HHR PICCADILLY LTD

(REGISTERED NUMBER: SC 074783)

DIRECTORS' REPORT
AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2012

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DIRECTORS' REPORT

The Directors present their annual report and audited financial statements for HHR Piccadilly Limited ("the Company") for the year ended 31 December 2012.

BUSINESS REVIEW, PRINCIPAL ACTIVITIES AND FUTURE DEVELOPMENTS

The Company operates the prestigious Le Méridien Piccadilly hotel in London. The business experienced another year of good recovery, partly driven by significant events in London like the Olympics. Sales were up 5%, mainly driven by large improvements in conferencing and banqueting business and rate improvement. Gross profit margin considerably improved as a result of the higher average rate and improvement in food and beverage operations. The hotel continues to benefit from its location in the heart of London's West End, making it an ideal location for business and leisure travellers alike.

The Company faces a number of challenges and opportunities in 2013, with the UK economy still slowly moving and the London hotel market supply growing faster than demand. However, we expect our food and beverage business to improve over last year, which will help improve the operating margins. The Directors and management of the Company actively have taken steps to mitigate the financial impact of these challenges, the biggest step of which is to continue to invest in our guestroom product and food & beverage operation.

KEY PERFORMANCE INDICATORS

The three key operating indicators on which the hotel is assessed monthly against other hotels within its competitive set (similarly rated hotels in London) include occupancy percentage, average room rate and revenues per available room. As compared to its competitive set, in 2012 Le Méridien Piccadilly was 4.9% lower in average rate, 8.3% higher in occupancy and 3% higher in revenue per available room, making its performance superior within its competitive set.

FINANCIAL RISK MANAGEMENT

The Company's operations expose it to a variety of risks, including exchange and interest rate fluctuations. The Company maintains a comprehensive financial risk management program, including, among others, market risk analysis, monitoring of receivables, and liquidity and cash flow analysis. In addition, the Company uses interest rate swaps in order to manage its exposure to movements of interest rates on its bank borrowing.

RESULTS AND DIVIDENDS

The net profit for the year was £942,000 (2011: profit of £668,000). The Directors do not recommend the payment of a dividend (2011: £ nil).

DIRECTORS

The Directors who held office during the year, and subsequently, are as follows:

Jeffrey S. Clark
Larry K. Harvey

DIRECTORS' REPORT (CONTINUED)

GOING CONCERN

Although the Company has a negative equity position as at 31 December 2012, including the maturity of the bank loan of £40 million payable on 20th October 2017, the Directors believe that it is appropriate for the financial statements to be prepared on a going concern basis. This belief is based on (1) the Company generating sufficient cash flow to meet its obligations, (2) the new loan maturity being October 2017, and (3) the independent hotel lease valuation carried out in 2012 being significantly greater than the net book value of the fixed assets disclosed in Note 7 to the accounts. A positive equity position would have resulted if the Company had recorded its fixed assets at an amount equal to the 2012 independent hotel lease valuation.

POLITICAL AND CHARITABLE CONTRIBUTIONS

The Company made no charitable or political contributions during the year (2011: nil).

DISABLED EMPLOYEES

The Company's policy and practice is to encourage employment applications from all sectors of the community, including people with disabilities, and to support and assist retention through training, development and career progression.

CREDITOR PAYMENT POLICY

The Company's policy and practice regarding the payment of creditors is to pay in accordance with the agreed supplier terms, provided that the relevant invoice is presented in a timely fashion and is completed. It is the Company's ongoing policy to settle the terms of payments with those suppliers when agreeing the terms of each transaction.

AUDITORS AND DISCLOSURE OF INFORMATION TO AUDITORS

In the case of each of the persons who are Directors at the time the report is approved under section 418, the following applies:

- So far as the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and
- The Directors have taken all the steps that ought to have been taken in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Pursuant to section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board

Jeffrey S. Clark
Director

Date: 9/5/2013

C/o Edzell Group
1008 Pollokshaws Road
Glasgow G41 2HG

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. Pursuant to that law, they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 its profit or loss for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgments and 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

AUDITOR'S REPORT TO THE MEMBER OF HHR PICCADILLY LIMITED

We have audited the financial statements of HHR Piccadilly Limited for the year ended 31 December 2012 set out on pages 5 to 17. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice). This report is made solely to the Company's member, 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 member those matters we are required to state thereto 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 its members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2012 and of its profit for the year then ended;
- have been prepared properly in accordance with UK 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.

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.

