Registration number 414351

# Norfolk Capital Group Limited

Directors' Report and Financial Statements

for the Year Ended 31 December 2012

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH

# Norfolk Capital Group Limited

## Contents

## Norfolk Capital Group Limited

## Company Information

| | |
|---|---|
| **Directors** | M Rosenberg<br>E J Rieck |
| **Company secretary** | S A Coughlan |
| **Registered office** | Queens Court<br>9-17 Eastern Road<br>Romford<br>Essex<br>RM1 3NG |
| **Auditors** | PricewaterhouseCoopers LLP<br>Chartered Accountants and Statutory Auditors<br>1 Embankment Place<br>London<br>WC2N 6RH |

## Norfolk Capital Group Limited

## Directors' Report for the Year Ended 31 December 2012

The directors present their report and the audited financial statements for the year ended 31 December 2012

**Directors of the company**
The directors who held office during the year were as follows

M Rosenberg

E J Rieck

W2001 Britannia LLC (Resigned 31 January 2013)

W2001 Two CV (Resigned 31 January 2013)

**Principal activity**
The principal activity of the company is an investment holding company

There have been no significant changes to the company's activities or those of it's subsidiaries

**Business review**

***Fair review of the business***
The company's retained Profit for the year ended 31 December 2012 amounted to £2 3 million (2011 Retained Profit for the year of £0 1 million) This reflects the revaluation of the investments previously written off to the profit and loss account

The year end balance sheet position is set out in the balance sheet on page 10 The company's net assets as at 31 December 2012 increased from £16 0 million to £18 4 million reflecting the retained Profit for the year of £2 3 million

*Principal risks and uncertainties*
The company is a subsidiary within the QMH Limited group and as such the principal risks and uncertainties are the same as those facing the group -

The management of the group's business and the execution of the group's strategy are subject to a number of risks The key business risks and uncertainties affecting the group are considered to be as follows

Covenant compliance
Management actively monitors the group's debt facilities for compliance with covenants as set out above, and prepares rolling quarterly profit and interest forecasts and sensitivity analyses, which enable them to identify concerns relating to covenant compliance early and to take remedial action where necessary

The UK Senior loan facility was extended on 22 March 2013 to 20 April 2015 This facility was reduced in 2012 by £11 1 million as a result of mandatory repayments following intra group asset sales and voluntary debt repayments An additional new UK Senior facility of £4 1m was taken out during 2012

The UK Senior loan facility contains four financial covenant calculations required on a quarterly basis These are a cashflow cover ratio, a loan to value ratio, a senior interest cover ratio and a senior leverage ratio The forecast is currently showing compliance for the next 12 months albeit with limited headroom Remedies are available to the directors in the event of a downturn of trading results

The European senior facility was repaid in full on 28 March 2013 as a result of the sale of the German division

On 13 February 2013 the Mezzanine Lenders extended the mezzanine loan to 28 October 2015 and all interest is now PIYC The Mezzanine loan facility contains a financial covenant, which requires the calculation of a Debt-to-Ebitda ratio on a quarterly basis The Group breached this covenant in the quarters ended 30 September 2012 and 31 December 2012 No enforcement action has been taken by the Mezzanine Lenders to date Formal Standstill Agreements were signed on 22 March 2013 and 4 June 2013 confirming that no enforcement action will be taken as a result of the covenant breaches while the Standstill Agreement is in place The Standstill Agreement expires on 14 September 2013

The Netherland's senior facility with Rabobank matures on 30 June 2013 Discussions are continuing in respect of an extension

The Directors have considered the issue of going concern and have prepared the financial statements on that basis, whilst acknowledging material uncertainties as to any potential steps that may be taken by the Mezzanine Lenders Further details around the going concern decision and mitigating actions against potential risks are outlined in the following sections The continuing Event of Default does not cause any cross default to any of the other loans within the Group

Market risks
The hotels operate in regulated markets and could be adversely impacted by change to existing regulations, new regulations, and or failure to comply with regulations
Equally the hotels operate under licenses from franchisors and could therefore be adversely impacted by changes to or failure to meet standards

Mitigation
The management team play a leading role in regularly assessing demand density, performance against competitive sets of equal or similar properties, and new products entering the market
Management seek to control this type of risk through involvement in franchise associations who regularly meet with the respective franchisor to discuss brand standards

