



Credo Property Group Limited  
Prentice Investment Holdings Limited  
June 2009



## Executive Summary

**Tenant:** Hilton Group Europe

**Location:** 16 locations in the UK

- The portfolio is subject to a management contract and hence returns may fluctuate.
- The company is close to its debt cover ratios and Rothschild has been appointed to restructure the debt with Royal Bank of Scotland ('RBS')
- NAV per share reduced to £0.741 in June 2009
- No distributions in 2009
- Revenue below budget due to the current market as well as the Open Skies agreement which has affected the Gatwick Hilton. Revenue should be on budget in 2011 following the refurbishment programme.



## Background

On 13 December 2005, Prentice acquired 11% of Annestown Limited, which is a special purpose vehicle set up to acquire a portfolio of 16 Hilton Hotels located throughout the UK. The total gross acquisition cost was £405m, with total shareholders' equity of £88m. Credo's share amounted to £44.55m.

All of the Hilton properties are operated on behalf of the owner by Hilton under a separate management agreement for each hotel. The agreements are on identical terms.

The management agreement is for a term of 30 years from November 2005. Hilton has the right to extend the term on expiry by a further two periods of 10 years. The owner has the right to terminate the agreement if certain revenue and profit targets are not achieved (in two out of three years). However, Hilton can avoid termination on three occasions every 15 years by the payment of a Deficiency Amount.

The agreement is guaranteed by Hilton International Co.

## Funding

Royal Bank of Scotland ("RBS") provided a £331m, 10-year non-recourse debt facility expiring in November 2015. The bank is entitled to 25% of the capital profit when the portfolio or the assets are sold or in the case of a refinancing. The debt is structured to increase until March 2011. As at June 2009 the amount outstanding is £337.5m.

As previously reported the company is close to its debt cover ratios. The investment bank, Rothschild has been appointed to restructure the debt and these negotiations continue. No agreement has been reached with RBS to date.

## Valuation

The investment in Hilton has been marked down to cost. GVA Grimley previously valued the portfolio at December 2007 at £470m. As a result the NAV per share of this investment was valued at £1.12. The portfolio has not been revalued formally since this date and we have therefore decided it is prudent to include the asset at initial cost rather than value. The NAV per share has been reduced to £0.741.



## Cashflow

A total of £1million has been distributed to Prentice shareholders to date. This is lower than budget due to the reasons set out below and also because the results have been below budget.

As previously reported no distribution was received for the period ended September 2008 as we were required to pay a one off payment of £1.2million as stamp duty for the deal structure. In addition, we have also put aside a sum of £1million as a reserve towards payment of the profit share to Royal Bank of Scotland as detailed below.

Revenue has been below budget due to the current economic crisis as well as the Open Skies agreement introduced by the EU allowing airlines for the first time to fly non-stop between any city in Europe and any in the United States. As a result of airlines switching to Heathrow there has been a considerable impact on the Hilton Gatwick which previously serviced the crew and passengers taking long haul flights. Gatwick remains challenging as a result of the current market conditions.

Hilton has agreed to implement a circa £23million refurbishment programme of the hotels as well as an extension of the Edinburgh Airport Hilton over a two year period. Revenue is expected to be on budget in 2011 following the refurbishment programme.

As a consequence there have been no distributions from this investment in the last reporting period and no distributions are forecast for the next reporting period.

The Hilmar Management team is actively looking for ways to improve cashflow. Hilmar's work has concentrated on the micro-management of each individual hotel. For example, a hotel-by-hotel balance sheet review undertaken has already identified over £200,000 that can be put back into the numbers and a series of revenue opportunities identified in Coventry have so far delivered over £100,000. This will continue.

The first Costa Coffee opened in Gatwick Hilton in April. Hilmar have also got the go ahead to open the second outlet at Hilton Olympia and expect the doors to be open there within 3 months.

Hilmar are considering the position of our two hotels in Newbury, both of which are suffering on the back of a weak market and an over-dependence on Vodafone as the single largest hotel room customer. Discussions have begun with Hilton to direct more funds into Newbury Centre than Newbury North to ensure it becomes "The" Hilton in the area, whilst allowing the Newbury North hotel to operate at the 3 star level. This will be reflected in Blue Skies once agreed. In addition, Hilmar have agreed to develop, as part of Blue Skies, a new ground floor scheme which makes the whole floor space into a lounge for transient drivers off the M4. The hotel is already used as a meeting location for transient business and approval has been sought for Hilton to brand the lounge "The Hilton Club Lounge" and offer services and F&B specific to this new sub-branded area.

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