Registered number: 4607925

Holland House Hotels (Cardiff) Limited

Annual Report and Financial Statements

for the year ended 31 December 2010

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Annual report and financial statements for the year ended 31 December 2010

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Holland House Hotels (Cardiff) Limited

Directors and advisers

Directors

Graham Stanley
Graham Sidwell
Marc Gilbard

Company secretary

Timothy Sanderson

Registered office

Nightingale House
65 Curzon Street
London
W1J 8PE

Bankers

Bank of Scotland
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Edinburgh
EH1 1YZ

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
1 Embankment Place
London
WC2N 6RH

Directors' report for the year ended 31 December 2010

The directors present their report and the audited financial statements for the year ended 31 December 2010

Principal activity

The company's principal activity is that of an hotelier

Business review

The Company operates 2 mid-market hotels in central Cardiff which are branded as Mercure and operated under a management contract by Accor The hotels are all 3 and 4 star rated and offer a range of facilities catering to both the corporate and leisure markets The Company pays rent to fellow subsidiary companies (which own the freehold interests in respect of each of the 2hotels)

2010 remained a challenging year for the hotel industry (which historically tracks the wider economy) Corporate demand remained subdued (whether rooms or meetings and events) as travel and training budgets remained under pressure Consumer confidence remains low although the portfolio benefited to some extent from ongoing sterling weakness and "staycations" and, in certain locations, strong demand from overseas visitors

Total turnover declined by 8% to £6 8 million An ongoing focus on cost control mitigated the impact of revenue declines with operating profit (excluding rents paid to fellow subsidiary companies) decreasing from £1 5 million to £1 3 million

As previously reported, the Group of which the Company is a part (the group headed by MREF Hotels Limited) completed a refinancing on 13 July 2010 and the key features of the revised financing structure include

- A reduction in the level of senior debt, drawn capital expenditure debt and overdraft debt in exchange for an agreed profit share on the ultimate sale or refinancing of the portfolio,
- Committed total investment of £40m from our lender and new investors,
- The cancellation of a portion of old interest rate swap contracts and entering into new contracts resulting in a significant reduction in annual interest costs, and
- £20m available as at 31 December 2010 to invest in capital expenditure programs

The refinancing strengthens the Group's balance sheet and puts it on a sound financial footing to trade through the ongoing challenging economy and to invest in projects such as extensions and major refurbishment projects

Principal risks and uncertainties

Like all of its competitors, the Company is exposed to the economic conditions, both in the local economy and also across the European and World markets, which can reduce both leisure and business spending The Company's hotels are geographically spread across the UK, and comprise a mix of business, leisure, conference and other events, which help spread this risk Also, the partnership with Accor, who manage the hotel operations on behalf of the Company, means that the Company benefits from the strength of their international marketing and branding power

Directors' report for the year ended 31 December 2010 (continued)

Principal risks and uncertainties (continued)

There are a number of operational risks which could affect the Company, including the reservation and other information systems which are critical for the smooth running of the business Again, the internal control

structure that Accor have in place, including disaster recovery plans, debtor and credit control management, along with the investment made in staff training help to mitigate such operational risks

The Company has responsibilities under its rental leases which necessitate investment by way of preventative maintenance This focus on the quality of the hotel portfolio, allied to an ongoing focus on the cost base of the Company, also helps to reduce the impact of rival products in the markets where the hotels operate

Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of changes in liquidity risk and interest rate risk

Liquidity risk

The Company's short and long-term debt structure is designed to ensure that the Company has sufficient available funds for operations and planned expansion

Interest rate risk

The Company has both interest bearing assets and interest bearing liabilities Interest bearing assets include only cash balances, which earn interest at floating rates Interest bearing liabilities relate to bank loans The Company uses interest rate derivatives to manage its exposure to interest rate fluctuations

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

Results

The company's loss for the financial year is £1,184,000 (2009 £664,000)

Directors' report for the year ended 31 December 2010 (continued)

Directors

The directors who held office during the year and up to the date of signing the financial statements are given below

