

Registered No 3203996

**Capital Hill Hotels Group Europe Limited**  
***(formerly Morgans Hotel Group Europe Limited)***  
**Annual report**  
**For the year ended 31 December 2011**

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# ***Capital Hill Hotels Group Europe Limited***

## ***Annual report for the year ended 31 December 2011***

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***Directors and advisers***

**Directors**

F G Kildane

**Registered office**

4 More London Riverside  
London  
SE1 2AU

**Registered auditors**

BDO LLP  
55 Baker Street  
London  
W1U 7EU

***Directors' report  
for the year ended 31 December 2011***

The directors present their report and the audited financial statements of the group for the year ended 31 December 2011. With effect from 12 December 2011 the company changed its name to Capital Hill Hotels Group London Limited from Morgans Hotel Group London Limited.

**Principal activities and future developments**

The principal activity of the group 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 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 group 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 74.9% (2010 76.4%), the ADR achieved was £252.28 (2010 £249.15) and RevPar was £188.92 (2010 £190.33).

**Principal risk and uncertainties**

The group'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 group 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 group'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 group 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 uncertainty after the major economic downturn, which significantly impacted the prior year. The group 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 2011 (continued)***

**Employee Involvement**

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

The group'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.

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The group 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:

J Quicksilver (resigned 23 November 2011)  
D Smail (resigned 23 November 2011)  
F Kleisner (resigned 31 March 2011)  
J Leonard (resigned 23 November 2011)  
M Gross (appointed 15 April 2011, resigned 23 November 2011)  
F G Kildane (appointed 23 November 2011)

**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.

**Directors' report  
for the year ended 31 December 2011 (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 group and company 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 group and company and of the profit or loss of the group and 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.

**By order of the board**



F G Kaldane  
Director  
23/10/12



# ***Independent auditors' report to the members of Capital Hill Hotels Group Europe Limited***

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We have audited the financial statements of Morgans Hotel Group Europe Limited for the year ended 31 December 2011 which comprise the consolidated profit and loss account, the consolidated and company balance sheets, the consolidated cash flow statement, the consolidated reconciliation of net debt 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 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 (APB's) Ethical Standards for Auditors.

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

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm).

## **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the group's and the parent company's affairs as at 31 December 2011 and of the group's loss 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.

***Independent auditors' report to the members of  
Capital Hill Hotels Group Europe Limited***

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**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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company 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 Poidevin (senior statutory auditor)  
For and on behalf of BDO LLP, statutory auditor  
London  
United Kingdom  
Date *25/10/12*

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



**Consolidated profit and loss account  
for the year ended 31 December 2011**

	Notes	2011 £000	2010 £000
Turnover		31,365	31,699
Cost of sales		<u>(8,122)</u>	<u>(7,666)</u>
Gross profit		23,243	24,033
Administrative expenses		<u>(15,783)</u>	<u>(13,809)</u>
Operating profit	3	7,460	10,224
Interest payable and similar charges	4	<u>(12,059)</u>	<u>(8,053)</u>
(Loss)/profit on ordinary activities before taxation		(4,599)	2,171
Tax on (loss)/profit on ordinary activities	5	-	-
(Loss)/profit for the financial year		<u>(4,599)</u>	<u>2,171</u>

All profits arise from continuing operations

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

The historical cost profit and reported profit are the same

The notes on pages 11 to 22 form part of these financial statements

**Consolidated balance sheet  
At 31 December 2011**

	Notes	2011 £000	2011 £000	2010 £000	2010 £000
<b>Fixed assets</b>					
Tangible assets	7		96,887		97,374
<b>Current assets</b>					
Stock	8	157		150	
Debtors	10	22,065		2,293	
Cash at bank and in hand		4,188		5,425	
		26,410		7,868	
<b>Creditors</b>					
amounts falling due within one year	11	(4,618)		(3,361)	
<b>Net current assets/(liabilities)</b>			21,792		4,507
<b>Total assets less current liabilities</b>			118,679		101,881
<b>Creditors</b> amounts falling due after more than one year	12		(119,280)		(97,883)
<b>Net (liabilities)/assets</b>			(601)		3,998
<b>Capital and reserves</b>					
Called up share capital	14		5,000		5,000
Share premium account	15		10,000		10,000
Other capital reserve	15		1,582		1,582
Profit and loss account	15		(17,183)		(12,584)
<b>Shareholders' (deficit)/funds</b>	17		(601)		3,998

The financial statements were approved by the board of directors and authorised for issue on 23/10/12



