

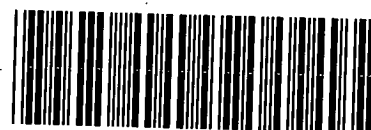
Registered No. 3462675

Capital Hill Hotels Group London Limited

Annual report and financial statements

31 December 2013

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Annual report
for the year ended 31 December 2013

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Capital Hill Hotels Group London Limited

Directors and advisers

Directors

Z E Guiziri

J A Thani

F Bakhos

K Cooper

Registered office

4 More London Riverside

London

SE1 2AU

Registered auditor

Ernst & Young LLP

1 More London Place

London

SE1 2AF

Strategic report
for the year ended 31 December 2013

Review of the business

The hotel market in London began the year with the promise of rising business levels after the previous year's Diamond Jubilee and Olympic Games provided excellent international exposure. However the performance of the hotels during the year under review was challenging year-on-year with new hotel openings bringing further competitive supply into the market. Despite these challenges, total hotel revenue was almost exactly at prior year level. In the year under review, rooms revenue increased by 1.8% or £459k.

Gross Operating Profit decreased by 3.1% (£263k) mainly through a spike in administrative and utility costs. EBITDA shows a loss to prior year of 3.7% (£432k) with a higher insurance expense for the year and increasing business rates in line with Westminster Council rate reviews.

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.

Rising demand in the mid and long term is expected to see occupancy levels rise however with average room rates under pressure with the increased supply in London. Profit flow through is key and the company continued to focus on maintaining costs while ensuring its service offering is exceptional, and is delivered in the exciting environment of the hotel properties.

Key Performance Indicators

The key performance indicators for the company are ARR (Average Room Rate), Occupancy (total available rooms divided by the rooms occupied expressed as a percentage), and RevPAR (Revenue Per Available Room) which is a combination of both expressed as £'s.

In the year under review the combined Occupancy for the hotels was 80.7% (2012 75.7%; 2011 74.9%), the ADR achieved was £243.82 (2012 £254.49; 2011 £252.28). RevPar (the product of ADR and Occupancy) during the period under review was £196.76 (2012 £192.68; 2011 £188.92), which represent an encouraging year-on-year growth of 2.1%.

On behalf of the board



Director
20th October 2014



Directors' report
for the year ended 31 December 2013

The directors present their report and the audited financial statements of the company for the year ended 31 December 2013.

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.

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 2013 and up to the date of this report are as follows:

F G Kaldane	(terminated 10 th June 2013)
Z E Guiziri	(appointed 10 th June 2013)
J A Thani	(appointed 10 th June 2013)
F Bakhos	(appointed 10 th June 2013)
K Cooper	(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.

Directors' report
for the year ended 31 December 2013 (continued)

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.

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.

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


Director

20th October 2014

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 2013 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 Statement of directors' responsibilities set out on page 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 2013 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: 24 October 2014

Capital Hill Hotels Group London Limited

Profit and loss account
for the period ended 31 December 2013

	Notes	2013 £000	2012 £000
Turnover		31,186	31,198
Cost of sales		<u>(7,638)</u>	<u>(7,675)</u>
Gross profit		23,548	23,523
Administrative expenses		<u>(15,386)</u>	<u>(15,098)</u>
Operating profit	3	8,162	8,425
Interest payable and similar charges	4	<u>(3,758)</u>	<u>(4,265)</u>
Profit on ordinary activities before taxation		4,404	4,160
Tax on profit on ordinary activities	5	(42)	(46)
Profit for the financial period		<u>4,362</u>	<u>4,114</u>

All profits 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 2013

	Notes	2013 £000	2013 £000	2012 £000	2012 £000
Fixed assets					
Tangible assets	6		98,577		97,271
Current assets					
Stock	7	129		122	
Debtors	8	35,550		35,701	
Cash at bank and in hand		8,930		5,468	
		44,609		41,291	
Creditors:					
Amounts falling due within one year	9	(3,999)		(3,631)	
Net current assets			40,610		37,660
Total assets less current liabilities			139,187		134,931
Creditors: amounts falling due after more than one year	10		(119,083)		(119,189)
Net assets			20,104		15,742
Capital and reserves					
Called up share capital	12		-		-
Share premium account	13		19,500		19,500
Profit and loss account	13		604		(3,758)
Shareholders' funds	14		20,104		15,742

The financial statements were approved by the board of directors and authorised for issue on 20th October 2014.

