

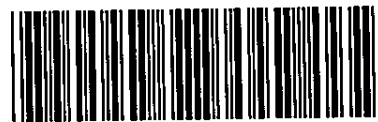
Registered No 3462675

Capital Hill Hotels Group London Limited

Annual report

For the period ended 31 December 2012

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**Annual report
for the year ended 31 December 2012**

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Capital Hill Hotels Group London Limited

Directors and advisers

Director

Z E Guiziri

J A Thanl

F Bakhos

K C Nagel

Registered office

4 More London Riverside

London

SE1 2AU

Registered auditor

Ernst & Young LLP

1 More London Place

London

SE1 2AF

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**Directors' report
for the year ended 31 December 2012**

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

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 current owners acquired the hotels in Q4 2011. The directors are pleased with the performance of the hotels during the year under review. Despite challenges throughout the year, performance of the hotels year-on-year was very encouraging. Rooms revenue represents the total revenue achieved through the average daily rate multiplied by the total number of rooms sold during the year. The key performance indicators for the company are ADR (Average Daily Room Rate), 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 75.7% (2011 74.9%), the ADR achieved was £254.49 (2011 £252.28). RevPar (the product of ADR and Occupancy) during the period under review was £192.68 (2011 £188.92), which represent an encouraging year-on-year growth of 2%.

Principal risk and uncertainties

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.

The hotel market in London began the year with the outlook to the Diamond Jubilee celebrations and summer Olympics. After the slow recovery and continued uncertainty following the major economic downturn, which significantly impacted the prior years, the international exposure promises rising business levels in the mid and long term.

The company has continued to focus on maintaining costs while ensuring its service offering is exceptional, and is delivered in the exciting environment of the hotel properties.



**Directors' report
for the year ended 31 December 2012 (continued)**

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 at which the company's achievements and goals are expressed.

Financial Instruments

The company has a loan facility for £120,000,000 (gross of unamortised issue costs).

Directors and their interests

The directors who served during the year ended 31 December 2012 and up to the date of this report are as follows:

F G Kildane	(terminated 10 th June 2013)
Z E Guiziri	(appointed 10 th June 2013)
J A Than	(appointed 10 th June 2013)
F Bakhos	(appointed 10 th June 2013)

According to the register of directors' interests, the director who held office at the end of the year had no 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 the director.

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.



**Directors' report
for the year ended 31 December 2012 (continued)**

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then 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,
- 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.

Auditors

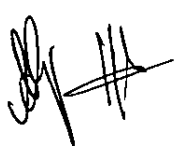
The directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant information of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

On behalf of the board



Z E Guiziri
Director

19-12-2013



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAPITAL HILL HOTELS GROUP LONDON LIMITED

We have audited the financial statements of Capital Hill Hotels Group London Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Balance Sheet and the related notes 1 to 16. 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).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditor's 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 3 and 4, 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.

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 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.

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.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CAPITAL HILL HOTELS
GROUP LONDON LIMITED (continued)

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

Ernst & Young LLP

*Matthew Williams (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London*

Date 8 January 2014



Capital Hill Hotels Group London Limited

**Profit and loss account
for the period ended 31 December 2012**

	Notes	2012 £000	2011 £000
Turnover		31,198	31,365
Cost of sales		<u>(7,675)</u>	<u>(8,122)</u>
Gross profit		23,523	23,243
Administrative expenses		<u>(15,098)</u>	<u>(15,783)</u>
Operating profit	3	8,425	7,460
Interest payable and similar charges	4	<u>(4,265)</u>	<u>(12,059)</u>
Profit/(loss) on ordinary activities before taxation		4,160	(4,599)
Tax on profit/(loss) on ordinary activities	5	(46)	-
Profit/(loss) for the financial period		<u>4,114</u>	<u>(4,599)</u>

All profits/loss arise from continuing operations

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

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




Capital Hill Hotels Group London Limited

Registered No. 3462675

Balance sheet
At 31 December 2012

	Notes	2012 £000	2012 £000	2011 £000	2011 £000
Fixed assets					
Tangible assets	6		97,271		96,887
Current assets					
Stock	7	122		157	
Debtors	8	35,701		34,294	
Cash at bank and in hand		<u>5,468</u>		<u>4,188</u>	
		41,291		38,639	
Creditors					
Amounts falling due within one year	9	<u>(3,631)</u>		<u>(4,618)</u>	
Net current assets			<u>37,660</u>		<u>34,021</u>
Total assets less current liabilities			134,931		130,908
Creditors amounts falling due after more than one year	10		(119,189)		(119,280)
Net assets			<u>15,742</u>		<u>11,628</u>
Capital and reserves					
Called up share capital	12		-		-
Share premium account	13		19,500		19,500
Profit and loss account	13		(3,758)		(7,872)
Shareholders' funds	14		<u>15,742</u>		<u>11,628</u>

The financial statements were approved by the board of directors and authorised for issue on


Z E Guiziri
Director
19-12-2013





**Notes to the financial statements
for the year ended 31 December 2012**

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, Capital Hill Hotels 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 and long leasehold buildings	50 years
Building surface finishes	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.