Graham Stanley
Graham Sidwell
Marc Gilbard

Going concern

These financial statements have been prepared on a going concern basis as the company's parent undertaking, MREF Hotels Limited has indicated its willingness to provide financial support to the company for a period of at least 12 months from the date these financial statements were approved

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 prepared 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, and
- 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

Directors' report for the year ended 31 December 2010 (continued)

Statement of disclosure of information to auditors

So far as each of the directors in office at the date of approval of these financial statements is aware

- there is no relevant audit information of which the company's auditors are unaware, and
- they have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

By order of the Board

Timothy Sanderson
Company secretary 26/9/2011

Independent auditors' report to the members of Holland House Hotels (Cardiff) Limited

We have audited the financial statements of Holland House Hotels (Cardiff) Limited for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Balance Sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement 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

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its 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 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 auditors' report to the members of Holland House Hotels (Cardiff) 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

Jonathan Hook (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
29 September 2011

Profit and loss account for the year ended 31 December 2010

	Notes	2010 £'000	2009 £'000
Turnover	2	**6,847**	7,450
Cost of sales		**(6,235)**	(6,419)
Gross profit		**612**	1,031
Administrative expenses		**(1,336)**	(1,556)
Operating loss	3	**(724)**	(525)
Interest receivable and similar income		**0**	228
Interest payable and similar charges	6	**(460)**	(367)
Loss on ordinary activities before taxation		**(1,184)**	(664)
Tax on loss on ordinary activities	7	**0**	0
Loss for the financial year	15	**(1,184)**	(664)

All amounts above relate to continuing operations of the company

The company has no recognised gains and losses other than those included in the results above, and therefore no separate statement of total recognised gains and losses has been presented

There is no material difference between the loss on ordinary activities before taxation and the loss for the financial period stated above, and their historical cost equivalents

Balance sheet as at 31 December 2010

	Notes	2010 £'000	2009 £'000
Fixed assets			
Tangible assets	8	**1,760**	1,903
Current assets			
Stocks	9	**32**	28
Debtors	10	**13,743**	11,533
Cash at bank and in hand		**216**	1,500
		13,991	13,061
Creditors: amounts falling due within one year	11	**(14,750)**	(14,108)
Net current liabilities		**(759)**	(1,047)
Total assets less current liabilities		**1,001**	856
Creditors: amounts falling due after more than one year	12	**(1,329)**	0
Net (liabilities)/assets		**(328)**	856
Capital and reserves			
Called up share capital	14	**2,719**	2,719
Profit and loss account	15	**(3,047)**	(1,863)
Total shareholders' (deficit)/funds	16	**(328)**	856

The financial statements on pages 8 to 17 were approved by the board of directors on 26 09 11
and were signed on its behalf by

Graham Sidwell
Director

Notes to the financial statements for the year ended 31 December 2010

1 Accounting policies

The financial statements have been prepared on the going concern basis under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom The principle accounting policies, which have been applied consistently throughout the year are set out below

Going concern

These financial statements have been prepared on a going concern basis as the company's parent undertaking MREF Hotels Limited has indicated its willingness to provide financial support to the company for a period of at least 12 months from the date these financial statements were approved

Cash flow statement

The company is a wholly – owned subsidiary of MREF Hotels Limited, the company's ultimate parent undertaking The company is included in the consolidated financial statements of MREF Hotels Limited, which are publically available Consequently the company has taken advantage of the exemption from preparing a cash flow statement contained in FRS 1 "Cash flow statements"

Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned The principal annual rates used are as follows

Plant and equipment	10%

Stocks

Stocks are stated at the lower of cost or net realisable value Cost is determined using the first in first out method Cost comprises of the purchase cost of goods Provision is made for slow moving and obsolete stock

Leased assets

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a "finance lease" The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful economic life or the term of the lease, whichever is shorter Future instalments under such leases, net of finance charges, are included within creditors Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments

Rentals under operating leases are charged to the profit and loss account as incurred

Debtors

Debtors are stated after all known bad debts have been written off and specific provision has been made against all debts considered doubtful of collection