**F G Kildane**  
Director

The notes on pages 11 to 22 form part of these financial statements



**Registered No. 3203996  
Company balance sheet  
At 31 December 2011**

	Notes	2011 £000	2011 £000	2010 £000	2010 £000
<b>Fixed assets</b>					
Investment in subsidiary	9		35,000		35,000
<b>Current assets</b>					
Debtors	10	400		400	
Cash at bank and in hand		<u>5</u>		<u>5</u>	
		405		405	
<b>Creditors</b> amounts falling due within one year	11	<u>(12,634)</u>		<u>(12,634)</u>	
<b>Net current liabilities</b>			(12,229)		(12,229)
<b>Net assets</b>			<u>22,771</u>		<u>22,771</u>
<b>Capital and reserves</b>					
Called up share capital	14		5,000		5,000
Share premium account	16		10,000		10,000
Other capital reserve	16		1,582		1,582
Profit and loss account	16		6,189		6,189
<b>Shareholders' funds</b>	17		<u>22,771</u>		<u>22,771</u>

The financial statements were approved by the board of directors and authorised for issue on 23/10/12



**F G Kildane  
Director**

The notes on pages 11 to 22 form part of these financial statements



**Consolidated cash flow statement  
for the year ended 31 December 2011**

	Notes	2011 £000	2010 £000
Net cash inflow from operating activities	20	11,357	12,902
Returns on investments and servicing of finance	21	(30,192)	(7,861)
Capital expenditure	21	<u>(1,932)</u>	<u>(1,011)</u>
Net Cash inflow before taxation and financing		(767)	4,030
Taxation		-	-
Financing	21	<u>19,530</u>	<u>(1,971)</u>
(Decrease)/increase in cash and cash equivalents		<u>(1,237)</u>	<u>2,059</u>

**Reconciliation of net debt  
for the year ended 31 December 2011**

	Notes	2011	2010
(Decrease)/increase in cash in the year		(1,237)	2,059
Net cash (inflow)/outflow from decrease in debt	22	(250)	1,971
Non cash movements	22	<u>(709)</u>	<u>(179)</u>
Movements in net debt in the year		(2,196)	3,851
Net debt at the start of the year		(92,896)	(96,747)
Net debt at the end of the year	22	<u>(95,092)</u>	<u>(92,896)</u>

The notes on pages 11 to 22 form part of these financial statements

**Notes to the financial statements  
for the year ended 31 December 2011****1. Principal accounting policies**

The consolidated 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.

**Basis of consolidation**

The consolidated financial statements include financial statements of the company and its subsidiary undertaking made up to 31 December 2011.

**Investments**

Investments are stated at cost or cost less provision where there is a provision for impairment.

**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 8.

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 2011 for assets and liabilities. Exchange differences arising in the ordinary course of trading are included 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.

**Notes to the financial statements  
for the year ended 31 December 2011 (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**

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

**Pension scheme**

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

**Dividends**

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting

**Going concern**

During the year the company was able to secure new financing of £120,000,000. The covenant testing points are set on the basis of cash flow information taking into account the measures that the management team have taken to ensure the group is best placed to meet the challenges of slowly recovering trading conditions. The directors are pleased to have secured this facility and are confident that the group will be able to continue meeting its liabilities as they fall due

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**2. Staff numbers and costs**

	2011 Number	2010 Number
<b>The average number of employees in the year was.</b>		
Hotel operating staff	141	143
Management/administration	22	23
Sales and marketing	13	13
Maintenance	17	17
<b>Total</b>	<b>193</b>	<b>196</b>

The aggregate payroll costs for these persons were as follows

	2011 £000	2010 £000
Wages and salaries	6,585	6,403
Social security costs	505	476
Pension costs	68	70
	<b>7,158</b>	<b>6,949</b>

None of the directors received any remuneration during the year (2010 Nil) (including contributions to the pension scheme)

**Funded defined contribution scheme for employees (group scheme)**

Pension costs of £62,000 (2010 £70,000) were charged to the profit and loss account of which £nil (2010 nil) was outstanding at the balance sheet date

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

**3. Operating profit**

This is arrived at after charging

	2011 £000	2010 £000
<b>Auditors' remuneration.</b>		
Group - audit	34	42
Company – audit	4	4
Depreciation of tangible fixed assets	2,419	2,316
Loss on disposal of fixed assets	-	-

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**4. Interest payable and similar charges**

	2011	2010
	£000	£000
Amounts payable on bank loans and overdrafts	5,567	5,988
Amortisation of issue costs of bank loan	1,429	440
Breakage costs	5,063	1,625
	<u>12,059</u>	<u>8,053</u>

**5. Taxation**

**(a) Analysis of charge in the year**

	2011	2010
	£000	£000
United Kingdom corporation tax at 28% (2009 28%)	-	-
Adjustments in respect of prior years	-	-
Total tax charge (note 5 (b))	<u>-</u>	<u>-</u>
Deferred taxation (note 13)	-	-
Changes in tax rates or laws	-	-
Tax on profit on ordinary activities	<u>-</u>	<u>-</u>