T.J. Rush

Timothy Rush (Senior Statutory Auditor)
For and on behalf of KMPG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square, Canary Wharf
London E14 5GL
Date: 10th May 2013

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2012

	NOTE	YEAR ENDED 31 DECEMBER 2012 £'000	YEAR ENDED 31 DECEMBER 2011 £'000
Turnover	2	24,572	23,340
Cost of sales		(6,313)	(6,229)
GROSS PROFIT		18,259	17,111
Administrative expenses		(15,277)	(14,676)
Selling and distribution costs		(501)	(484)
OPERATING PROFIT	3	2,481	1,951
Interest receivable and similar income	4	16	7
Interest payable and similar charges	4	(1,173)	(1,109)
PROFIT BEFORE TAX		1,324	849
Tax Expense	6	(382)	(181)
PROFIT FOR THE YEAR		942	668

The notes on pages 7 to 17 form part of the annual financial statements.

The profit for the current year and the profit for the prior year arise from continuing activities.

There is no difference between the profit reported above and the historical cost results.

The Company has no recognised gains or losses in the year or in the prior year other than the profits and losses as reported above and therefore no separate statement of recognised gains and losses has been presented.

BALANCE SHEET
AT 31 DECEMBER 2012

	NOTE	31 DECEMBER 2012 £'000	31 DECEMBER 2011 £'000
FIXED ASSETS			
Tangible assets	7	16,531	17,482
CURRENT ASSETS			
Stocks	8	45	41
Deferred tax asset	6	10	27
Debtors	9	3,822	2,579
Cash		5,592	4,530
		9,469	7,177
CREDITORS – AMOUNTS FALLING DUE WITHIN 1 YEAR	10	(9,274)	(8,937)
NET CURRENT ASSETS		195	(1,760)
TOTAL ASSETS LESS CURRENT LIABILITIES		16,726	15,722
NON-CURRENT LIABILITIES			
Creditors – amounts falling due after more than 1 year	11	(39,800)	(39,738)
Provision for liabilities	12	(60)	(60)
		(39,860)	(39,798)
NET LIABILITIES		(23,134)	(24,076)
CAPITAL AND RESERVES			
Called up share capital	13,14	9,189	9,189
Profit and loss account	14	(32,323)	(33,265)
TOTAL SHAREHOLDERS' DEFICIT		(23,134)	(24,076)

The notes on pages 7 to 17 form part of these financial statements.

These financial statements were approved by the Board of Directors and signed on their behalf by:

Jeffrey S. Clark
Jeffrey S. Clark Date: 9/5/2013
Director

NOTES TO THE FINANCIAL STATEMENTS

1 STATEMENT OF ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

BASIS OF PREPARATION

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom accounting standards.

GOING CONCERN

Although the Company has a negative equity position as at 31 December 2012, including the bank loan of £40 million with a maturity date on 20th October 2017, the Directors believe that it is appropriate for the financial statements to be prepared on a going concern basis. This belief is based on the fact that the Company is generating sufficient cash flow to meet its obligations and that the independent hotel lease valuation carried out in 2012 was in an amount significantly greater than the net book value of the fixed assets disclosed in Note 7 to the accounts. A positive equity position would have resulted if the Company had recorded its fixed assets at an amount equal to the 2012 independent hotel lease valuation.

CASH FLOW STATEMENT

Under FRS 1, *Cash Flow Statements* (revised), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that its ultimate parent company includes the Company's cash flows in its own published consolidated financial statements.

TURNOVER

Turnover represents sales to customers at invoiced amount less VAT.

The revenue from sales of services represents the rental income from rooms and conference facilities and is recognised when rooms are occupied and services have been rendered. Cash received for services occurring in the future is included in other payables.

The revenue from sale of goods represents the sales of food and beverages and is recognised at the time of sale.

TANGIBLE FIXED ASSETS

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 economic lives as follows:

Leasehold improvements	Equal annual instalments over 40 years
Plant and machinery	6-10% per annum
Furniture, fixtures and equipment	6-33% per annum

Repairs and maintenance are charged to the profit and loss account during the year in which they are incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

STOCKS

Stocks are valued at the lower of cost and net realisable value.

DEFERRED TAXATION

Deferred tax is recognised in full (without discounting) on all timing differences where the transactions or events that give the Company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

FOREIGN CURRENCY

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

LEASES

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the term of the lease.

PENSION COSTS

The Company operates a stakeholder pension scheme. The amount charged to the profit and loss account represents the contribution payable to the scheme in respect of the accounting period.

INTEREST RATE SWAPS

The Company's criteria for interest rate swaps include that:

- the instrument must be related to an asset or a liability; and
- it must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa.

