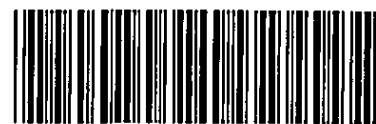


# **HOLLAND HOUSE HOTELS (CARDIFF) LIMITED**

## **ANNUAL REPORT**

**Period ended 31 December 2007**

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## COMPANY INFORMATION

Directors	Graham Stanley Graham Sidwell Marc Gilbard
Secretary	Timothy Sanderson
Registered office	Nightingale House 65 Curzon Street London W1J 8PE
Registered number	4607925
Bankers	HBOS PO Box 54873 London SW1Y 5WX
Auditors	Grant Thornton UK LLP Chartered Accountants Melton Street Euston Square London NW1 2EP

## REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the period ended 31 December 2007.

### Principal activities

The principal activity of the company is that of hoteliers.

### Results and dividends

The results for the period ended 31 December 2007 are set out in the Profit and Loss Account on page 6. A dividend of £5,000,000 has been paid during the period (period from 29 September 2006 to 26 January 2007: nil).

### Directors

The present directors of the Company are set out on page 1.

### Directors interest

None of the directors had an interest in the shares of the Company.

### Ultimate parent undertaking

The ultimate parent undertaking is MREF Hotels Limited which is registered in Jersey.

### Statement of directors' responsibilities for the Annual Report

Company law in the United Kingdom 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 have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- followed applicable United Kingdom accounting standards; and
- prepared the financial statements on the going concern basis.

The directors are responsible for keeping proper accounting records which 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.

The directors are responsible for ensuring that the directors' report and other information included in the Annual Report is prepared in accordance with Company law in the United Kingdom.

### Disclosure of Information to Auditors

At the date of making this report each of the company's directors, as set out on page 1, confirm the following:

- so far as each director is aware, there is no relevant information needed by the company's auditors in connection with preparing their report of which the company's auditors are unaware; and
- each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information.

## REPORT OF THE DIRECTORS

### Key performance indicators

Key financial performance indicators include:

- Monitoring of industry standard measures such as occupancy and average room rates against prior year and budget and against competitors.
- Monitoring of departmental revenues and profitability
- Working capital management.

Key non-financial performance indicators include:

- Monitoring of quality: the Company monitors a number of quality indicators using data from guest questionnaires and mystery guest programmes.
- Success of advertising and marketing campaigns, measured by indicators such as the number of guests making direct bookings through the Mercure website.

### Auditors

KPMG LLP resigned as auditors during the period and Grant Thornton UK LLP were appointed. The auditors, Grant Thornton UK LLP, are willing to continue in office, and a resolution to reappoint them will be proposed at the forthcoming annual general meeting.

### Approval

The report of the directors was approved by the Board on 25 June 2009 and signed on its behalf by:



Timothy Sanderson  
Secretary

## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF HOLLAND HOUSE HOTELS (CARDIFF) LIMITED

We have audited the financial statements on pages 6 to 16. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standard (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 are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 transactions with the Company 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.

### 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 judgements 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 affairs of the company as at 31 December 2007 and of its result for the period 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.

### Emphasis of matter - Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in the financial statements concerning the Company's ability to continue as a going concern.

As set out in note 1, certain of the financial covenants attaching to the senior debt of the Group of which the Company is a member have been breached post year end. The Group is currently in refinancing discussions with its lender to address both its short term working capital requirements and long term financing arrangements.

The Group continues to operate with the support of its lender and in the opinion of the directors the refinancing arrangements will be approved in due course.

The Directors have concluded that these circumstances represent a material uncertainty that casts some doubt upon the Company's ability to continue as a going concern. However, after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

*Grant Thornton UK LLP*

Grant Thornton UK LLP  
Chartered Accountants and Registered Auditors  
London, England  
25 June 2009

## PROFIT AND LOSS ACCOUNT

for the period ended 31 December 2007

	Note	Period to 31 December 2007 £'000	Period to 26 January 2007 £'000
<b>Turnover</b>	1	8,273	3,045
Cost of sales		(8,501)	(2,495)
		<hr/>	<hr/>
<b>Gross (loss)/profit</b>		(228)	550
Administrative expenses		(649)	(71)
		<hr/>	<hr/>
<b>Operating (loss)/profit</b>	2	(877)	479
Interest receivable and similar income	3	59	-
Interest payable and similar charges	4	(43)	(780)
Gain on disposal of fixed assets		-	8,001
		<hr/>	<hr/>
<b>(Loss)/Profit on ordinary activities before taxation</b>		(861)	7,700
Taxation	5	-	83
		<hr/>	<hr/>
<b>Retained (loss)/profit for the period</b>		(861)	7,783
		<hr/>	<hr/>

All activities are continuing activities.

