

Registered No. 3462675

Morgans Hotel Group London Limited
Annual report
For the year ended 31 December 2008

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Morgans Hotel Group London Limited

Annual report for the year ended 31 December 2008

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Directors and advisers

Directors

R Bloom
J Quicksilver
F Kleisner
W Smail

Secretary and registered office

Bibi Ali
MacFarlanes
10 Norwich Street
London EC4A 1BD

Solicitors

MacFarlanes
10 Norwich Street
London EC4A 1BD

Registered auditors

BDO Stoy Hayward LLP
55 Baker Street
London W1U 7EU

Bankers

National Westminster Bank PLC
135 Bishopsgate
London EC2M 3UR

**Directors' report
for the year ended 31 December 2008**

The directors present their report and the audited financial statements of the company for the year ended 31 December 2008.

Principal activities and future developments

The principal activity of the company is to operate two five star hotels in central London – St Martin's Lane and Sanderson. There have been no changes in the company's activities in the year under review.

Review of the business

The profit & loss account is set out on page 7 and shows the turnover for the year of £30,998,000 (2007 £31,967,000) and a profit for the year of £2,915,000 (2007 profit £4,068,000).

Turnover has declined by 3% and for the full year under review is made up of the following categories: rooms 75%, rental and other income 15% and other operating departments 10%. The decline in turnover is as a direct result of the difficult economic conditions that have impacted the travel industry.

The directors are pleased with the performance of the hotels considering the difficult economic conditions and are confident sales will remain strong. Room's revenue represents the total revenue achieved through the average daily room rate by the total number of rooms sold during the year. The key indicators are ADR (Average Daily Room Rate) and Occupancy (The total available rooms divided by the rooms occupied expressed as a percentage, and REVPAR which is a combination of both expressed as £'s.

In the year under review the combined occupancy for the hotels was 74.6% (2007 77.4%) a decrease of 2.8% points, the ADR achieved was £240.70 (2007 £248.66) and REVPAR of £179.56 (2007 £192.47).

The directors do not recommend the payment of a dividend for the year (2007 nil).

Principal risk and uncertainties

The hotel market in London had been very buoyant in the year until the fourth quarter when the impact of the difficult economic conditions began to take hold, this is continuing into 2009. The 5 star hotel category has been impacted along with most hospitality businesses. The company mitigates the risk of declining revenues through targeted cost controls structured to avoid affecting the unique experience we offer our guests. The company seeks to manage the risk of losing customers to key competitors by the provision of higher than ordinary service levels coupled with the exciting environment of the hotel properties. The company engages a full level sales and account management team to work closely with existing key clients and potential new clients around the world who are important to the continued success of the hotels.

Employee Involvement

The company's policy is to give full and fair consideration for applications for employment made by people with disabilities. Wherever possible we will continue the employment of staff that become disabled and provide equal opportunities for the training and development of disabled employees.

The company recognises the importance of the employees within its business and annually provides a communication program under the title Vision at which the company's achievements and goals are expressed; employees are encouraged to participate in the delivery of Vision.

Financial Instruments

The company has a loan facility for £107,456,000 at a fixed rate of 6.28% which falls due on 24th November 2010. The facility has been fully utilised.

The company's policy in respect of interest rate risk and liquidity risk is to maintain a mixture of long term and short term debt finance and readily accessible bank deposit accounts to ensure the company has sufficient funds for operations. The cash deposits are held in a mixture of short term deposits and current accounts which earn interest at a floating rate.

The company's credit risk is primarily attributable to its trade debtors. Credit risk is managed by running credit checks on new customers and by monitoring payments against the agreed credit terms for specific corporate entities.

The company monitors cash flow as part of its day to day control procedures. The directors consider cash flow projections on a monthly basis to ensure that appropriate facilities are available to be drawn upon as necessary.

Directors

The directors of the company during and after the year are as follows:

R Bloom
J Quicksilver
D Smail
F Kleisner

Directors interests

According to the register of directors' interests, none of the directors who held office at the end of the year had any interest in the shares of group companies, nor were any rights to subscribe for shares in group companies granted to, or exercised by, any of these directors.

Statement of directors' responsibilities

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice.