There is no movement on the deferred tax asset from 2010

**(b) Factors affecting tax charge for the year**

	2011	2010
(Loss)/profit on ordinary activities before tax	<u>(4,599)</u>	<u>2,171</u>
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.5% (2010 28%)	(1,219)	608
<i>Effects of</i>		
Expenses not deductible for tax purposes	313	215
Capital allowances in excess of depreciation	394	354
Tax losses carried forward/(utilised)	512	(1,177)
Tax charge for the period	<u>-</u>	<u>-</u>



## Notes to the financial statements for the year ended 31 December 2011 (continued)

### 6. Profit for the financial year

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own profit & loss account in these financial statements. The profit before dividend for the year is £Nil (2010 - £Nil)

### 7. Fixed assets – Group

	Land and buildings £000	Plant and machinery £000	Fixtures, fittings and equipment £000	Total £000
Cost				
At 1 January 2011	102,253	8,720	14,980	125,953
Additions	6	1,660	266	1,932
At 31 December 2011	102,259	10,380	15,246	127,885
Depreciation				
At 1 January 2011	11,113	6,089	11,377	28,579
Charge for the period	1,118	739	562	2,419
At 31 December 2011	12,231	6,828	11,939	30,998
Net book value				
At 31 December 2011	90,028	3,552	3,307	96,887
At 31 December 2010	91,140	2,631	3,603	97,374

Included in total net book value of land and buildings is £38,499,000 (2010 £39,363,000) of long leasehold property and £4,115,000 (2010 £4,141,000) of capitalised interest (net of accumulated depreciation)

All tangible fixed assets of the group are held by the subsidiary undertaking, Capital Hill Hotels Group London Limited

### 8. Stock

	Group 2011 £000	Group 2010 £000
Consumables	157	150

## Notes to the financial statements for the year ended 31 December 2011 (continued)

### 9. Investment in subsidiary company

	Company £000	Company £000
At 1 January 2011 and 31 December 2011	<u>35,000</u>	<u>35,000</u>

The company owns 100% of the ordinary shares of Capital Hill Hotels Group London Limited, a company incorporated in England and Wales, whose principal activity is the operation of two Morgans Hotel Group hotels in London

### 10. Debtors: amounts due within one year

	Group 2011 £000	Company 2011 £000	Group 2010 £000	Company 2010 £000
Trade debtors	1,070	-	1,079	-
Amounts due from related parties	20,306	400	662	400
Prepayments and accrued income	689	-	552	-
	<u>22,065</u>	<u>400</u>	<u>2,293</u>	<u>400</u>

Included within related party debtors is a balance of £20,000,000 in 5 years

### 11. Creditors: amounts falling within one year

	Group 2011 £000	Company 2011 £000	Group 2010 £000	Company 2010 £000
Bank loans	-	-	438	-
Trade creditors	526	-	232	-
Amounts due to group undertakings and related parties	208	12,634	343	12,634
Taxation and social security	907	-	1,213	-
Accruals and deferred income	2,936	-	1,122	-
Corporation Tax	41	-	13	-
	<u>4,618</u>	<u>12,634</u>	<u>3,361</u>	<u>12,634</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 operation of the properties

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**12. Creditors: amount falling due after more than one year**

	Group 2011 £000	Group 2010 £000
Bank loans net of unamortised costs	<u>119,280</u>	<u>97,883</u>

Bank loans are repayable as follows

	2011 £000	2010 £000
In one year or less, or on demand	-	438
In more than one year, but not more than two years	250	1,188
In more than two years, but not more than five years	<u>119,750</u>	<u>96,695</u>
	<u>120,000</u>	<u>98,321</u>

Bank loans are as follows

	2011 £000	2010 £000
Sterling bank loans libor plus 2 5% (2010 - 5 2%)	<u>120,000</u>	<u>98,321</u>
	<u>120,000</u>	<u>98,321</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

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**13. Deferred taxation asset**

	2011	2010
	£000	£000
Accelerated capital allowances	(4,013)	(4,028)
Short term timing differences	8	34
Losses	4,005	3,994
Total deferred tax asset	-	-

**14. Called up share capital**

	31 December 2011	31 December 2010
	£000	£000
<b>Authorised</b>		
1,000 ordinary shares of £1 each	1	1
2,499,999 A ordinary shares of £1 each	2,500	2,500
2,499,999 B ordinary shares of £1 each	2,500	2,500
	<u>5,001</u>	<u>5,001</u>
<b>Allotted, called up and fully paid</b>		
2 ordinary shares of £1 each	-	-
2,499,999 A ordinary shares of £1 each	2,500	2,500
2,499,999 B ordinary shares of £1 each	2,500	2,500
	<u>5,000</u>	<u>5,000</u>

Both the A and B ordinary shares carry equal voting rights, equal rights to dividends and equal rights on winding up and rank pari passu with each other. The preferred ordinary shares carry non-voting rights and rank pari passu with the A and B ordinary shares.