*Other risks*
The company is subject to certain financial risks as a result of being guarantor to loans held by the company's direct and indirect parent companies Details of how these companies manage specific risks are set out in the financial statements of those companies Details of how to obtain copies of these financial statements are set out in note 11 to these accounts

**Going concern**
Given that the company forms part of the QMH Limited group and relies on the performance of the group, the directors of the company have taken in to account the going concern assessment made by the directors of QMH Limited The Group breached its Debt EBITDA covenant in respect of the Mezzanine loan in the quarters ended 30 September 2012 and 31 December 2012 The Mezzanine Lenders have signed a standstill agreement which will expire on 14 September 2013 and no enforcement action has been taken This time is being used by the Mezzanine Lenders to review their options At the expiry of the Standstill Agreement the debt is repayable on demand The Company will require the ongoing support of the Mezzanine Lenders in order to continue as a going concern, specifically in taking no enforcement action and agreeing that available funds can be used to pay other liabilities of the company

The directors have reviewed and approved forecasts prepared by management which show compliance with the UK Senior covenants for the next four quarters albeit with limited headroom Remedies are available to the directors in the event of a downturn of trading results

The group is currently exploring certain options to mitigate current breaches of the Mezzanine loan and possible future breaches of the Senior loans as follows,

- Ongoing discussion with the Mezzanine Lenders to extend the Standstill Agreement and reset covenants,
- Undertaking discussions with the UK Senior Lenders to reset certain covenants,
- Undertaking potential deleveraging transactions, including sale of certain individual assets in both divisions and negotiations with landlords regarding potential amendments to leases

The conditions indicate the existence of material uncertainties, which may cast significant doubt about the group's and parent company's ability to continue as a going conern However, the directors consider that there is a reasonable possibility of avoiding an insolvent liquidation and have therefore prepared the financial statements on going concern basis

**Disclosure of information to the auditors**
Each director has taken steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information The directors confirm that there is no relevant information that they know of and which they know the auditors are unaware of

**Reappointment of auditors**
PricewaterhouseCoopers LLP are deemed to be reappointed in accordance with an elective resolution made under section 386 of the Companies Act 1985 which continued in force under the Companies Act 2006

Approved by the Board on 18 June 2013 and signed on its behalf by

S A Coughlan
Company secretary

## Norfolk Capital Group Limited

## Statement of Directors' Responsibilities

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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) 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 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 apply them consistently,
- make judgements and accounting 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 adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006 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 Auditor's Report to the Members of Norfolk Capital Group Limited

We have audited the financial statements of Norfolk Capital Group Limited for the year ended 31 December 2012, which comprise the Profit and Loss Account, the Balance Sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

**Respective responsibilities of directors and auditors**

As explained more fully in the Statement of Directors' Responsibilities (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

This report, including the opinions, has been prepared for and only for the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report

**Opinion on the financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2012 and of its Profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

**Emphasis of matter**

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosures set out in the accounting policies note to the financial statements concerning the company and its parent company's ability to continue as a going concern

The Group breached its Debt EBITDA covenant in respect of the Mezzanine loan in the quarters ended 30 September 2012 and 31 December 2012 The Group will require the ongoing support of the Mezzanine Lenders in order to continue as a going concern, specifically in taking no enforcement action and agreeing that available funds can be used to pay other liabilities of the company Additionally, the directors' forecasts show compliance with the UK Senior covenants for the next four quarters albeit with limited headroom The group is currently exploring options to mitigate current and possible future breaches for its debt facilities

These conditions indicate the existence of material uncertainties which may cast significant doubt about the company's ability to continue as a going concern The financial statements do not include the adjustments that would result if the company was unable to continue as a going concern

## Independent Auditor's Report to the Members of Norfolk Capital Group Limited

*......... continued*

**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, or returns adequate for our audit have not been received from branches not visited by us, or
- the 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

John Ellis (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH

19 June 2013

# Norfolk Capital Group Limited

## Profit and Loss Account for the Year Ended 31 December 2012

| | Note | 2012<br>£ 000 | 2011<br>£ 000 |
|---|---|---|---|
| Amounts written back to investments | | 2,325 | 136 |
| Profit on ordinary activities before taxation | | 2,325 | 136 |
| Profit for the financial year | 7 | 2,325 | 136 |