Interest differentials are recognised within net interest payable. Interest rate swaps are not revalued to fair value or shown on the balance sheet at the year end. If they are terminated early, the gain or loss is spread over the remaining maturity of the original instrument.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

STATEMENT OF ACCOUNTING POLICIES (CONTINUED)

FINANCIAL ASSETS AND LIABILITIES

The Company classifies its financial assets and liabilities in the following categories: trade debtors, other financial assets, including interest rate swaps, trade creditors and loan – refinanced debt. Financial assets initially are recognised at fair value and are not revalued at fair value at year end. The transaction costs are capitalised.

RELATED PARTY TRANSACTIONS

As a wholly owned subsidiary of HHR Euro C.V., the Company has taken advantage of the exemption in FRS 8, *Related Party Disclosures*, and has therefore not disclosed transactions or balances with entities which form part of the group.

2 TURNOVER AND RESULT

The Company has a single class of business (hotel operations) and operates in a single geographical region, the United Kingdom.

3 OPERATING PROFIT

	YEAR ENDED 31 DECEMBER 2012 £'000	YEAR ENDED 31 DECEMBER 2011 £'000
OPERATING PROFIT IS STATED AFTER (CHARGING):		
Staff costs (note 5)	(5,546)	(5,386)
Depreciation on owned assets	(1,639)	(1,456)
Auditor's remuneration		
- audit services	(39)	(34)
Operating lease rentals		
- property rent payable	(4,097)	(3,929)
- office equipment	(11)	(11)
- other equipment	(72)	(72)

4 Interest receivable and similar income / Interest payable and similar charges

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Interest receivable and similar income	16	7
Interest receivable and similar income	16	7
Interest payable and similar charges	(1,194)	(1,044)
Foreign exchange gains	21	(65)
Interest payable and similar charges	(1,173)	(1,109)

5 Employees

The average number of employees, including Directors, during the year was as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
Office and management	28	29
Hotel operating staff	183	183
	211	212

	Year ended 31 December 2012 £'000	Year ended 31 December 2011 £'000
Wages and salaries	(5,090)	(4,994)
Social security costs	(380)	(332)
Other pension costs (note 16)	(76)	(60)
	(5,546)	(5,386)

Directors' Emoluments

The Directors did not receive any emoluments in respect of their services to the Company (2011: nil).

6 Taxation

	YEAR ENDED 31 DECEMBER 2012 £'000	YEAR ENDED DECEMBER 2011 £'000
(a) Analysis of tax charge in year		
Current Tax:		
UK Corporation tax at 24.5% (2011: 26.5%)	365	0
Total Current Tax Expense (note 6(b))	365	0
Deferred tax:		
Origination and reversal of timing differences (note 6(d))	17	181
Total Tax Expense	382	181

(b) Factors affecting current tax charge

The weighted average standard rate of corporation tax for 2012 is 24.5%. A reduction in the tax rate from 26% to 25% (effective from 1 April 2012) was substantially enacted on 5 July 2011 and a further reduction to 24% (effective from 1 April 2012) was substantially enacted on 26 March 2012.

	YEAR ENDED 31 DECEMBER 2012 £'000	YEAR ENDED DECEMBER 2011 £'000
Profit on ordinary activities before taxation	1,324	849
Tax on ordinary activities at the standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	325	225
Effects of:		
Net operation loss utilization	(34)	(181)
Depreciation less than capital allowances	(38)	(44)
Expenses not deductible for tax purposes (depreciation)	112	0
Total current tax expense (note 6(a))	365	0

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

(c) Factors affecting the tax charges:

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 21% by 2014. A reduction in the tax rate from 26% to 25% (effective from 1 April 2012) was substantially enacted on 5 July 2011 and a further reduction to 24% and then to 23% (effective from 1 April 2012 and 2013 respectively) was substantially enacted on 26 March 2012. This rate reduction will reduce the Company's future current charge accordingly and will further reduce the deferred tax asset of 31 December 2012 (which deferred tax asset has been based on a rate of 23% substantially enacted at balance sheet date taking effect 1 April 2013). It is not possible to quantify the full anticipated effect of the announced further 2% reduction, although this reduction will further reduce the Company's future current tax charge and reduce its deferred assets accordingly.

