

**Manz Privacy Hotels: operational performance of the
management from 2005 to 2010**

24 August 2011

Reliance restricted

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24 August 2011

Operational performance of the management of the Manz Privacy Hotels from 2005 to 2010

Dear Mr Manz

In accordance with the engagement agreement dated 20 July 2011 and the discussions during our meeting on 10 August 2011 we have prepared an assessment of the management achievements during the past five years (2005 – 2010).

Purpose of our report and restrictions of its use

The report was prepared at the specific request of MP Solutions AG (MP Solutions AG is the sole owner of Swiss Hospitality Partners AG (“SHP”)), solely for the purpose of assessing the management achievements from 2005 to 2010 and should not be relied upon for any other purpose. An unauthorized third person or party is liable if it refers to the report. This report contains confidential information. You confirmed in writing beforehand that EY has no obligations, liability or duty of care concerning the contents of the report.

Scope of our work

The scope of our mandate, including its basic concept and restrictions is written in our engagement agreement.

Our report is based on the defined scope:

- ▶ Assessment of the operational performance of the three Manz Privacy Hotels (“MPH), operated by SHP

We started our work on 12 July 2011 and finished it on 24 August 2011. We assume no obligation or responsibility for the effects of events occurring or emerging after the issue of our report and in connection with the preparation of our expert opinion.

The underlying report is not a recommendation. It is rather an assessment of the management achievements generated by SHP between 2005 and 2010.

Information received

The information contained in this report has been based on information provided by Michael Manz, industry specific databases and industry specific studies.

Unless expressly agreed otherwise, we rely on the completeness and accuracy of the information made available to us by third parties. We are, therefore, unable to provide any guarantee in relation to the accuracy of this information.

SHP is responsible for the information provided to Ernst & Young AG. We did not revise the correctness of such information, except where we have stated this in the report. We therefore do not guarantee the correctness of the information.

If we have amended the received information, this is based on an analysis of the received information. The purpose is to illustrate the information and is inevitably subjective.

References to Ernst & Young AG relate to consulting services, recommendations and analysis, and are not an indication that we take responsibility for such information or prepare real estate or financial information, including future-oriented information, by ourselves and associate ourselves with such information.

Information about Manz Privacy Hotels

The conducted assessment of the management performance is based on information provided by SHP. In addition, we would like to draw your attention to the following disclaimer:

Legal matters have not been investigated. In accordance with our engagement agreement, we rely on the completeness and accuracy of the information made available to us by third parties. We are, therefore, unable to provide any guarantee in relation to the accuracy of this information.

We assume no obligation or responsibility for the effects of events occurring or emerging after the issue of our report and in connection with the preparation of our expert opinion.

Information about lodging industry trends and relevant ratios and key data, including economic, planning and political impacts and other relevant market data are based on sources of private or public institutions or interviews with subject matter specialists and on industry specific literature.

Although our assumptions and estimates are thoroughly prepared on the basis of our experience gained with existing and collected data, we cannot assume liability for the accuracy of this data, nor can we do so for the outcome of our analysis actually occurring in the same form. All of the diagrams, graphs, photographs, plans, etc., contained in this report are included for illustrative purposes only. No guarantee can be given for the accuracy of these items.

We did not conduct an investigation of contaminated soils.

We assume that the real estate is in line with cantonal and regional legal obligations. We did not visit the properties.

Our report

As agreed, we have summarized our findings in this report, and included appendices.

Our report comprises the section “executive summary”, which summarizes the key facts.

Whilst we have summarized our advice, key conclusions, and recommendations in the “executive summary” based on your instructions, there may, nevertheless, be other issues or information of importance in other sections of our report. All sections of the report should be read in conjunction with one another. The page headings serve only to provide an introduction and structure for each page. They themselves do not constitute a recommendation, a conclusion or a statement.

Thank you for giving us the opportunity to be of service to you. If you require any further information or explanation of our underlying work, please do not hesitate to contact us at any time.