Notes to the financial statements for the year ended 31 December 2010

1 Accounting policies (continued)

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date A net deferred tax asset is recognised as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date Deferred tax is measured on an undiscounted basis

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 company operates a defined contribution for specific employees The cost of funding the defined contribution scheme is charged to the profit and loss account as incurred

Turnover

Turnover represents the invoiced value of sales excluding value added tax Revenue is recognised upon customer receipt

2 Turnover

Turnover relates to the company's main activity which is carried out in the United Kingdom

Notes to the financial statements for the year ended 31 December 2010

3 Operating loss

	2010 £'000	2009 £'000
Operating loss is stated after charging:		
Staff costs (note 4)	**1,707**	1,715
Depreciation of tangible fixed assets		
- owned assets	**271**	265
- assets held under finance lease agreements	**4**	0
Operating lease charges		
- land and buildings	**1,976**	1,976
- plant and machinery	**6**	4

Audit fees were borne by a related entity

4 Employee information

	2010 £'000	2009 £'000
Staff costs		
Wages and salaries	**1,586**	1,591
Social security costs	**119**	116
Other pension costs	**2**	8
	1,707	1,715

	2010 Number	2009 Number
The average monthly number of full time equivalents employed by the group (excluding executive directors) during the year by activity was:		
Hotel operations	**96**	96

5 Directors' emoluments

There were no emoluments paid to the director by the company during the year (2009 £nil) There were no retirement benefits accruing to the directors (2009 £nil)

Notes to the financial statements for the year ended 31 December 2010

6 Interest payable and similar charges

	2010	2009
	£'000	£'000
Interest payable on bank loans	171	184
Interest payable to group companies	285	183
Interest payable on finance lease agreements	4	0
	460	367

7 Tax on loss on ordinary activities

	2010	2009
	£'000	£'000
Current tax:		
UK Corporation Tax on losses for the year at 28% (2009 28%)	0	0
Total current tax	0	0
Tax on loss on ordinary activities	0	0

The tax assessed for the period differs from the standard rate of Corporation Tax in the UK of 28% (2009 28%) The differences are explained below

	2010	2009
	£'000	£'000
Loss on ordinary activities before taxation	(1,184)	(664)
Loss on ordinary activities multiplied by standard rate in the UK 28% (2009 28%)	(332)	(186)
Effects of		
Accelerated capital allowances and other timing differences	332	74
Expenditure that is not tax deductible	0	2
Group relief surrendered	0	110
Current tax charge for the year	0	0

Factors affecting future tax charges·

The company has tax losses of approximately £6,941,000 (2009 £5,207,00) available for carry forward and offset against future taxable profits arising from the same trade The company has a potential deferred tax asset of £1,874,000 (2009 £1,458,000) which has not been recognised in these financial statements as its future recovery is uncertain This potential deferred tax asset will be recognised when it can be regarded as more likely than not that there will be sufficient taxable profits from which the tax losses can be deducted

The Finance (No 2) Act 2010 reduced the main rate of corporation tax from 28 per cent to 27 per cent from 1 April 2011 On 23 March 2011, the Chancellor announced a further reduction of 1 per cent to 26 per cent in the rate of corporation tax from 1 April 2011 and legislation is included in the Finance Bill 2011 to reduce the main rate of corporation tax to 25 per cent from 1 April 2012 Further reductions in the rate by 1 per cent per annum to 23 per cent by 1 April 2014 have also been announced Other than the reduction to 27 per cent, the changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements

Notes to the financial statements for the year ended 31 December 2010

8 Tangible assets

	Plant and equipment £'000
Cost	
At 1 January 2010	4,087
Additions	132
At 31 December 2010	**4,219**
Accumulated depreciation	
At 1 January 2010	2,184
Charge for the year	275
At 31 December 2010	**2,459**
Net book amount	
At 31 December 2010	**1,760**
At 31 December 2009	1,903

The net book amount of plant and equipment includes £84,974 (2009 £nil) in respect of assets held under finance lease agreements

