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Registered No 3462675

Morgans Hotel Group London Limited

Annual report

For the year ended 31 December 2007

Morgans Hotel Group London Limited

Annual report
for the year ended 31 December 2007

Directors and advisers

Directors
R Bloom
J Quicksilver
F Kleisner
W Small

Secretary and registered office
Bibi Ali
MacFarlanes
10 Norwich Street
London EC4A 1BD

Solicitors
MacFarlanes
10 Norwich Street
London EC4A 1BD

Registered auditors
BDO Stoy Hayward LLP
55 Baker Street
London, W1U 7EU

Bankers
National Westminster Bank PLC
135 Bishopsgate
London EC2M 3UR

Directors' report
for the year ended 31 December 2007

The directors present their report and the audited financial statements of the company for the year ended 31 December 2007

Principal activities and future developments

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

Review of the business

The profit and loss account is set out on page 7 and shows the turnover for the year of £31,967,000 (2006 £30,118,000) and a profit for the year of £4,068,000 (2006 profit £2,246,000)

Turnover has increased by 6% and for the full year under review is made up of the following categories rooms 78%, rental and other income 19% and other operating departments 3%

The directors are pleased with the growth in revenue during the year and are confident in seeing the increased sales continue for 2008 Room's revenue represents the total revenue achieved through the average room rate by the total number of rooms sold during the year The key indicators are ADR (Average Daily Room Rate) and Occupancy (The total available rooms divided by the rooms occupied expressed as a percentage), and REVPAR which is a combination of both expressed in £'s

In the year under review the combined occupancy for the hotels was 77 4% (2006 77 9%) a decrease of 0 5% points, the ADR achieved was £248 66 (2006 £233 56) and REVPAR of £192 47 (2006 £181 94)

The directors do not recommend the payment of a dividend for the year (2006 nil)

Principal risks and uncertainties

The hotel market in London has been very buoyant during the year under review and continues to be so into 2008 The 5 star hotel category in particular has shown significant REVPAR increases and Sanderson and St Martins Lane have been well positioned to take full advantage of this upturn in the market The company seeks to manage the risk of losing customers to key competitors by the provision of higher than ordinary service levels coupled with the exciting environment of the hotel properties The company engages a full service level sales and account management team to work closely with key clients around the world who are important to the continued success of the hotels

Employee Involvement

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

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

Financial Instruments

The company has a loan facility for £107,456,000 at a fixed rate of 6 28% which falls due on 24th November 2010 The facility has been fully utilised

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

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

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

Directors

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

B Porter (resigned 16th February 2007)
J McCarthy (resigned 16th February 2007)
E Scheetz (resigned 19th September 2007)
D Hamamoto (resigned 27th July 2007)
R Bloom (appointed 16th February 2007)
J Quicksilver (appointed 16th February 2007)
D Small (appointed 27th August 2007)
F Kleisner (appointed 5th October 2007)

Directors Interests

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

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,

- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate

  to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Auditors

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

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

By order of the board

F Kleisner
Director

17 March 2008

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

To the shareholders of Morgans Hotel Group London Limited

We have audited the financial statements of Morgans Hotel Group London Limited for the year ended 31 December 2007 which comprise the profit and loss account, the balance sheet, and the related notes These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the directors' report is consistent with those financial statements We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read the directors' report and consider the implications for our report if we become aware of any apparent misstatements within it

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

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2007 and of its profit for the year then ended,

- the financial statements have been properly prepared in accordance with the Companies Act 1985, and

- the information given in the directors' report is consistent with the financial statements

BDO STOY HAYWARD LLP

Chartered Accountants and Registered Auditors
London

Date 17 March 2008

Profit and loss account for the year ended 31 December 2007

	Notes	2007	2006
		£000	£000
Turnover	1	31,967	30,118
Cost of sales		(7,909)	(7,560)
Gross profit		24,058	22,558
Administrative expenses		(13,240)	(13,988)
Operating profit	3	10,818	8,570
Interest receivable		705	397
Interest payable and similar charges	4	(7,043)	(6,721)
Net interest payable		(6,338)	(6,324)
Profit on ordinary activities before taxation		4,480	2,246
Tax on profit on ordinary activities	5	(412)	-
Profit for the financial year		4,068	2,246