Kind regards
Ernst & Young AG

Stephan Haagmanns
Partner

Rolf F. Bach
Senior Manager

Abbreviations

BfS	Bundesamt für Statistik / Swiss Federal Statistical Office
EY	Ernst & Young
GOPPAR	Gross operating profit per available room
IVSC	International Valuation Standards Committee
KPI	Key Performance Indicator
MPH	Manz Privacy Hotels
RevPAR	Revenue per available room

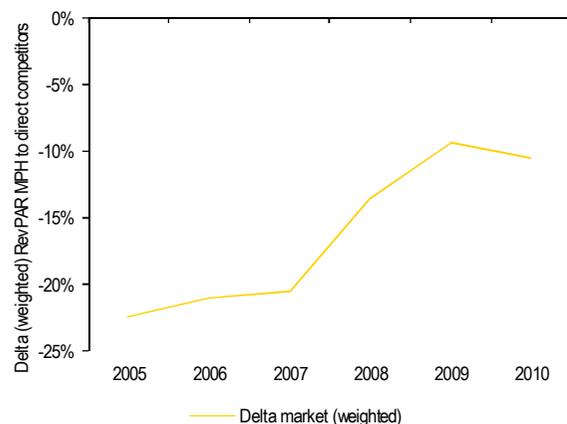
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Executive Summary

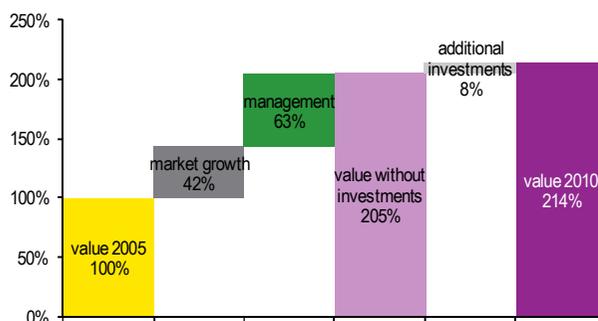
Delta RevPAR to direct competitors

Source: MPH / Beherbergungsstatistik BFS



Impact of the various influencing factors

Source: MPH / Beherbergungsstatistik BFS



Executive Summary

In 2005, SHP took over the management of MPH. At that point, the group was not considered to be competitive. The ratio revenue per available room (“RevPAR”) was below that of their direct competitors¹.

The decisions and actions of the management initiated the necessary turnaround. After five years, the hotels now operate in line with the market. The gross operating profit per available room² (“GOPPAR”) is currently 4% higher than the average Swiss 4-star hotel³.

From 2005 to 2010, the direct competitors generated an annual growth of 7.2%. During the same period of time, SHP achieved an annual growth rate of 16.2% for MPH.

The management generated a value added of 63%⁴ related to the gross value of 2005. The value added that can be traced back to market growth is 42%. Additional investments over regular investments generated an added value of 8% of the gross value. SHP were able to achieve a total value added of +114% between 2005 and 2010.

Conclusion

Management decisions have led to an above average value added over the past five years.

This cannot be attributed solely to the positive market trend and additional investments.

¹ Direct competitors relate to the respective 4-star hotels in the cities of Zurich, Basle and Lausanne (source: Beherbergungsstatistik, BFS); in general the key performance indicators occupancy, ARR and RevPAR relate to the direct competitors

² Gross operating profit per available room / number of rooms

³ 4-star city hotels, CHF 68; comparison is based on the average of Swiss 4-star hotels and is not directly related to the 4-star hotels of the cities Zurich, Basle and Lausanne (source: Jahrbuch der Schweizer Hotellerie 2011, Hotellerfestuisse)

⁴ The value added is not risk adjusted. We did not consider the present value due to insignificance. The results are gross values.

The Manz Privacy Hotels

1. Hotel St. Gotthard
2. Hotel Euler und City Inn
3. Hotel Continental

Hotel St. Gotthard, Zurich

Source: Homepage Manz Privacy Hotels



Hotel St. Gotthard in Zurich

The hotel St. Gotthard is situated in the heart of Zurich right next to the train station. The 4-star hotel has been owned and managed by the Manz family for over a century. The hotel was built in 1889 and has 143 rooms and suites and the restaurants "Hummerbar" and "Austernbar", the "Manzoni Bar", "Lobby Bar" and "Piazzetta Bar".

The hotel also has five conference rooms with a capacity of up to 100 people. The hotel focuses on the business traveler segment.

In 2006, 2007 and 2010, the management renovated 59 rooms, 15 bathrooms, the restaurant „Hummerbar“, the lobby, the "Manzoni Bar" and the conference rooms. Further investments are planned for the period between 2011 and 2027.

Hotel St. Gotthard, Zurich

Source: Homepage Manz Privacy Hotels



Hotel St. Gotthard, Zurich

Source: Homepage Manz Privacy Hotels



Hotel Euler und City Inn in Basle

The 4-star hotel Euler was built in 1867 and has 66 rooms and suites. Since 1981, it has belonged to the Manz Family. It is located directly at the SBB train station in Basle. The hotel offers the restaurant “Caspar’s”, the lobby bar and three conference rooms.