Company law requires the directors to prepare financial statements for each financial year which 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:

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- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- 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.

Auditors

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant information of which the auditors are unaware.

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to re-appoint them as auditors will be proposed at the next Annual General Meeting.

By order of the board



F Kleisher
Director

**Independent auditors' report to the members of
Morgans Hotel Group London Limited**

To the shareholders of Morgans Hotel Group London Limited

We have audited the financial statements of Morgans Hotel Group London Limited for the year ended 31 December 2008 which comprise the profit and loss account, the balance sheet, and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements 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 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 have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with those financial statements. We also 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.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

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 financial statements. It also includes an assessment of the significant estimates and judgments 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.

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 2008 and of its profit for the year then ended;
- the financial statements 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.



BDO STOY HAYWARD LLP

**Chartered Accountants and Registered Auditors
London**

Date 23 February 2009.

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Profit and loss account for the year ended 31 December 2008

	Notes	2008 £000	2007 £000
Turnover	1	30,998	31,967
Cost of sales		<u>(7,739)</u>	<u>(7,909)</u>
Gross profit		23,259	24,058
Administrative expenses		<u>(14,367)</u>	<u>(13,240)</u>
Operating profit	3	8,892	10,818
Interest receivable		750	705
Interest payable and similar charges	4	<u>(6,562)</u>	<u>(7,043)</u>
Net interest payable		(5,812)	(6,338)
Profit on ordinary activities before taxation		3,080	4,480
Tax on profit on ordinary activities	5	(165)	(412)
Profit for the financial year		<u>2,915</u>	<u>4,068</u>

All profits arise from continuing operations.

The company has no recognised gains or losses other than the profit for the year.

There is no difference between the historical cost profit and that stated above.

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Balance sheet At 31 December 2008

	Notes	2008 £000	2008 £000	2007 £000	2007 £000
Fixed assets					
Tangible assets	6		101,151		102,898
Current assets					
Stock	7	249		222	
Debtors	8	14,337		14,488	
Cash at bank and in hand		<u>2,028</u>		<u>15,014</u>	
		16,614		29,724	
Creditors: amounts falling due within one year	9	<u>(5,383)</u>		<u>(5,793)</u>	
Net current assets			<u>11,231</u>		<u>23,931</u>
Total assets less current liabilities			112,382		126,829
Creditors: amounts falling due after more than one year	10		(99,774)		(101,636)
Net assets			<u>12,608</u>		<u>25,193</u>
Capital and reserves					
Called up share capital	12		-		-
Share premium account	13		19,500		35,000
Profit and loss account	13		(6,892)		(9,807)
Shareholders' funds	14		<u>12,608</u>		<u>25,193</u>

The financial statements on pages 7 to 17 were approved by the board of directors and authorised for issue and approved on 23/02/2009


F Kleisner
Director

**Notes to the financial statements
for the year ended 31 December 2008****1 Principal accounting policies**

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies is set out below.

Cash flow statement

The company is exempt under FRS1 (revised) from the requirement to prepare a separate cash flow statement on the grounds that its immediate parent, Morgans Hotel Group Europe Limited, incorporates the company's cash flows in its own published consolidated cash flow statements.

Fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation and any provision for impairment. Assets are depreciated to their residual values on a straight line basis over their estimated useful lives as follows:

Freehold buildings	50 years
(Included in Freehold Buildings are assets for building surface finishes which are depreciated over 25 - 38 years)	
Plant and machinery	15 years
Fixtures, fittings and equipment	5 – 10 years

No depreciation is provided on freehold land. No residual values are ascribed to building surface finishes.

Interest paid on fixed assets purchases is capitalised up until the time the asset is available for use.

Foreign currency transactions

Translations into sterling are made at the average of rates ruling throughout the period for profit and loss items and at the rate ruling at 31 December 2008 for assets and liabilities. Exchange differences arising in the ordinary course of trading are reflected in the profit and loss account.

Deferred taxation

Deferred taxation is provided in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events have occurred which result in an obligation to pay more or less tax in the future.

Deferred tax is measured at the average tax rates which apply in the period in which the timing differences are expected to reverse. Deferred tax is measured on a non-discounted basis.