Director

Notes to the financial statements
for the year ended 31 December 2013

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.

Depreciation for assets included under construction in progress are recognised once the asset is placed into use.

Deferred taxation

Deferred taxation is provided in respect of certain 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.



Notes to the financial statements
for the year ended 31 December 2013 (*continued*)

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

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

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:

	2013	2012
	Number	Number
Hotel operating staff	139	132
Management/administration	20	20
Sales and marketing	13	14
Maintenance	18	19
Total	190	185

Notes to the financial statements
for the year ended 31 December 2013 (*continued*)

The aggregate payroll costs for these persons were as follows:

	2013	2012
	£000	£000
Wages and salaries	6,572	6,375
Social security costs	542	521
Pension costs	76	80
	<u>7,190</u>	<u>6,976</u>

None of the directors received any remuneration during the year (2012: Nil) (including contributions to the pension scheme).

Funded defined contribution scheme for employees (group scheme)

Pension costs of £76,000 (2012: £80,000) were charged to the profit and loss account of which £nil (2012: £nil) was outstanding at the balance sheet date.

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

3 Operating profit

	2013	2012
	£000	£000
This is arrived at after charging:		
Auditors' remuneration:		
Audit services	63	57
Tax services	7	-
Depreciation of tangible fixed assets	<u>2,491</u>	<u>2,446</u>



Notes to the financial statements
for the year ended 31 December 2013 (*continued*)

4 Interest payable and similar charges

	2013	2012
	£000	£000
Amounts payable on bank loans and overdrafts	3,614	4,105
Amortisation of issue costs of bank loan	144	160
	<u>3,758</u>	<u>4,265</u>

5 Tax on profit on ordinary activities

(a) Analysis of charge in the period

	2013	2012
	£000	£000
United Kingdom corporation tax at 23% (2012: 24.5%)	42	46
Adjustments in respect of prior years	-	-
Current tax charge (note 5 (b))	<u>42</u>	<u>46</u>
Deferred taxation (note 11)	-	-
Changes in tax rates or laws	-	-
Tax on profit on ordinary activities	<u>42</u>	<u>46</u>

Notes to the financial statements
for the year ended 31 December 2013 (*continued*)

(b) Factors affecting tax charge for the period

	2013	2012
	£000	£000
Profit on ordinary activities before tax	<u>4,547</u>	<u>4,114</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.25% (2012: 24.5%)	1,057	1,008
<i>Effects of:</i>		
Expenses not deductible for tax purposes	504	451
Capital allowances in excess of depreciation	223	436
Tax losses (utilised)/carried forward	(1,744)	(1,705)
Other adjustments	2	(144)
Current tax charge for the period	<u>42</u>	<u>46</u>

6 Tangible Fixed assets

	Land and buildings	Plant and machinery	Fixtures, fittings and equipment	Construction In Progress	Total
	£000	£000	£000	£000	£000
Cost					
At 1 January 2013	102,332	12,543	15,840	-	130,715
Additions	14	190	371	3,222	3,797
At 31 December 2013	<u>102,346</u>	<u>12,733</u>	<u>16,211</u>	<u>3,222</u>	<u>134,512</u>
Depreciation					
At 1 January 2013	13,222	7,744	12,478	-	33,444
Charge for the period	1,129	1,079	283	-	2,491
At 31 December 2013	<u>14,351</u>	<u>8,823</u>	<u>12,761</u>	<u>-</u>	<u>35,935</u>
Net book value					
At 31 December 2013	<u>87,995</u>	<u>3,910</u>	<u>3,450</u>	<u>3,222</u>	<u>98,577</u>
At 31 December 2012	<u>89,110</u>	<u>4,799</u>	<u>3,362</u>	<u>-</u>	<u>97,271</u>

Included in total net book value of land and buildings is £36,771,000 (2012: £37,635,000) of long leasehold property.