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**15. Reserves - group**

	Share premium £000	Other capital Reserve £000	Profit and loss account £000
At 1 January 2011	10,000	1,582	(12,584)
Loss for the financial year	-	-	(4,599)
At 31 December 2011	<u>10,000</u>	<u>1,582</u>	<u>(17,183)</u>

**16. Reserves - company**

	Share Premium £000	Other capital Reserve £000	Profit and loss account £000
At 1 January 2011	10,000	1,582	6,189
Profit for the financial year	-	-	-
At 31 December 2011	<u>10,000</u>	<u>1,582</u>	<u>6,189</u>

**17. Reconciliation of movements in shareholders' funds**

	Group 2011 £000	Company 2011 £000	Group 2010 £000	Company 2010 £000
(Loss)/profit for the financial year	(4,599)	-	2,171	-
Dividend payment	-	-	-	-
Net movement in shareholders' funds	<u>(4,599)</u>	<u>-</u>	<u>2,171</u>	<u>-</u>
Opening shareholders' funds	3,998	22,771	1,827	22,771
Closing shareholders' funds	<u>(601)</u>	<u>22,771</u>	<u>3,998</u>	<u>22,771</u>

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**18. Immediate and ultimate controlling parties**

Until 23 November 2011, Capital Hill Hotels Group Europe Limited was 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% was 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.

On 23 November 2011, the entire issued share capital of Capital Hill Hotels Group Europe Limited was purchased by Capital Hill Hotels Limited. The ultimate controlling party from that time is Sheikh Hamed bin Jassim bin Jaber Al Thani.

**19. Related party transactions**

**Morgans Hotel Group UK Management Limited**

Morgans Hotel Group UK Management Limited is 100% owned by Morgans Hotel Group LLC, which until 23 November 2011 was a related party.

Morgans Hotel Group UK Management Limited charged Morgan Hotel Group London Limited a management fee and staff costs relating to hotel management, which totalled £2,713,000 (2010 £2,753,000).

**SC London Limited**

SC London Limited, which until 23 November 2011 was a related party, pays rent and recharged expenditure to Morgans Hotel Group London Limited, which totalled £3,816,000 (2010 £3,828,000).

<b>Related party balances and transactions</b>	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
<b>Debtors: amounts falling within one year</b>		
SC London Limited	919	258
Other Morgans Hotel Group companies	66	4
	<u>985</u>	<u>262</u>
	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
<b>Creditors: amounts falling within one year</b>		
Morgans Hotel Group UK Management Limited	316	256
Other Morgans Hotel Group companies	153	87
	<u>469</u>	<u>343</u>

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**20. Reconciliation of operating profit to net cash inflow from operating activities**

	2011	2010
	£000	£000
Operating profit	7,460	10,224
Depreciation	2,419	2,316
Loss on disposal of assets	-	-
(Increase)/decrease in stock	(7)	5
Decrease in debtors	228	-
Increase/ (decrease) in creditors	1,257	357
Net cash inflow from operating activities	<u>11,357</u>	<u>12,902</u>

**21. Analysis of cash flows**

	2011	2010
	£000	£000
<b>Return on Investment and servicing of finance</b>		
Issue of loan	(20,000)	-
Interest on bank loan	(5,129)	(6,236)
Finance charges	<u>(5,063)</u>	<u>(1,625)</u>
	(30,192)	(7,861)
<b>Capital expenditure</b>		
Purchase of tangible fixed assets	(1,932)	(1,011)
<b>Financing</b>		
Repayment of bank loan	(99,750)	(1,971)
New bank loan (net of issue costs)	119,280	-
	<u>19,530</u>	

**Notes to the financial statements  
for the year ended 31 December 2011 (continued)**

**22. Analysis of changes in net debt**

	At 1 January 2011 £000	Cash flows £000	Other non-cash movements £000	At 31 December 2011 £000
Cash at bank and in hand	5,425	(1,237)	-	4,188
Term loans with parent company	-	20,000	-	20,000
Debt due within one year	(750)	750	-	-
Debt due after more than one year	(99,000)	(21,000)	-	(120,000)
Deferred finance costs	1,429	-	(709)	720
Net debt	<u>(92,896)</u>	<u>(1,487)</u>	<u>(709)</u>	<u>(95,092)</u>