The 3-star hotel City Inn is integrated in the hotel Euler. Guests check in at the Euler’s front desk and can use the Euler’s restaurant and bar.

In 2007/2008, the management renovated the rooms, the lobby and the restaurant “Caspar’s”. In 2010, they renovated the kitchen and the conference rooms. In 2013, they plan to invest in a gym and the roof. From 2017 onwards, the management will invest in an eight year cycle.

The rooms of the hotel City Inn were completely renovated in 2011.

Hotel Euler, Basle

Source: Homepage Manz Privacy Hotels



Hotel City Inn, Basle

Source: Homepage City Inn



Hotel City Inn, Basle

Source: Homepage City Inn



Hotel Continental, Lausanne

Source: Homepage Manz Privacy Hotels



Hotel Continental in Lausanne

The hotel Continental was built in 1964 and is situated directly at the train station in Lausanne. The hotel has 116 rooms, three conference rooms and two restaurants, namely, grill "Olympia" and the restaurant "Boky".

Most of the rooms, including the bathrooms and hallways were renovated between 2006 and 2009. During the next ten years, the management plans further renovations.

Hotel Continental, Lausanne

Source: Homepage Manz Privacy Hotels



Disclaimer

Disclaimer

The liability concerning the present valuation shall be limited by the following assumptions and restrictions mentioned below relating to the conducted *de facto* and legal enquiries:

- The present valuation shall be construed exclusively in connection with the subject matter of the mandate and only focused on the principal. The valuation does not account for any other claims, in particular third party claims.
- During the entire valuation period, it was assumed, considering the provisions relating to use, that all the applicable legal provisions had been complied with as regards the property as well as the respective buildings, and that all authorisations and approvals had been obtained.
- Investigations of polluted areas were not conducted by us. A specific expertise (professional ecological expertise) shall be conducted in order to calculate the reduction in value resulting from the polluted areas.
- The present valuation does not consist of analyses based on structural design, noise and heat insulation or plant and animal pests.
- The purpose of the valuation is to determine a value. Circumstances, which affect the price, but not the value of the properties, such as the financial capacity of the individual buyer as well as the post fiscal considerations, were not taken into account for the valuation.
- The effects of the Value Added Tax on the property were not taken into account for the determination of the value.
- The hidden and/or inaccessible parts of the construction cannot and could not be taken into account. For this reason, no statements shall be made as to the state of the construction and all its possible existing damages and defects.
- Economic forecasts – if an integral part of the valuation – predict that the properties will be commercially and professionally administered, maintained and marketed during the entire valuation period.
- Information and documents, such as drafts, layouts and photographs made available by the principal and/or third parties and used for the valuation, were deemed to be complete and correct. Ernst & Young assumes that your sources are reliable. Ernst & Young will not verify your accuracy. No liability is assumed for the accuracy of this information.
- No liability is assumed for the incidents whose effects occurred or will occur after the establishment of the valuation and which affect the parameters on which the valuation is based. Should divergent

value related incidents arise in connection with the further use of this valuation, Ernst & Young reserves the right to adjust the present valuation.

- No legal enquiries were carried out.
- Ernst & Young declares that it has conducted the valuation within the scope of the mandate separately from the interests of the principal and/or third parties.

The liability in relation to the valuation shall for the rest be limited to the following amount:

- The liability of Ernst & Young shall be limited to 1.5 times the amount of the valuation fee. The liability covers indirect and subsequent damages. By law, Ernst & Young shall not be liable in the event of intention or gross negligence.
- Ernst & Young exempts any and all liabilities from third claims in connection with its statements or valuation resulting from its analyses, whether its approval was given or not for the access to and inspection of its analyses or valuation results.

Appendix

4. KPI in the hospitality industry

Glossary of KPI in the hospitality industry

Operating statement in accordance with USALI and its profitability indicators

In 2005, the two associations, HotellerieSuisse and GastroSuisse, in conjunction with the “Schweizerische Gesellschaft für Hotelkredit” (SGH), published the “new operating statement for hospitality”. This new operating statement adopts industry independent operating profitability indicators such as GOI, GOP, EBITDA, and EBIT. Due to improved compliance with the American operating statement “Uniform System of Accounts for the Lodging Industry” (USALI), international benchmarking within the hospitality industry is facilitated.