All income and expenditure arises 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

Balance sheet
At 31 December 2007

	Notes	2007	2007	2006	2006
		£000	£000	£000	£000
Fixed assets					
Tangible assets	6		102,898		101,828
Current assets					
Stock	7	222		209	
Debtors	8	14,488		15,003	
Cash at bank and in hand		15,014		12,261	
		29,724		27,473	
Creditors amounts falling due within one year	9	(5,793)		(4,796)	
Net current assets			23,931		22,677
Total assets less current liabilities			126,829		124,505
Creditors amounts falling due after more than one year	10		(101,636)		(103,380)
Net assets			25,193		21,125
Capital and reserves					
Called up share capital	12		-		-
Share premium account	13		35,000		35,000
Profit and loss account	13		(9,807)		(13,875)
Shareholders' funds	14		25,193		21,125

The financial statements on pages 7 to 16 were approved by the board of directors and authorised for issue and approved on 17 March 2008

F Kleisner
Director

Notes to the financial statements for the year ended 31 December 2007

1 Principal accounting policies

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

Cash flow statement

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

Fixed assets and depreciation

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

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

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

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

Foreign currency transactions

Translations into sterling are made at the average of rates ruling throughout the period for profit and loss items and at the rate ruling at 31 December 2007 for assets and liabilities Exchange differences arising in the ordinary course of trading are reflected in the profit and loss account

Deferred taxation

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

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

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

Finance costs

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

Stocks

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

Turnover

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

Pension scheme

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

2 Staff numbers and costs

The average number of employees in the year was

	2007 Number	2006 Number
Hotel operating staff	151	141
Management/administration	33	31
Sales and marketing	14	11
Maintenance	18	20
Total	216	203

The aggregate payroll costs for these persons were as follows

	2007 £000	2006 £000
Wages and salaries	6,303	5,730
Social security costs	497	444
Pension costs	70	44
	6,870	6,218

None of the directors received any remuneration during the year (2006 Nil)

Funded defined contribution scheme for employees (group scheme)

Pension costs of £70,000 (2006 £44,000) were charged to the profit and loss account of which £nil (2006 £nil) was outstanding at the balance sheet date

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

3 Operating profit

	2007	2006
	£000	£000
This is arrived at after charging:		
Auditors' remuneration:		
Audit	54	40
Depreciation of tangible fixed assets	2,437	2,778
Loss on disposal of fixed assets	-	274

4 Interest payable and similar charges

	2007	2006
	£000	£000
On bank loans and overdrafts	6,658	6,721
Finance charges	385	-
	7,043	6,721

5 Tax on profit on ordinary activities

(a) Analysis of charge in the year

	2007	2006
	£000	£000
United Kingdom corporation tax at 30%	200	-
Adjustments in respect of prior years	212	-
Total tax charge (note 5 (b))	412	-
Deferred taxation (note 11)	-	-
Tax on profit on ordinary activities	412	-

There is no movement on the deferred tax asset from 2006

(b) Factors affecting tax charge for the year

	2007 £000	2006 £000
Profit on ordinary activities before tax	4,480	2,246
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2006 30%)	1,343	674
Effects of		
Expenses not deductible for tax purposes	62	171
Capital allowances in excess of depreciation	(552)	695
Tax losses	(653)	(1,540)
Adjustment in respect of prior years	212	-
Tax charge for the period	412	-