There were no recognised gains or losses other than those shown above.

The notes on pages 8 to 16 form part of these financial statements.

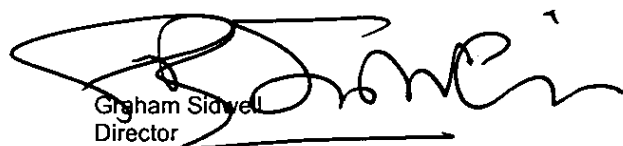


**BALANCE SHEET**

at 31 December 2007

	Note	31 December 2007 £'000	26 January 2007 £'000
<b>Fixed assets</b>			
Investments	8	-	-
Tangible assets	9	2,410	2,645
		<hr/>	<hr/>
<b>Current assets</b>			
Stocks	10	61	84
Debtors	11	6,919	34,342
Cash at bank and in hand		2,672	7
		<hr/>	<hr/>
		9,652	34,433
<b>Current liabilities</b>			
<b>Creditors:</b> Amounts falling due within one year	12	(8,252)	(28,657)
		<hr/>	<hr/>
<b>Net current assets</b>		1,400	5,776
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		3,810	8,421
<b>Creditors:</b> Amounts falling due after one year	13	(1,250)	-
		<hr/>	<hr/>
<b>Net assets</b>		2,560	8,421
		<hr/>	<hr/>
<b>Capital and reserves</b>			
Called up share capital	14	2,719	2,719
Profit and loss account	15	(159)	5,702
		<hr/>	<hr/>
<b>Equity shareholders' funds</b>	16	2,560	8,421
		<hr/>	<hr/>

The financial statements were approved by the Board on 25 June 2009 and signed on its behalf by:

  
Graham Sidwell  
Director

The notes on pages 8 to 16 form part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2007

### 1. ACCOUNTING POLICIES

#### **Basis of accounting**

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

The financial statements have been prepared on the going concern basis which the directors believe to be appropriate for the following reasons:

- The Company's future working capital requirements are dependent on the ongoing support of its parent company.
- Certain of the financial covenants attaching to the Group's senior debt (which is held in a number of entities including the Company) have been breached post year end. The Group is in discussions with its lender, a major UK clearing bank, to restructure the debt facilities. The revised financing arrangements being discussed would result in a waiver of the covenant breaches and provide increased working capital facilities to ensure that the Group can continue to operate during the current economic down turn.
- The Directors have considered the trading position and market for the Group and the cash flow forecasts for the twelve months following the date of approval of these financial statements. The Group has continued to receive support from its lender throughout the period since the covenant breach was identified and during the current refinancing discussions, and this support has included temporary increases in the existing overdraft facility as required. Furthermore, whilst capital expenditure programs have been slowed due to the current economic environment, the lender has continued to allow the Group to draw on an existing capital expenditure facility.
- Whilst there cannot be absolute certainty on the outcome of the refinancing discussions, the directors are of the opinion that the revised financing arrangements will be completed and will be sufficient to accommodate the Group's, and hence the Company's, working capital requirements for the foreseeable future.

Taking into account all information available at the time of approving these financial statements, the directors have a reasonable expectation that the Company is a going concern and therefore believe that it is appropriate to prepare the financial statements on a going concern basis.

#### **Cash flow statement**

The Company is exempt from publishing a cash flow statement because it is ultimately a wholly owned subsidiary and its cash flows are included within the consolidated cash flow statement of a parent undertaking.

#### **Fixed assets and depreciation**

Depreciation is provided to write fixed assets down to their estimated residual value by equal instalments over their estimated useful lives as follows:

Plant and equipment	10 years
---------------------	----------

#### **Turnover**

Turnover represents the invoiced value of sales excluding value added tax. All the company's turnover arises in the United Kingdom.

#### **Lease commitments**

Rentals paid under operating leases are charged against income on a straight line basis over the lease term.

#### **Stocks**

Stocks are stated at the lower of cost or net realisable value.

## NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2007

### 1. ACCOUNTING POLICIES (CONTINUED)

#### Deferred taxation

The payment of taxation is deferred or accelerated because of timing differences in the treatment of certain items for taxation and accounting purposes. Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen, but not reversed by the balance sheet date, unless such provision is not permitted by FRS 19. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

#### Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

#### Pensions

The pension costs charged in the financial statements represent the contributions payable by the company during the period to a defined contribution pension scheme.

## NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2007

### 2. OPERATING (LOSS)/ PROFIT

	Period to 31 December 2007 £'000	Period to 26 January 2007 £'000
Operating (loss)/ profit is after charging:		
Fees payable to the company's auditor:		
- for the audit of the company's annual accounts	9	-
- for other services relating to taxation	-	4
Depreciation of tangible fixed assets	243	224
Repayment / (amortisation) of government grants	-	52
Gain on the sale of fixed assets	-	8,001
Rentals under operating leases	33	-
	<hr/>	<hr/>

### 3. INTEREST RECEIVABLE AND SIMILAR INCOME

	Period to 31 December 2007 £'000	Period to 26 January 2007 £'000
Interest earned	17	-
Interest receivable from group companies	42	-
	<hr/>	<hr/>
	59	-
	<hr/>	<hr/>

### 4. INTEREST PAYABLE AND SIMILAR CHARGES

	Period to 31 December 2007 £'000	Period to 26 January 2007 £'000
Interest payable	43	680
Early redemption fee	-	100
	<hr/>	<hr/>
	43	780
	<hr/>	<hr/>

**NOTES TO THE FINANCIAL STATEMENTS**

for the period ended 31 December 2007

**5. TAXATION**

	Period to 31 December 2007 £'000	Period to 26 January 2007 £'000
<b>United Kingdom Corporation Tax</b>		
Current tax on income for the period	-	-
Adjustments in respect of prior periods	-	19
<b>Deferred taxation</b>		
Origination/reversal of timing differences	-	(102)
<b>Total taxation</b>	-	(83)
<b>Current tax reconciliation</b>		
	Period to 31 December 2007 £'000	Period to 26 January 2007 £'000
(Loss)/ profit on ordinary activities before taxation	(861)	7,700
Theoretical tax at UK corporation tax rate 30% (prior period: 30%)	(258)	2,310
Effects of:		
- expenditure that is not tax deductible / (income not taxable)	2	22
- Income not subject to tax	-	(2,400)
- accelerated capital allowances / other timing differences	256	67
- Losses carried forward	-	1
- Adjustments to tax in respect of previous periods	-	19
<b>Actual current taxation charge</b>	-	19

*Factors that may affect future tax charges*

it is anticipated that tax losses and the availability of capital allowances in excess of depreciation will reduce future tax charges.

*Deferred tax*

Potential deferred tax assets of £446k are not recognised due to the inherent uncertainty of future profits against which to offset these assets.

## NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2007

### 6. EMPLOYEES

Average monthly number of employees, including executive directors:

	Period to 31 December 2007	Period to 26 January 2007
Employees	176	154

The employees are engaged in day to day hotel operations.

Staff costs, including directors:

	Period to 31 December 2007 £'000	Period to 26 January 2007 £'000
Wages and salaries	2,380	862
Social security costs	180	60
Other pension costs	1	-
	<u>2,561</u>	<u>922</u>

### 7. DIRECTORS REMUNERATION

The Directors did not receive any remuneration from the Company in the current or the preceding period.

### 8. INVESTMENTS

At the start of the period the company held 100% of the issued share capital in Holland House Hotels (Cardiff No 2) Limited and The Lodge Cardiff Limited, both of which are hotel and leisure companies incorporated in England. During the period the company transferred its investment in these companies to MREF Hotels Holdings Limited, a related company.

**NOTES TO THE FINANCIAL STATEMENTS**

for the period ended 31 December 2007

**9. TANGIBLE ASSETS**

	Plant and Equipment £'000
<b>Cost</b>	
At 27 January 2007	4,055
Additions	8
	<hr/>
At 31 December 2007	4,063
	<hr/>
<b>Depreciation</b>	
At 27 January 2007	1,410
Charged in period	243
	<hr/>
At 31 December 2007	1,653
	<hr/>
<b>Net book value</b>	
At 31 December 2007	2,410
	<hr/>
At 26 January 2007	2,645
	<hr/>

**10. STOCKS**

	31 December 2007 £'000	26 January 2007 £'000
Food and Beverage Stocks	61	84
	<hr/>	<hr/>

In the opinion of the Directors, the replacement cost of the above stocks would not be significantly different from the values stated.

**11. DEBTORS**

	31 December 2007 £'000	26 January 2007 £'000
Trade debtors	814	734
Other debtors	332	409
Amounts due from group undertakings	5,773	33,162
Prepayments and accrued income	-	37
	<hr/>	<hr/>
	6,919	34,342
	<hr/>	<hr/>

**NOTES TO THE FINANCIAL STATEMENTS**

for the period ended 31 December 2007

**12. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

	31 December 2007 £'000	26 January 2007 £'000
Trade creditors	268	76
Other creditors	45	651
Accruals and deferred income	744	698
Amounts owed to group undertakings	6,831	26,815
Other taxes and social security	364	417
	<u>8,252</u>	<u>28,657</u>

**13. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	31 December 2007 £'000	26 January 2007 £'000
Bank Loans	1,250	-
	<u>1,250</u>	<u>-</u>

Bank loan borrowings are secured by fixed charges on group properties and floating charges on certain other group assets. Bank loans comprise variable rate debt at a margin of 140 basis points over LIBOR. The loan is repayable in full in July 2014.