The profitability figures used in this report are explained below.

Gross Operating Income (“GOI”)

Gross operating income, or GOI, is an accounting term that includes income received from ordinary operations of a business, (i.e. profit at the departmental level) before deducting expenses for doing business (i.e. before deduction of undistributed operating expenses). It takes into account directly attributable personnel expenses, including social charges as well as directly attributable operating expenses such as visitor’s tax, room decorations, and laundry. The benchmark for the hotel industry in Switzerland is approximately 42% to 50% (Source: Hotelleriesuisse).

Gross Operating Profit (“GOP”)

Gross operating profit, or GOP, describes the line “Income after Undistributed Operating Expenses” under the Uniform System of Accounts for the Lodging Industry (“USALI”). Although “gross” and “operating” suggest the measure more accurately describes profit at the departmental level, (i.e. before deduction of undistributed operating expenses), the term is widely used and well understood in the hospitality industry. The GOP, when expressed as a percentage of revenue, can be a meaningful measure of property level management’s control of departmental and undistributed operating costs, but may fail to give adequate attention to management’s revenue-generating responsibilities. The benchmark for the hotel industry in Switzerland is approximately 20% to 25% (Source: Hotelleriesuisse).

Glossary of KPI in the hospitality industry

Room occupancy

Source: EY

$$\text{monthly / annual room occupancy (in \%)} = \frac{\text{room nights}}{\text{days per month / year (e.g. 31 days / 365 days)} \times \text{number of rooms}}$$

Bed occupancy

Source: EY

$$\text{monthly / annual bed occupancy (in \%)} = \frac{\text{overnight stays}}{\text{days per month / year (e.g. 31 days / 365 days)} \times \text{number of beds}}$$

Hospitality industry KPI

On the next pages, the hospitality industry KPIs used in this report are explained in more detail.

Occupancy ratios, RevPAR, and ADR figures can be expressed as gross or net values. Gross values refer to days per month/year and the total number of rooms/beds in the period being measured. Net values consider opening days per month/year and rooms/beds available in the period being measured.

Statistical figures

Room and bed occupancy

A KPI figure regarding the operational efficiency of a hotel is the occupancy ratio. This ratio can be calculated based on either beds or rooms.

In areas with a high percentage of business travelers, double rooms are often not fully booked. If only the bed occupancy was analyzed in such areas, the actual occupancy in hotels would be underestimated. However, bed occupancy can still be considered to be a reliable indicator in classic touristic areas.

Occupancy ratios for hotels are calculated either by dividing rooms occupied (i.e. room nights) by the number of rooms, or overnight stays by the number of beds. Occupancy can be calculated on a monthly or yearly basis (see left).

To prevent the occupancy ratios and the RevPAR being skewed, the denominator is based on the actual number of days per month and actual number of rooms, instead of using an annual average.

Glossary of KPI in the hospitality industry

RevPAR

Source: EY

$$\text{RevPAR} = \frac{\text{total room revenue, net of meals and discounts}}{\text{days per month / year (e.g. 31 days / 365 days) x number of rooms}}$$

ADR

Source: EY

$$\text{ADR} = \frac{\text{RevPAR}}{\text{monthly / yearly room occupancy (in \%)}}$$

Revenue KPI

The revenue figures used in this report and their calculation are provided below.

Revenue Per Available Room ("RevPAR")

Revenue per available room, or RevPAR for short, is a ratio commonly used to measure financial performance in the hospitality industry. This indicator, which is a function of both room rates and occupancy, is one of the most important gauges of health used by hotel operators.

Conceptually, the RevPAR represents how successful the hotel is at earning revenue from its hotel room inventory. The RevPAR will vary from location to location and often fluctuates seasonally, as well as by day of the week. Generally, the RevPAR numbers quoted for a hotel chain represent annual averages across all the hotel's properties.

This indicator can be calculated either by multiplying a hotel's ADR by its occupancy rate, or by dividing a hotel's total guestroom revenue (net of other revenue such as breakfast and mini bar) by the room count and the number of days in the period being measured.

It should be noted that the RevPAR does not take into account revenue from other hotel services, such as restaurants, spas, golf courses, and casinos.

Average Daily Rate ("ADR")

The Average Daily Rate, or ADR, is a hospitality industry indicator measuring the average amount paid per customer per night, or in other words, the average price at which rooms are charged out at each night. The figure is derived by dividing the RevPAR by the room occupancy.