Deferred tax assets are regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it is more likely than not that there will be adequate future taxable profits against which to recover carried forward tax losses.

Finance costs

Finance costs are included within the carrying value of the loan and are amortised over the term of the loan.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers. Turnover is wholly generated in the United Kingdom.

Pension scheme

The company operates a defined contribution pension scheme. Contributions are charged to the profit and loss account in the period in which they are incurred.

2 Staff numbers and costs

The average number of employees in the year was:

	2008	2007
	Number	Number
Hotel operating staff	149	151
Management/administration	31	33
Sales and marketing	12	14
Maintenance	17	18
Total	<u>209</u>	<u>216</u>

The aggregate payroll costs for these persons were as follows:

	2008	2007
	£000	£000
Wages and salaries	6,553	6,303
Social security costs	480	497
Pension costs	70	70
	<u>7,103</u>	<u>6,870</u>

None of the directors received any remuneration during the year (2007: Nil).

Funded defined contribution scheme for employees (group scheme)

Pension costs of £70,000 (2007: £70,000) were charged to the profit and loss account of which £nil (2007: £nil) was outstanding at the balance sheet date.

The pension scheme is held with Standard Life and is administered by Origen.

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3 Operating profit

	2008	2007
	£000	£000
This is arrived at after charging:		
Auditors' remuneration:		
Audit services	43	54
Non-audit services	12	-
Depreciation of tangible fixed assets	<u>2,621</u>	<u>2,437</u>

4 Interest payable and similar charges

	2008	2007
	£000	£000
On bank loans and overdrafts	6,562	6,658
Finance charges	-	385
	<u>6,562</u>	<u>7,043</u>

5 Tax on profit on ordinary activities

(a) Analysis of charge in the year

	2008	2007
	£000	£000
United Kingdom corporation tax at 28.5% (2007 : 30%)	174	200
Adjustments in respect of prior years	<u>(9)</u>	<u>212</u>
Total tax charge (note 5 (b))	165	412
Deferred taxation (note 11)	-	-
Tax on profit on ordinary activities	<u>165</u>	<u>412</u>

There is no movement on the deferred tax asset from 2007.

(b) Factors affecting tax charge for the year

	2008 £000	2007 £000
Profit on ordinary activities before tax	3,080	4,480
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28.5% (2007 : 30%)	878	1,343
<i>Effects of:</i>		
Expenses not deductible for tax purposes	162	62
Capital allowances in excess of depreciation	(308)	(552)
Tax losses	(558)	(653)
Adjustment in respect of prior years	(9)	212
Tax charge for the period	165	412

6 Tangible Fixed assets

	Land and buildings £000	Plant and machinery £000	Fixtures, fittings and equipment £000	Total £000
Cost				
At 1 January 2008	102,018	8,426	13,544	123,988
Additions	94	142	638	874
Disposal	-	-	(11)	(11)
At 31 December 2008	102,112	8,568	14,171	124,851
Depreciation				
At 1 January 2008	7,822	4,286	8,982	21,090
Charge for the year	1,093	589	939	2,621
Disposals	-	-	(11)	(11)
At 31 December 2008	8,915	4,875	9,910	23,700
Net book value				
At 31 December 2008	93,197	3,693	4,261	101,151
At 31 December 2007	94,196	4,140	4,562	102,898

Included in total net book value of land and buildings is £41,091,000 (2007: £41,955,000) of long leasehold property and £4,193,000 (2007: £4,219,000) of capitalised interest (net of accumulated depreciation).

