the Company.

The Directors of Somerston Hotels UK Limited make the following disclosures in their financial statements for the year ended 31 December 2008, which were approved on 22 April 2009:

Following a detailed and comprehensive review of the business, the Directors believe the Group to be a going concern and, further, the Directors have no reason or intention to liquidate the Group or cease its trading activities over the foreseeable future.

The Group has a term loan, expiring in May 2015, with AIBC and has cash balances as at 31 December 2008 of £8.6m and after making allowance for working capital has surplus cash balances of £5.4m. The Group's term loan includes certain financial covenants. In December 2008 the Group obtained a waiver in respect of two of its covenants; loan to value and tangible net worth covenants which are now scheduled to be tested next on 30 April 2010.

The Group reported an Adjusted Operating Profit (before interest, tax, depreciation and non-recurring or discontinued items) of £29.4m for the year ended 31 December 2008 (as reconciled on page 3 of the Directors' Report). Net Interest for the year was £21.2m. After interest, non-cash items and non-recurring or discontinued items, the Group retained a loss of £3.0m. However, the directors are anticipating Adjusted Operating Profit for the year ending 31 December 2009 to be materially below 2008 with the current economic environment remaining challenging. In particular, the Directors consider that the outlook presents significant challenges in terms of falling occupancies and competitive pricing as well as controlling the operational cost base and retaining an acceptable level of customer service and these conditions have been reflected in the directors' projections.

Somerston Hotels (Borrowings) Limited
Notes to the Accounts
for the year ended 31 December 2008

1 Accounting policies

Going Concern (continued)
Whilst the Directors have instigated measures to reduce the operational cost base, there can be no certainty in the revenue projections included in the cash flow forecasts prepared by the directors for the next 12 months. These cash flow forecasts anticipate the Group operating within the terms of its loan facilities and maintaining covenant compliance (excluding those covenants waived until 30 April 2010) on both budget and in stressed conditions (based on the Directors' assessment of reasonably possible downside projections, notably revenue falls of between 7% and 10%).

In addition, and as stated above, the loan to value and tangible net worth covenants are not scheduled to be retested until 30 April 2010, however, based on the current Directors' valuation it is anticipated that these could be in breach at that date.

Were the Group to breach any of its loan covenants this would result in its term debt becoming repayable on demand, subject to certain remediation periods (ranging from 3 months to 6 months depending on the nature of the breach). In this instance, the Group is confident that it would successfully renegotiate the terms of its loan in advance of any such breaches and, in particular, in advance of the loan to value and tangible net worth being tested on 30 April 2010. However, if AIBC did not agree to re-set the terms of the loan, the Group would need to secure new financing, which could prove difficult in the current environment. AIBC has indicated to management its intention to renegotiate the terms of the loan and this is anticipated to take place in the fourth quarter of 2009.

The directors have concluded that the combination of these circumstances represents a material uncertainty that may cast significant doubt upon the Group's and the Company's ability to continue as a going concern. They may therefore be unable to continue realising their assets and discharging their liabilities in the normal course of business.

Nevertheless, after making enquires, and considering the uncertainties described above, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For these reasons, the Directors consider it appropriate they continue to prepare the financial statements on a going concern basis. These financial statements do not include any adjustments that would result from the going concern basis of preparation being inappropriate.

On the basis of the above position, the Directors of the Company believe that it remains appropriate to prepare the financial statements on a going concern basis. However, the material uncertainty referred to above may cast significant doubt on the Company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not contain any adjustments that would result from this basis of preparation being inappropriate.

Somerston Hotels (Borrowings) Limited
Notes to the Accounts
for the year ended 31 December 2008

1 Accounting policies

Cash flow

The Company is a wholly owned subsidiary of Somerston Hotels UK Limited. Its cash flows are included in the consolidated group cash flow statement of the ultimate 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.

Taxation

The charge for taxation is based on the result 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 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.

Fixed asset investments

Investments are carried at valuation. Any surplus or deficit on valuation is recorded in the revaluation reserve. Any impairment is recovered in the profit and loss account.

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 (loss) / profit	**2008**	**2007**
	£	**£**
This is stated after charging:		
Auditors' remuneration for audit services	-	-

The audit costs of £1,300 were borne by the parent company. No other fees are to be paid to KPMG LLP in respect of this company.