Freehold land, freehold and long leasehold buildings and building surface finishes are all held as land and buildings within note 6.

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 2012 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.



**Notes to the financial statements
for the year ended 31 December 2012 (continued)**

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

Revenues are generated from the provision of the hotels' guest rooms, food and beverage outlets as well as ancillary services such as rental income from let areas, cancellation fees, concierge services and various others

- Room revenue is recognised when the room is occupied
- Revenue from provision of food and beverages is recognised when sold
- Service revenue is recognised when the service is provided
- Rental income from operating leases is recognised on a straight line basis

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.

Going concern

The financing facility of £120,000,000 remains in place. Covenant testing points are tracked and reported to the facility provider on a quarterly basis. The group is well placed to benefit from the current trading conditions and has no need to liquidate or reduce the scale of its operations. The directors are confident that the group will continue to meet its liabilities as they fall due.

2 Staff numbers and costs

The average number of employees in the year was

	2012 Number	2011 Number
Hotel operating staff	132	141
Management/administration	20	22
Sales and marketing	14	13
Maintenance	19	17
Total	<u>185</u>	<u>193</u>

**Notes to the financial statements
for the year ended 31 December 2012 (continued)**

The aggregate payroll costs for these persons were as follows

	2012	2011
	£000	£000
Wages and salaries	6,375	6,585
Social security costs	521	505
Pension costs	80	68
	<u>6,976</u>	<u>7,158</u>

None of the directors received any remuneration during the year (2011 Nil) (including contributions to the pension scheme)

Funded defined contribution scheme for employees (group scheme)

Pension costs of £80,000 (2011 £68,000) were charged to the profit and loss account of which £nil (2011 £nil) was outstanding at the balance sheet date

The pension scheme is held Scottish Widows and is administered by Origen

3 Operating profit

	2012	2011
	£000	£000
This is arrived at after charging		
Auditors' remuneration		
Audit services	57	34
	<u>2,446</u>	<u>2,419</u>
Depreciation of Tangible fixed assets		

**Notes to the financial statements
for the year ended 31 December 2012 (continued)**

4 Interest payable and similar charges

	2012	2011
	£000	£000
Amounts payable on bank loans and overdrafts	4,105	5,567
Amortisation of issue costs of bank loan	160	1,429
Breakage cost	-	5,063
	<u>4,265</u>	<u>12,059</u>

5 Tax on profit/(loss) on ordinary activities

(a) Analysis of charge in the period

	2012	2011
	£000	£000
United Kingdom corporation tax at 24.5% (2011: 26.5%)	46	-
Adjustments in respect of prior years	-	-
Total tax charge (note 5 (b))	<u>46</u>	<u>-</u>
Deferred taxation (note 11)	-	-
Changes in tax rates or laws	-	-
Tax on profit/(loss) on ordinary activities	<u>46</u>	<u>-</u>

**Notes to the financial statements
for the year ended 31 December 2012 (continued)**

(b) Factors affecting tax charge for the period

	2012 £000	2011 £000
Profit/(loss) on ordinary activities before tax	4,114	(4,599)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	1,008	(1,325)
<i>Effects of</i>		
Expenses not deductible for tax purposes	451	419
Capital allowances in excess of depreciation	436	394
Tax losses (utilised)/carried forward	(1,705)	512
Under provision of tax	(144)	-
Tax charge for the period	46	-

6 Tangible Fixed assets

	Land and buildings £000	Plant and machinery £000	Fixtures, fittings and equipment £000	Total £000
Cost				
At 1 January 2012	102,259	10,380	15,246	127,885
Additions	73	2,163	594	2,830
At 31 December 2012	102,332	12,543	15,840	130,715
Depreciation				
At 1 January 2012	12,231	6,828	11,939	30,998
Charge for the period	991	916	539	2,446
At 31 December 2012	13,222	7,744	12,478	33,444
Net book value				
At 31 December 2012	89,110	4,799	3,362	97,271
At 31 December 2011	90,028	3,552	3,307	96,887

Included in total net book value of land and buildings is £37,635,000 (2011: £38,499,000) of long leasehold property

