

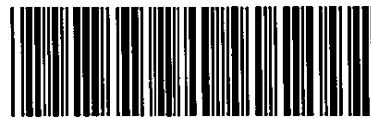
Registered No 3462675

Morgans Hotel Group London Limited

Annual report

For the year ended 31 December 2009

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Morgans Hotel Group London Limited

**Annual report
for the year ended 31 December 2009**

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Morgans Hotel Group London

Directors and advisers

Directors

R Bloom
J Quicksilver
F Kleisner
W Smail

Secretary and registered office

Bibi Ally
MacFarlanes
10 Norwich Street
London EC4A 1BD

Solicitors

MacFarlanes
10 Norwich Street
London EC4A 1BD

Registered auditors

BDO LLP
55 Baker Street
London W1U 7EU

Bankers

National Westminster Bank PLC
135 Bishopsgate
London EC2M 3UR

Morgans Hotel Group London

Directors' report for the year ended 31 December 2009

The directors present their report and the audited financial statements of the company for the year ended 31 December 2009

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

Turnover has declined by 7% for the full year under review, turnover is made up of the following categories: rooms 74%, rental and other income 16% and other operating departments 10%. The decline in turnover is as a direct result of the continued difficult economic conditions that have impacted the travel industry.

The directors are pleased with the performance of the hotels considering the difficult economic conditions that have prevailed during the year under review. The final quarter was especially encouraging as we experienced growth during this period over the comparable year. Rooms revenue represents the total revenue achieved through the average daily 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 73.3% (2008 74.6%) a decrease of 1.3% points, the ADR achieved was £222.88 (2008 £240.70) and RevPar of £163.37 (2008 £179.56).

Principal risk and uncertainties

The hotel market in London began the year under review in the midst of the major economic downturn. These conditions continued through the majority of 2009. 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 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 each market segment.

The company implemented its contingency planning actions early in the year to mitigate the reduction in declining revenues.

Morgans Hotel Group London

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 £100,423,000 (gross of unamortised issue costs) at a fixed rate of 6.28% which falls due on 24th November 2010.

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.

Morgans Hotel Group London

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 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.

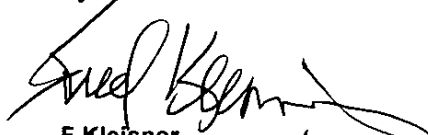
The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies 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

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 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 Kleisner
Director
28/06/2010

Morgans Hotel Group London

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

We have audited the financial statements of Morgans Hotel Group London Limited for the year ended 31 December 2009 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).

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 auditors

As explained more fully in the statement of directors' responsibilities, 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 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 (APB'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.

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 2009 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 matters 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.

Morgans Hotel Group London

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

BDO LLP

*John Le Pordevin (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom*

Date 28/06/2010

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

Morgans Hotel Group London

**Profit and loss account
for the year ended 31 December 2009**

	Notes	2009 £000	2008 £000
Turnover		28,701	30,998
Cost of sales		(7,040)	(7,739)
Gross profit		21,661	23,259
Administrative expenses		(13,460)	(14,018)
Operating profit	3	8,201	9,241
Interest receivable		2	750
Interest payable and similar charges	4	(6,755)	(6,911)
Net interest payable		(6,753)	(6,161)
Profit on ordinary activities before taxation		1,448	3,080
Tax on profit on ordinary activities	5	-	(165)
Profit for the financial year		1,448	2,915

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

The notes on pages 9 to 17 form part of these financial statements

Morgans Hotel Group London

Registered No 3462675
Balance sheet
At 31 December 2009

	Notes	2009 £000	2009 £000	2008 £000	2008 £000
Fixed assets					
Tangible assets	6		98,679		101,151
Current assets					
Stock	7	155		249	
Debtors	8	14,526		14,337	
Cash at bank and in hand		<u>3,362</u>		<u>2,028</u>	
		18,043		16,614	
Creditors amounts falling due within one year	9	<u>(102,666)</u>		<u>(5,383)</u>	
Net current assets			<u>(84,623)</u>		<u>11,231</u>
Total assets less current liabilities			14,056		112,382
Creditors amounts falling due after more than one year	10		-		(99,774)
Net assets			<u>14,056</u>		<u>12,608</u>
Capital and reserves					
Called up share capital	12		-		-
Share premium account	13		19,500		19,500
Profit and loss account	13		(5,444)		(6,892)
Shareholders' funds	14		<u>14,056</u>		<u>12,608</u>

The financial statements were approved by the board of directors and authorised for issue and approved on 28/06/2010


F Kleisner
Director

The notes on pages 9 to 17 form part of these financial statements

**Notes to the financial statements
for the year ended 31 December 2009**

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 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.

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 2009 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.

Morgans Hotel Group London

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

Going concern

As described in the directors' report the group has a loan facility which is due for repayment on 24th November 2010. The directors have prepared projected cash flow information which takes into account the measures that the management team have taken to ensure the group is best placed to meet the challenges of tougher trading conditions. On the basis of this cash flow information and that ongoing discussions with a potential lender are reaching their final stages, the directors consider that the group will be able to refinance its existing facility and consequently, will be able to continue to meet its liabilities as they fall due

2 Staff numbers and costs

The average number of employees in the year was

	2009	2008
	Number	Number
Hotel operating staff	143	149
Management/administration	26	31
Sales and marketing	11	12
Maintenance	16	17
Total	196	209

2 Staff numbers and costs (*Continued*)

The aggregate payroll costs for these persons were as follows

	2009	2008
	£000	£000
Wages and salaries	6,043	6,553
Social security costs	423	480
Pension costs	69	70
	<u>6,535</u>	<u>7,103</u>