Notes to the financial statements
for the year ended 31 December 2013 (*continued*)

7 Stocks

	2013	2012
	£000	£000
Consumables	<u>129</u>	<u>122</u>

8 Debtors: amounts due within one year

	2013	2012
	£000	£000
Trade debtors	934	1,281
Amounts due from immediate parent undertaking	33,687	33,661
Other amounts due from related parties	-	1
Prepayments and accrued income	<u>929</u>	<u>758</u>
	<u>35,550</u>	<u>35,701</u>

Included within amounts due from the immediate parent undertaking is £20,000,000 due in 4 years.



Notes to the financial statements
for the year ended 31 December 2013 (*continued*)

9 Creditors: amounts falling within one year

	2013	2012
	£000	£000
Bank loans and overdrafts	500	250
Trade creditors	854	590
Amounts due to related parties	862	645
Taxation and social security	608	843
Accruals and deferred income	1,133	1,243
Other creditors	-	14
Corporation Tax	42	46
	<u>3,999</u>	<u>3,631</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 overall revenues due from operation of the properties.

10 Creditors: amount falling due after more than one year

	2013	2012
	£000	£000
Bank loans (£120m) , net of unamortised costs	<u>119,083</u>	<u>119,189</u>

Bank loans are repayable as follows:

	2013	2012
	£000	£000
In one year or less, or on demand	500	-
In more than one year, but not more than two years	2,000	250
In more than two years, but not more than five years	117,500	119,750
	<u>120,000</u>	<u>120,000</u>



Notes to the financial statements
for the year ended 31 December 2013 (*continued*)

Bank loans are as follows:

	2013	2012
	£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 instalments, are denominated in sterling and bear interest at a floating rate, fixed with an interest rate swap at libor plus 2.5%.

After the year end, the lender waived the scheduled repayment of debt between September 2014 and September 2015.

11 Deferred taxation

	2013	2012
	£000	£000
Accelerated capital allowances	2,945	3,452
Other Short term timing differences	(5)	(7)
Losses	<u>(1,397)</u>	<u>(3,445)</u>
Total deferred tax asset	<u>1,543</u>	<u>-</u>

The main rate of UK corporation tax was reduced from 24% to 23% with effect from 1st April 2013.

Finance Act 2013 reduced the main rate of UK corporation tax from 21% from 1st April 2014 and 20% from 1st April 2015. These changes were enacted during the year. The changes 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 £6.9m (2012: £14.9m) which includes the losses offset against the deferred taxation liabilities set out above.



Notes to the financial statements
for the year ended 31 December 2013 (*continued*)

12 Called up share capital

	2013	2012
Authorised		
100 ordinary shares of £0.67 each	100	100
Allotted, called up and fully paid		
25 ordinary shares of £0.67 each	25	25

13 Reserves

	Share premium account £000	Profit and loss Account £000	Total £000
At 1 January 2013	19,500	(3,758)	15,742
Profit for the period	-	4,362	4,362
At 31 December 2013	19,500	604	20,104

14 Reconciliation of movements in shareholders' funds

	2013 £000	2012 £000
Profit for the financial period	4,362	4,114
Opening shareholders' funds	15,742	16,628
Closing shareholders' funds	20,104	15,742

15 Immediate and ultimate controlling parties

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

Notes to the financial statements
for the year ended 31 December 2013 (*continued*)

16 Related party balance and transactions

Capital Hill Hotels Europe Limited

Capital Hill Hotels Group Europe Limited is due £12,659 (2012: £12,634) from Capital Hill Hotels Group London Limited as at 31 December 2013.

Capital Hill Hotels Limited

Capital Hill Hotels Limited owns 100% shares of Capital Hill Hotels Group Europe Limited.

Capital Hill Hotels Limited and is due £21,028 (2012: £21,028) from Capital Hill Hotels Group Europe Limited as at 31 December 2013 of which £20,000 is due for repayment in 4 years.