6 Tangible Fixed assets

	Land and buildings £000	Plant and machinery £000	Fixtures, fittings and equipment £000	Total £000
Cost				
At 1 January 2007	100,584	8,290	11,607	120,481
Additions	1,434	136	1,937	3,507
Disposal	-	-	-	-
At 31 December 2007	102,018	8,426	13,544	123,988
Depreciation				
At 1 January 2007	6,899	3,711	8,043	18,653
Charge for the year	923	575	939	2,437
Disposals	-	-	-	-
At 31 December 2007	7,822	4,286	8,982	21,090
Net book value				
At 31 December 2007	94,196	4,140	4,562	102,898
At 31 December 2006	93,685	4,579	3,564	101,828

Included in total net book value of land and buildings is £41,091,000 (2006 £41,955,000) of long leasehold property and £4,193,000 (2006 £4,219,000) of capitalised interest (net of accumulated depreciation)

7 Stocks

	2007	2006
	£000	£000
Consumables	222	209

8 Debtors: amounts due within one year

	2007	2006
	£000	£000
Trade debtors	1,072	1,471
Amounts due from immediate parent undertaking	12,634	12,634
Amounts due from related parties (see note 16)	18	457
Prepayments and accrued income	764	441
	14,488	15,003

9 Creditors: amounts falling within one year

	2007	2006
	£000	£000
Bank loans and overdrafts	2,083	1,500
Trade creditors	596	356
Amounts due to related parties (see note 16)	605	520
Taxation and social security	559	676
Accruals and deferred income	1,638	1,744
Corporation Tax	312	
	5,793	4,796

10 Creditors: amount falling due after more than one year

	2007	2006
	£000	£000
Bank loans and overdrafts, net of unamortised costs	101,636	103,380

Bank loans are repayable as follows

	2007 £000	2006 £000
In one year or less, or on demand	2,083	1,500
In more than one year, but not more than two years	2,200	2,083
In more than two years, but not more than five years	99,436	101,297
	103,719	104,880

Bank loans are as follows

	2007 £000	2006 £000
Sterling bank loan Note 6 280%	103,719	104,880
	103,719	104,880

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

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

11 Deferred taxation asset

	2007 £000	2006 £000
Accelerated capital allowances	(6,182)	-
Short term timing differences	19	107
Losses	6,163	3,005
Valuation allowance	-	(3,112)
Total deferred tax asset	-	-

In 2007 a retrospective capital allowances claim was agreed with the HMRC, this has resulted in a reduction in the tax written down value of the assets and therefore a provision for accelerated capital allowances has been recognised in the 2007 Financial Statements

12 Called up share capital

	2007	2006
	£	£
Authorised		
100 ordinary shares of £1 each	100	100
Allotted, called up and fully paid		
50 ordinary shares of £1 each	50	50

13 Reserves

	Share premium account	Profit and loss account	Total
	£000	£000	£000
At 1 January 2007	35,000	(13,875)	21,125
Profit for the year	-	4,068	4,068
At 31 December 2007	35,000	(9,807)	25,193

14 Reconciliation of movements in shareholders' funds

	2007	2006
	£000	£000
Profit for the financial year	4,068	2,246
Opening shareholders' funds	21,125	18,879
Closing shareholders' funds	25,193	21,125

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

Up until 16th February 2007 Morgans Hotel Group Europe Limited was owned 50% by Burford Hotels Limited, whose ultimate holding company is Lehman Brothers Holdings Inc , a company incorporated in the state of Delaware in the USA

From the 16th February 2007 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 £3,242,000 (2006 £2,865,000)

SC London Limited

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

SC London Limited pays rent and recharged expenditure to Morgans Hotel Group London Limited, which totalled £3,699,000 (2006 £3,729,000)

Related party balances and transactions	**2007**	**2006**
	£000	**£000**
Debtors amounts falling within one year		
SC London Limited	-	345
Other Morgans Hotel Group companies	18	112
	18	457

	2007	**2006**
	£000	**£000**
Creditors: amounts falling within one year		
Morgans Hotel Group UK Management Limited	306	318
SC London Limited	215	97
Other Morgans Hotel Group companies	84	105
	605	520

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