The company has no recognised gains or losses for the year other than the results above

There is no difference between the profit on ordinary activities before taxation and the profit for the years stated above and their historical cost equivalents

The notes on pages 11 to 15 form an integral part of these financial statements

# Norfolk Capital Group Limited

## (Registration number: 414351)

## Balance Sheet at 31 December 2012

| | Note | 2012<br>£ 000 | 2011<br>£ 000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 4 | 11,577 | 9,252 |
| **Current assets** | | | |
| Debtors | 5 | 6,778 | 6,778 |
| Net assets | | 18,355 | 16,030 |
| **Capital and reserves** | | | |
| Called up share capital | 6 | 20,690 | 20,690 |
| Profit and loss account | 7 | (2,335) | (4,660) |
| Shareholders' funds | 8 | 18,355 | 16,030 |

Approved by the Board on 18 June 2013 and signed on its behalf by

M Rosenberg
Director

## Norfolk Capital Group Limited

## Notes to the Financial Statements for the Year Ended 31 December 2012

1 **Accounting policies**

**Basis of preparation**
These financial statements are prepared on the going concern basis, under the historical cost convention as modified by the revaluation of freehold and long leasehold properties and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom The principal accounting policies, which have been applied consistently throughout the year are set out below

**Exemption from preparing a cash flow statement**
The company is exempt from preparing a cash flow statement as it is a wholly owned subsidiary of QMH Limited and the cashflows of the company are included in the consolidated cashflow statement of that company Consequently, the company is exempt under the provisions of Financial Reporting Standard 1 (revised 1996) "Cash Flow Statements" from publishing a cashflow statement

**Exemption from preparing group accounts**
The company is a wholly owned subsidiary of QMH Limited and is included in its consolidated financial statements, which are publicly available Consequently, the company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 400 of the Companies Act 2006

**Going concern**
Given that the company forms part of the QMH Limited group and relies on the performance of the group, the directors of the company have taken in to account the going concern assessment made by the directors of QMH Limited The Group breached its Debt EBITDA covenant in respect of the Mezzanine loan in the quarters ended 30 September 2012 and 31 December 2012 The Mezzanine Lenders have signed a standstill agreement which will expire on 14 September 2013 and no enforcement action has been taken This time is being used by the Mezzanine Lenders to review their options At the expiry of the Standstill Agreement the debt is repayable on demand The Company will require the ongoing support of the Mezzanine Lenders in order to continue as a going concern, specifically in taking no enforcement action and agreeing that available funds can be used to pay other liabilities of the company

The directors have reviewed and approved forecasts prepared by management which show compliance with the UK Senior covenants for the next four quarters albeit with limited headroom Remedies are available to the directors in the event of a downturn of trading results

The group is currently exploring certain options to mitigate current breaches of the Mezzanine loan and possible future breaches of the Senior loans as follows,

- Ongoing discussion with the Mezzanine Lenders to extend the Standstill Agreement and reset covenants,
- Undertaking discussions with the UK Senior Lenders to reset certain covenants,
- Undertaking potential deleveraging transactions, including sale of certain individual assets in both divisions and negotiations with landlords regarding potential amendments to leases

The conditions indicate the existence of material uncertainties, which may cast significant doubt about the group's and parent company's ability to continue as a going conern However, the directors consider that there is a reasonable possibility of avoiding an insolvent liquidation and have therefore prepared the financial statements on going concern basis

**Fixed asset investments**

Fixed asset investments are stated at their underlying net asset value, which the directors consider to be an appropriate carrying value, subject to reviews for impairment in accordance with Financial Reporting Standard 11 "Impairment of Fixed Assets and Goodwill"

**2 Auditor's remuneration**

Auditors' remuneration for the financial year ended 31 December 2012 amounting to £1,000 (2011 £1,000) has been borne by QMH UK Limited on behalf of the company

**3 Directors' remuneration**

The fees for Mr Rieck and Mr Rosenberg were paid by QMH Limited, no recharge was made to the company

W2001 Britannia LLC and W2001 Two CV received no remuneration for their services as directors of the company or any of the company's fellow subsidiaries

**4 Investments held as fixed assets**

| | 2012 £ 000 | 2011 £ 000 |
|---|---|---|
| Shares in group undertakings and participating interests | 11,577 | 9,252 |