On 30th March 2007 and 28 September 2007 MREF Tradeco Limited, a fellow group company, entered into interest rate swap agreements in order to hedge exposure to interest rates on bank loans until 31st March 2014. This arrangement enables the Group to manage its interest rate exposure, by swapping floating rates on borrowings into fixed rate amounts. Utilising this arrangement the company effectively obtains borrowings at a different rate to those available from borrowing directly at prevailing floating rates.

The related loans are held in fellow group companies. The cost/gain of the interest rate swap is reallocated out to the these companies in proportion to the value of the loan held within each company. The allocation received by Holland House Hotels (Cardiff) Limited for the year ended 31 December 2007 is £4,845 (period to 26 January 2007: Nil).

In the period post the balance sheet date the Group of which the Company is a member has defaulted on certain covenants attaching to the senior debt which is held in a number of entities including the Company. As set out in the basis of accounting, the Group is in discussions with its lender on a refinancing which would result in a waiver of or adjustment to these covenants.

The covenant defaults represent a non-adjusting post balance sheet event per FRS 21. As a result the related loans have been disclosed as falling due after more than one year.



## Notes To The Financial Statements

for the period ended 31 December 2007

### 14. SHARE CAPITAL

	31 December 2007 £'000	26 January 2007 £'000
<b>Authorised</b>		
294,000 "A" ordinary shares of £1 each	294	294
306,000 "B" ordinary shares of £1 each	306	306
2,400,000 "C" shares of £1 each	2,400	2,400
	<u>3,000</u>	<u>3,000</u>
<b>Authorised, issued and fully paid</b>		
156,181 "A" ordinary shares of £1 each	156	156
162,556 "B" ordinary shares of £1 each	163	163
2,400,000 "C" shares of £1 each	2,400	2,400
	<u>2,719</u>	<u>2,719</u>

The 'A' and 'B' shares rank pari passu with respect to distributions of dividends and/or capital upon winding up of the company. The 'C' shares are not entitled to participate in the profits or assets of the company save that the holders of the 'C' shares shall be entitled to receive as a distribution on a winding up of the company an amount equal to the nominal value in the 'C' shares held by them once the holders of the 'A' shares and the 'B' shares have received an amount equal to £10 million as a distribution on such winding up.

All 'A' and 'B' shares have in aggregate one vote. The 'C' shareholders are not entitled to receive any notice of or attend or vote at any general meeting of the company. The 'C' shareholders have no rights to appoint or remove directors.

### 15. RESERVES

	Profit and loss account £'000
At 27 January 2007	5,702
Dividends paid to other group entities	(5,000)
Retained loss for the period	(861)
At 31 December 2007	<u>(159)</u>

**NOTES TO THE FINANCIAL STATEMENTS**

for the period ended 31 December 2007

**16. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS**

	Period to 31 December 2007 £'000	Period to 26 January 2007 £'000
(Loss)/ profit for the period	(861)	7,783
Proceeds from the issue of ordinary shares	-	2,400
Dividends paid to other group entities	(5,000)	-
Net (reduction)/ addition to shareholders' funds	(5,861)	10,183
Opening shareholders' funds/ (deficit)	8,421	(1,762)
Closing shareholders' funds	2,560	8,421

**17. OPERATING LEASE COMMITMENTS**

The payments which the company is committed to make in the next year under operating leases are as follows:

	31 December 2007 £'000	26 January 2007 £'000
Plant and machinery, leases expiring:		
within one year	-	-
one to five years	-	-
beyond five years	33	-
	33	-

**18. ULTIMATE PARENT UNDERTAKING**

The ultimate parent undertaking is MREF Hotels Limited which is registered in Jersey.

**19. RELATED PARTY TRANSACTIONS**

During the period the company paid management fees of £108,000 to Moorfield Investment Management Limited. Moorfield Investment Management Limited is a related party as it has the same ultimate parent as the general partner of Moorfield Real Estate Fund A Limited Partnership and Moorfield Real Estate Fund B Limited Partnership, who between them hold 100 percent of the share capital of MREF Hotels Limited.

The Company has not disclosed related party transactions with fellow subsidiary undertakings as the ultimate controlling parties prepare consolidated financial statements which are publicly available.