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7 Stocks

	2008	2007
	£000	£000
Consumables	<u>249</u>	<u>222</u>

8 Debtors: amounts due within one year

	2008	2007
	£000	£000
Trade debtors	917	1,072
Amounts due from immediate parent undertaking	12,634	12,634
Amounts due from related parties (see note 16)	169	18
Prepayments and accrued income	<u>617</u>	<u>764</u>
	<u>14,337</u>	<u>14,488</u>

9 Creditors: amounts falling within one year

	2008	2007
	£000	£000
Bank loans and overdrafts	2,200	2,083
Trade creditors	529	596
Amounts due to related parties (see note 16)	407	605
Taxation and social security	485	559
Accruals and deferred income	1,387	1,638
Corporation Tax	<u>375</u>	<u>312</u>
	<u>5,383</u>	<u>5,793</u>

10 Creditors: amount falling due after more than one year

	2008	2007
	£000	£000
Bank loans and overdrafts, net of unamortised costs	<u>99,774</u>	<u>101,636</u>

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Bank loans are repayable as follows:

	2008	2007
	£000	£000
In one year or less, or on demand	2,200	2,083
In more than one year, but not more than two years	99,774	2,200
In more than two years, but not more than five years	-	99,436
	<u>101,974</u>	<u>103,719</u>

Bank loans are as follows:

	2008	2007
	£000	£000
Sterling bank loan Note: 6.280%	101,974	103,719
	<u>101,974</u>	<u>103,719</u>

Bank loans are repayable in monthly instalments, are denominated in sterling and bear interest at a fixed rate as noted above.

The bank loan is secured by way of a first ranking legal charge over the properties including fixtures, fittings and property management agreements, and an assignment over all revenues due from the operation of the properties.

11 Deferred taxation asset

	2008	2007
	£000	£000
Accelerated capital allowances	(5,887)	(6,182)
Short term timing differences	29	19
Losses	5,858	6,163
Valuation allowance	-	-
Total deferred tax asset	<u>-</u>	<u>-</u>

12 Called up share capital

	2008	2007
	£	£
Authorised		
100 ordinary shares of £1 each	100	100
Allotted, called up and fully paid		
25 ordinary shares of £1 each (50 ordinary shares of £1 each)	25	50

13 Reserves

	Share premium account	Profit and loss account	Total
	£000	£000	£000
At 1 January 2008	35,000	(9,807)	25,193
Share Re-purchase	(15,500)	-	(15,500)
Profit for the year	-	2,915	2,915
At 31 December 2008	19,500	(6,892)	12,608

14 Reconciliation of movements in shareholders' funds

	2008	2007
	£000	£000
Profit for the financial year	2,915	4,068
Share Re-purchase	(15,500)	-
Opening shareholders' funds	25,193	21,125
Closing shareholders' funds	12,608	25,193

In November 2008 Morgans Hotel Group London Limited undertook a re-purchase of shares out of capital, re-purchasing 25 ordinary shares.

15 Immediate and ultimate controlling parties

The company's immediate and ultimate parent is Morgan Hotel Group Europe Limited a company registered in England and Wales.

Morgans Hotel Group Europe Limited is owned 50% by Walton MG Hotels Investors V, LLC, an affiliate of Walton Street Capital LLC., a company incorporated in the state of Delaware in the USA.

The other 50% is owned by Royalton Europe Holdings LLC, a wholly owned subsidiary of Morgans Hotel Group Co, a company incorporated in the USA, whose principal place of business is 475 10th Avenue New York, NY 10018 USA.

16 Related party transactions**Morgans Hotel Group UK Management Limited**

Morgans Hotel Group UK Management Limited is 100% owned by Morgans Hotel Group LLC.

Morgans Hotel Group UK Management Limited charged Morgan Hotel Group London Limited a management fee and staff costs relating to hotel management, which totalled £2,897,000 (2007: £3,242,000).

SC London Limited

SC London Limited is indirectly owned 50% by Morgans Hotel Group LLC and 50% by Chodorow Ventures LLC.

SC London Limited pays rent and recharged expenditure to Morgans Hotel Group London Limited, which totalled £3,773,000 (2007: £3,669,000).

Related party balances and transactions	2008	2007
	£000	£000
Debtors: amounts falling within one year		
SC London Limited	136	-
Other Morgans Hotel Group companies	33	18
	<u>169</u>	<u>18</u>
	2008	2007
	£000	£000
Creditors: amounts falling within one year		
Morgans Hotel Group UK Management Limited	258	306
SC London Limited	-	215
Other Morgans Hotel Group companies	149	84
	<u>407</u>	<u>605</u>

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The directors confirm that there were no related party transactions other than those disclosed in these financial statements and that all transactions were undertaken on an arms length basis.