None of the directors received any remuneration during the year (including contributions to the pension scheme) (2008 Nil)

Funded defined contribution scheme for employees (group scheme)

Pension costs of £69,000 (2008 £70,000) were charged to the profit and loss account of which £nil (2008 £nil) was outstanding at the balance sheet date

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

3 Operating profit

	2009	2008
	£000	£000
This is arrived at after charging:		
Auditors' remuneration		
Audit services	41	43
Non-audit services	-	12
Depreciation of tangible fixed assets	2,699	2,621
Loss on disposal of fixed assets	<u>19</u>	<u>-</u>

4 Interest payable and similar charges

	2009	2008
	£000	£000
Amounts payable on bank loans and overdrafts	6,406	6,562
Amortisation of issue costs of bank loan	349	349
Finance charges	<u>-</u>	<u>-</u>
	<u>6,755</u>	<u>6,911</u>

5 Tax on profit on ordinary activities

(a) Analysis of charge in the year

	2009 £000	2008 £000
United Kingdom corporation tax at 28% (2008 28.5%)	-	174
Adjustments in respect of prior years	-	(9)
Total tax charge (note 5 (b))	<u>-</u>	<u>165</u>
Deferred taxation (note 11)	-	-
Tax on profit on ordinary activities	<u>-</u>	<u>165</u>
There is no movement on the deferred tax asset from 2008		

(b) Factors affecting tax charge for the year

	2009 £000	2008 £000
Profit on ordinary activities before tax	<u>1,448</u>	<u>3,080</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008 28.5%)	406	878
<i>Effects of</i>		
Expenses not deductible for tax purposes	165	162
Capital allowances in excess of depreciation	511	(308)
Tax losses	(1,082)	(558)
Adjustment in respect of prior years	-	(9)
Tax charge for the period	<u>-</u>	<u>165</u>

6 Tangible Fixed assets

	Land and buildings £000	Plant and machinery £000	Fixtures, fittings and equipment £000	Total £000
Cost				
At 1 January 2009	102,112	8,568	14,171	124,851
Additions	3	53	191	247
Disposal	-	-	(156)	(156)
At 31 December 2009	102,115	8,621	14,206	124,942
Depreciation				
At 1 January 2009	8,915	4,875	9,910	23,700
Charge for the year	1,100	611	988	2,699
Disposals	-	-	(136)	(136)
At 31 December 2009	10,015	5,486	10,762	26,263
Net book value				
At 31 December 2009	92,100	3,135	3,444	98,679
At 31 December 2008	93,197	3,693	4,261	101,151

Included in total net book value of land and buildings is £40,227,000 (2008 £41,091,000) of long leasehold property and £4,167,000 (2008 £4,193,000) of capitalised interest (net of accumulated depreciation)

7 Stocks

	2009 £000	2008 £000
Consumables	155	249

8 Debtors: amounts due within one year

	2009	2008
	£000	£000
Trade debtors	929	917
Amounts due from immediate parent undertaking	12,634	12,634
Amounts due from related parties (see note 16)	351	169
Prepayments and accrued income	612	617
	<u>14,526</u>	<u>14,337</u>

9 Creditors: amounts falling within one year

	2009	2008
	£000	£000
Bank loans and overdrafts	100,113	2,200
Trade creditors	191	529
Amounts due to related parties (see note 16)	387	407
Taxation and social security	635	485
Accruals and deferred income	1,327	1,387
Corporation Tax	13	375
	<u>102,666</u>	<u>5,383</u>

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

10 Creditors: amount falling due after more than one year

	2009	2008
	£000	£000
Bank loans and overdrafts, net of unamortised costs	-	99,774

Bank loans are repayable as follows

	2009	2008
	£000	£000
In one year or less, or on demand	100,113	2,200
In more than one year, but not more than two years	-	99,774
In more than two years, but not more than five years	-	-
	<u>100,113</u>	<u>101,974</u>

Bank loans are as follows

	2009	2008
	£000	£000
Sterling bank loan Note 6 280%	100,113	101,974
	<u>100,113</u>	<u>101,974</u>

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

11 Deferred taxation asset

	2009	2008
	£000	£000
Accelerated capital allowances	(4,567)	(5,887)
Short term timing differences	9	29
Losses	<u>4,558</u>	<u>5,858</u>
Total deferred tax asset	<u>-</u>	<u>-</u>

12 Called up share capital

	2009 £	2008 £
Authorised		
100 ordinary shares of £1 each	100	100
Allotted, called up and fully paid		
25 ordinary shares of £1 each	25	25

13 Reserves

	Share premium account £000	Profit and loss account £000	Total £000
At 1 January 2009	19,500	(6,892)	12,608
Profit for the year	-	1,448	1,448
At 31 December 2009	19,500	(5,444)	14,056

14 Reconciliation of movements in shareholders' funds

	2009 £000	2008 £000
Profit for the financial year	1,448	2,915
Dividend payment	-	(15,500)
Opening shareholders' funds	12,608	25,193
Closing shareholders' funds	14,056	12,608

Morgans Hotel Group London

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 £2,470,000 (2008 £2,897,000)

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 £4,037,000 (2008 £3,773,000)

Related party balances and transactions	2009	2008
	£000	£000
Debtors amounts falling within one year		
SC London Limited	337	136
Other Morgans Hotel Group companies	14	33
	351	169
	2009	2008
	£000	£000
Creditors amounts falling within one year		
Morgans Hotel Group UK Management Limited	299	258
SC London Limited	-	-
Other Morgans Hotel Group companies	88	149
	387	407

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