**Notes to the financial statements
for the year ended 31 December 2012 (continued)**

7 Stocks

	2012	2011
	£000	£000
Consumables	<u>122</u>	<u>157</u>

8 Debtors: amounts due within one year

	2012	2011
	£000	£000
Trade debtors	1,281	1,070
Amounts due from immediate parent undertaking	33,661	32,332
Other amounts due from related parties	1	203
Prepayments and accrued income	<u>758</u>	<u>689</u>
	<u>35,701</u>	<u>34,294</u>

Included within intercompany debtors is a balance of £20,000,000 due in 5 years

9 Creditors: amounts falling within one year

	2012	2011
	£000	£000
Bank loans and overdrafts	250	-
Other loans	-	-
Trade creditors	590	526
Amounts due to related parties	645	208
Taxation and social security	889	907
Accruals and deferred income	1,243	2,936
Other creditors	<u>14</u>	<u>41</u>
	<u>3,631</u>	<u>4,618</u>



**Notes to the financial statements
for the year ended 31 December 2012 (continued)**

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 operation of the properties

10 Creditors: amount falling due after more than one year

	2012	2011
	£000	£000
Bank loans and overdrafts, net of unamortised costs	<u>119,189</u>	<u>119,280</u>

Bank loans are repayable as follows

	2012	2011
	£000	£000
In one year or less, or on demand	-	-
In more than one year, but not more than two years	250	250
In more than two years, but not more than five years	119,750	119,750
	<u>120,000</u>	<u>120,000</u>

Bank loans are as follows

	2012	2011
	£000	£000
Sterling bank loan note libor plus 2.5%	120,000	120,000
	<u>120,000</u>	<u>120,000</u>

Bank loans are repayable in monthly instalments, are denominated in sterling and bear interest at a floating rate, fixed with an interest rate swap at the rate noted above

After the year end, the lender waived the scheduled repayment of debt between 30 December 2013 and September 2014 to a maximum of £1m

Notes to the financial statements
for the year ended 31 December 2012 (*continued*)

11 Deferred taxation asset

	2012	2011
	£000	£000
Accelerated capital allowances	(3,452)	(4,013)
Short term timing differences	7	8
Losses	<u>3,445</u>	<u>4,005</u>
Total deferred tax asset	<u>-</u>	<u>-</u>

A resolution passed by Parliament on 26 March 2012 reduced the main rate of corporation tax from 26% to 24% from 1 April 2012

Further reductions to the UK corporation tax rate were announced in the March 2013 Budget. The changes, which are expected to be enacted separately each year, propose to reduce the rate to 21% from 1 April 2014 and 20% from 1 April 2015. These further charges had not been substantively enacted at the balance sheet date and, therefore, are not reflected in these financial statements. The rate changes will also impact the amount of any future tax payments made by the group.

The group has losses carried forward of £14.9m (2011: £21.9m) which includes the losses offset against the deferred taxation liabilities set out above.

12 Called up share capital

	2012	2011
	£	£
Authorised		
100 ordinary shares of £0.67 each	<u>100</u>	<u>100</u>
Allotted, called up and fully paid		
25 ordinary shares of £0.67 each	<u>25</u>	<u>25</u>



**Notes to the financial statements
for the year ended 31 December 2012 (continued)**

13 Reserves

	Share premium account £000	Profit and loss Account £000	Total £000
At 1 January 2012	19,500	(7,872)	11,628
Profit for the period	-	4,114	4,114
At 31 December 2012	<u>19,500</u>	<u>(3,758)</u>	<u>15,742</u>

14 Reconciliation of movements in shareholders' funds

	2012 £000	2011 £000
Profit/(loss) for the financial period	4,114	(4,599)
Opening shareholders' funds	<u>11,628</u>	<u>16,227</u>
Closing shareholders' funds	<u>15,742</u>	<u>11,628</u>

15 Immediate and ultimate controlling parties

The company's immediate and ultimate parent is Capital Hill Hotels Group Europe Limited (formerly named Morgans Hotel Group Europe Limited) a company registered in England and Wales

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 Capital Hill Hotels Group London Limited a management fee and staff costs relating to hotel management, which totalled £3,146,000 (2011 £2,713,000)

SC London Limited

SC London Limited, which is a related party, pays rent and recharged expenditure to Capital Hill Hotels Group London Limited, which totalled £3,770,000 (2011 £3,816,000)

Capital Hill Hotels Group London Limited

Notes to the financial statements
for the year ended 31 December 2012 (*continued*)

Related party balances and transactions	2012 £000	2011 £000
Debtors amounts falling within one year		
SC London Limited	-	919
Other Morgans Hotel Group companies	-	66
	<u>-</u>	<u>985</u>
	2012 £000	2011 £000
Creditors amounts falling within one year		
Morgans Hotel Group UK Management Limited	28	316
Other Morgans Hotel Group companies	617	153
	<u>645</u>	<u>469</u>