4 Income from investments	**2008**	**2007**
	£	**£**
Dividends received	3,442,000	10,937,000

5 Staff costs

Average number of employees during the year	**2008 Number**	**2007 Number**
Directors	4	3

Directors' remuneration for K I Griffiths, J E Towers and D Lyko-Edwards is borne by the Company's immediate parent undertaking, Somerston Hotels Limited. All other directors' remuneration is borne by a related Company, Somerston Capital Limited.

6 Interest payable

	2008 £	**2007 £**
Bank loans and overdrafts	3,161,367	3,169,926
Bank charges	-	-
Inter group interest payable	558,165	41,112
Amortisation of finance costs	103,968	103,972
	3,823,500	3,315,010

7 Taxation

Factors affecting tax charge for period

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

	2008 £	**2007 £**
(Loss)/profit on ordinary activities before tax	(381,515)	7,621,990
Standard rate of corporation tax in the UK	28.5%	30.0%
	£	£
(Loss) / profit on ordinary activities multiplied by the standard rate of corporation tax	(108,732)	2,286,597
Effects of:		
Group relief	520,238	750,928
Tax losses not utilised	569,464	-
Income not taxable	(980,970)	(3,037,525)
Current tax charge for period	-	-

Factors that may affect future tax charges

Deferred tax of £559,473 has not been recognised as the Directors believe that there is insufficient profit in future years to justify carrying the asset in the financial statements.

Somerston Hotels (Borrowings) Limited
Notes to the Accounts
for the year ended 31 December 2008

8 Investments

Investments in subsidiary undertakings	2008	2007
	£	£
Valuation		
At 1 January	162,066,987	131,224,397
Additions	-	30,842,590
Arising on revaluation during the year	(127,468,795)	-
At 31 December	34,598,192	162,066,987

9 Debtors

	2008	2007
	£	£
Amount owed by parent undertaking	14,379,000	10,937,000
Other debtors	1	1
	14,379,001	10,937,001

10 Creditors: amounts falling due within one year

	2008	2007
	£	£
Bank overdraft	15	-
Amounts owed to group undertakings and undertakings in which the company has a participating interest	90,239,292	80,910,760
	90,239,307	80,910,760

The Related party loan is interest free.

11 Creditors: amounts falling due after one year

	2008	2007
	£	£
Bank loans	47,962,238	47,858,270

	2008	2007
	£	£
Bank loans repayable		
After 5 years	48,554,620	48,554,620
	48,554,620	48,554,620
Less: Capitalised loan costs	(592,382)	(696,350)
	47,962,238	47,858,270

All bank loans are secured on hotel property within the group and have been swapped into fixed interest rates.

Somerston Hotels (Borrowings) Limited
Notes to the Accounts
for the year ended 31 December 2008

12 Share capital

	2008	2007
	£	£
Authorised:		
1 Ordinary share of £1 each	1	1

	2008	2007
	£	£
Allotted, called up and fully paid:		
1 Ordinary share of £1 each	1	1

13 Revaluation reserve

	2008	2007
	£	£
At 1 January	42,066,987	11,224,397
Arising on revaluation during the year	(127,468,795)	30,842,590
At 31 December	(85,401,808)	42,066,987

14 Profit and loss account

	2008	2007
	£	£
At 1 January	2,167,970	(1,452,020)
(Loss)/profit for the financial year	(381,515)	7,621,990
Dividends paid	(5,609,000)	(4,002,000)
At 31 December	(3,822,545)	2,167,970

15 Dividends

	2008	2007
	£	£
Dividends for which the company became liable during the year:		
Dividends paid	5,609,000	4,002,000

16 Reconciliation of movement in shareholders' funds

	2008	2007
	£	£
At 1 January	44,234,958	9,772,378
(Loss)/profit for the financial year	(381,515)	7,621,990
Dividends paid	(5,609,000)	(4,002,000)
Revaluation	(127,468,795)	30,842,590
At 31 December	(89,224,352)	44,234,958

17 Capital commitments

InterContinental Hotel Group ("IHG") are currently undertaking a rebranding exercise to reposition "Express by Holiday Inn" as "Holiday Inn Express". As a franchisee, Somerston Hotels (Borrowings) Limited are obligated to comply with the requirements of the rebranding by the end of 2010. Whilst this expenditure is not currently planned during 2009, the company expects the cost of complying with the rebranding exercise to be £1,511,318 and as such acknowledge a capital commitment in this respect.

18 Related parties

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 Controlling party

The Company is a wholly owned subsidiary of 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.