9 Stock

	2010 £'000	2009 £'000
Food and beverage stocks	**32**	28

10 Debtors

	2010 £'000	2009 £'000
Trade debtors	**479**	398
Amounts owed by group undertakings	**13,133**	10,982
Other debtors	**131**	153
	13,743	11,533

Amounts owed by group undertakings are subject to interest at 2% above the Bank of England base rate and are unsecured and repayable on demand

Notes to the financial statements for the year ended 31 December 2010

11 Creditors: amounts falling due within one year

	2010 £'000	2009 £'000
Bank loans (note 13)	0	1,254
Trade creditors	200	189
Amounts owed to group undertakings	14,196	11,751
Obligations under finance lease agreements (note 13)	9	0
Other tax and social security	0	232
Other creditors	108	139
Accruals and deferred income	237	543
	14,750	14,108

Amounts owed to group undertakings are subject to interest at 2% above the Bank of England base rate and are unsecured and repayable on demand

12 Creditors: amounts falling due after more than one year

	2010 £'000	2009 £'000
Bank loans (note 13)	1,251	0
Obligations under finance lease agreements (note 13)	78	0
	1,329	0

Bank loan borrowings, with a maturity date of August 2014, are secured by fixed charges on group properties and floating charges on certain other group assets As at 31 December 2010 bank loans comprised variable rate debt at a margin of 150 basis points over LIBOR

MREF Tradeco Limited, a fellow group company, has entered into an interest rate swap agreement in order to hedge exposure to interest rates on bank loans until 4 August 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 these companies in proportion to the value of the loan held within each company The amount allocated to Holland House Hotels (Cardiff) Limited for the year ended 31 December 2010 is £51,247 cost (2009 £3,395 cost)

Notes to the financial statements for the year ended 31 December 2010

13 Loans and other borrowings

	2010 £'000	2009 £'000
Bank loans	**1,251**	1,254
Obligations under finance lease agreements	**87**	0
	1,338	1,254
Maturity of financial liabilities:		
In one year or less, or on demand	**9**	1,254
In more than one year, but not more than two years	**11**	0
In more than two years, but not more than five years	**1,281**	0
In more than five years	**37**	0
	1,338	1,254

	2010 £'000	2009 £'000
Future minimum payments under hire purchase and finance lease agreements:		
Within one year	**9**	0
In more than one year, but not more than five years	**41**	0
After five years	**37**	0
	87	0

14 Called up share capital

	2010 £'000	2009 £'000
Allotted and fully paid		
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
	2,719	2,719

15 Profit and loss account

	£'000
At 1 January 2010	(1,863)
Loss for the financial year	(1,184)
At 31 December 2010	**(3,047)**

Notes to the financial statements for the year ended 31 December 2010

16 Reconciliation of movements in shareholders' funds

	2010 £'000	2009 £'000
Loss for the financial year	**(1,184)**	(664)
Opening shareholders' funds	**856**	1,520
Closing shareholders' (deficit)/funds	**(328)**	856

17 Financial commitments

At 31 December the company had annual commitments under non-cancellable operating leases expiring as follows

	Plant and machinery 2010 £'000	Plant and machinery 2009 £'000	**Land and buildings 2010 £'000**	Land and buildings 2009 £'000
Within one year	**3**	4	**0**	**0**
Within two to five years	**2**	0	**0**	**0**
After five years	**0**	0	**1,976**	**1,976**
	5	4	**1,976**	**1,976**

18 Related party transactions and ultimate controlling party

The company's ultimate controlling parties are Moorfield Real Estate Fund A Limited Partnership and Moorfield Real Estate Fund B Limited Partnership

The company has taken advantage of the exemptions contained in FRS 8 "Related Party Transactions" not to disclose transactions with related parties as all of the voting rights of the company are controlled within the group

19 Ultimate parent undertaking

The company's immediate parent undertaking is MREF Hotels Holdings Limited, a company registered in Jersey

The company's ultimate parent undertaking is MREF Hotels Limited, a company incorporated in Jersey

The smallest and largest group of undertakings for which group accounts are drawn up and of which the company is a member is MREF Hotels Limited, a company incorporated in Jersey