**Shares in group undertakings and participating interests**

| | Subsidiary undertakings £ 000 | Total £ 000 |
|---|---|---|
| **Cost** | | |
| At 1 January 2012 | 9,252 | 9,252 |
| Revaluation | 2,325 | 2,325 |
| At 31 December 2012 | 11,577 | 11,577 |
| **Net book value** | | |
| At 31 December 2012 | 11,577 | 11,577 |

The historical cost of the company's fixed asset investments is £15,080,000 (2011 £15,080,000)

Details of all investments are as follows

*......... continued*

| Undertaking | Holding | Proportion of voting rights and shares held | Principal activity |
|---|---|---|---|
| **Subsidiary undertakings** | | | |
| Norfolk Capital Hotels Limited | Ordinary | 100% | Hotelier |
| Norfolk Capital Hotels (Southern) Limited | Ordinary | 100% | Dormant |

## 5 Debtors

| | 2012<br>£ 000 | 2011<br>£ 000 |
|---|---|---|
| Amounts owed by group undertakings | 6,778 | 6,778 |
| | 6,778 | 6,778 |

Included within amounts owed by group undertakings is a non interest bearing loan to QMH UK Limited of £6,778,000 (2011 £6,778,000) These loans are repayable on demand, on giving thirty days notice

## 6 Share capital

**Allotted, called up and fully paid shares**

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | No. | £ 000 | No. | £ 000 |
| Ordinary of £0 05 each | 413,801,743 | 20,690 | 413,801,743 | 20,690 |

## 7 Reserves

| | Profit and loss account<br>£ 000 | Total<br>£ 000 |
|---|---|---|
| At 1 January 2012 | (4,660) | (4,660) |
| Profit for the financial year | 2,325 | 2,325 |
| At 31 December 2012 | (2,335) | (2,335) |

## 8 Reconciliation of movement in shareholders' funds

| | 2012<br>£ 000 | 2011<br>£ 000 |
|---|---|---|
| Profit for the financial year | 2,325 | 136 |
| Net addition to shareholders' funds | 2,325 | 136 |
| Shareholders' funds at 1 January | 16,030 | 15,894 |
| Shareholders' funds at 31 December | 18,355 | 16,030 |

## 9 Contingent liabilities

On 23 February 2011 the company entered into a guarantee providing a fixed charge over its assets, together with certain other subsidiary undertakings to secure a senior loan held by QMH Finance Number 1 Limited, which at 31 December 2012 amounted to £81,181,000 (2011 £91,776,000)

On 24 November 2004 the company entered into a guarantee providing fixed and floating charges over its assets, together with certain other subsidiary undertakings, to secure a mezzanine loan held by QMH Limited, which at 31 December 2012 amounted to £166,350,000 (2011 £157,620,000)

## 10 Related party transactions

The company is a wholly owned subsidiary of QMH Limited Consequently it has taken advantage of the exemption in FRS8 "Related Party Disclosures" from disclosing transactions with other members of the group

**11 Ultimate parent company**

The company is controlled by QMH Finance Number 1 Limited, which is a subsidiary of QMH Limited, which indirectly owns the entire share capital of the company and is incorporated in England and Wales Copies of QMH Limited's consolidated financial statements are available from its registered office at 9-17 Eastern Road, Romford, Essex, RM1 3NG

Following the transfer of shares by the previous shareholders of QMH Limited on 31 January 2013 the company has no majority or controlling shareholder

Prior to the change, W2001 Britannia LLC was the majority shareholder W2001 Britannia LLC is a limited liability company formed under the laws of the State of Delaware on 29 April 2004

W2001 Britannia LLC is wholly owned and controlled by four separate Delaware limited partnerships Whitehall Street Global Real Estate Limited Partnership 2001, Whitehall Street International Real Estate Limited Partnership 2001, Whitehall Street Global Employee Fund 2001, L P and Whitehall Street International Employee Fund 2001 (Delaware), L P each formed in early 2001 The sole general partner of each Whitehall 2001 Partnership is a special purpose Delaware limited liability company that is wholly owned by Goldman Sachs The limited partners of each Whitehall 2001 Partnership include (as applicable) Goldman Sachs, institutional investors, employees of Goldman Sachs and its affiliates and private clients of Goldman Sachs and its affiliates

The results of QMH Limited are not and were not previously consolidated by any other entity