(d) Deferred tax asset/(liability)

The movements in deferred tax assets and liabilities were as follows:

	YEAR ENDED 31 DECEMBER 2012 £'000	**YEAR ENDED DECEMBER 2011 £'000**
At 1 January	27	208
Reversal of timing differences	(72)	(181)
Adjustments in respect to prior years	55	0
At 31 December 2012	10	27

The elements of deferred tax assets and liabilities are as follows:

	YEAR ENDED 31 DECEMBER 2012 £'000	**YEAR ENDED DECEMBER 2011 £'000**
Capital allowances less than depreciation	10	27
At 31 December 2012	10	27

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

7. TANGIBLE ASSETS

	LEASEHOLD IMPROVEMENTS	PLANT AND MACHINERY	FURNITURE, FITTINGS AND EQUIPMENT	CONSTRUCTION IN PROGRESS	TOTAL
	£'000	£'000	£'000	£'000	£'000
COST					
As at 1 January 2012	12,206	6,594	6,639	-	25,439
Additions	-	111	443	133	687
Disposals	-	(38)	(213)		(251)
As at 31 December 2012	12,206	6,667	6,869	133	25,875
ACCUMULATED DEPRECIATION					
As at 1 January 2012	3,747	1,755	2,454	-	7,956
Depreciation charge for the year	249	520	870	-	1,639
Disposals	-	(38)	(213)	-	(251)
As at 31 December 2012	3,996	2,237	3,111	-	9,344
NET BOOK VALUE					
At 31 December 2011	8,458	4,839	4,185	-	17,482
At 31 December 2012	8,210	4,430	3,758	133	16,531

Disposals primarily represent fully depreciated assets which no longer are in use by the hotel.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

8 STOCKS

	31 DECEMBER 2012 £'000	31 DECEMBER 2011 £'000
Consumable items in store	45	41
	45	41

9 DEBTORS

	31 DECEMBER 2012 £'000	31 DECEMBER 2011 £'000
Trade debtors	1,168	934
Other debtors and accrued income	516	756
Prepayments	2,138	889
	3,822	2,579

10 CREDITORS – AMOUNTS FALLING DUE WITHIN 1 YEAR

	31 DECEMBER 2012 £'000	31 DECEMBER 2011 £'000
Amounts owed to other group undertakings	(7,257)	(6,490)
Loan – refinanced debt (note 11)	(200)	(753)
Accruals and deferred income	(1,198)	(1,282)
Other taxation and social security	(206)	(218)
Other creditors	(88)	(125)
Trade creditors	(325)	(69)
	(9,274)	(8,937)

The amounts owed to other group undertakings are unsecured, interest free and have no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN 1 YEAR

	31 DECEMBER 2012 £'000	31 DECEMBER 2011 £'000
Loan – refinanced debt		
Amounts falling due within 1 year	(200)	(753)
Amounts falling due after more than 1 year	(39,800)	(39,739)
	(40,000)	(40,492)

The bank loan is repayable as follows:

	31 DECEMBER 2012 £'000	31 DECEMBER 2011 £'000
Within one year	(200)	(753)
In the second year	(800)	(39,739)
In the third year	(800)	
In the fourth year	(800)	
In the fifth year	(37,400)	-
	(40,000)	(40,492)

Upon entering into the new loan in October 2012, the Company entered into a new interest rate swap agreement.

TOTAL DEBT £'000	AMOUNT COVERED BY SWAPS £'000
40,000	26,000 (20 October 2012 to 20 October 2013)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

12 PROVISION FOR LIABILITIES

	PROVISION FOR DILAPIDATION £'000
At 1 January 2012	(60)
Provision released	-
At 31 December 2012	(60)

13 CALLED UP SHARE CAPITAL

	31 DECEMBER 2012 £'000	31 DECEMBER 2011 £'000
ISSUED, ALLOTTED AND FULLY PAID		
9,177 ordinary shares of £1 each	9	9
9,180,000 deferred shares of £1 each	9,180	9,180
	9,189	**9,189**

Only ordinary shareholders hold the right to dividends and the right to vote in general meetings. On a winding up, ordinary shareholders take preference over deferred shareholders.

14 RESERVES RECONCILIATION

	PROFIT AND LOSS ACCOUNT £'000
At 1 January 2012	(33,265)
Profit for the year	942
At 31 December 2012	(32,323)

15 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' DEFICIT

	31 DECEMBER 2012 £'000	31 DECEMBER 2011 £'000
Opening shareholders' deficit	(24,076)	(24,744)
Profit for the year	942	668
Closing shareholders' deficit	(23,134)	(24,076)

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

16 PENSIONS

The Company operates a stakeholder pension scheme. The pension cost charge represents contributions payable by the Company to the stakeholder fund and amounted to £76,000 (2011: £60,000).

17 COMMITMENTS UNDER OPERATING LEASES

As at 31 December 2012, the Company had annual commitments under non-cancellable operating leases expiring as set out below:

	31 DECEMBER 2012		31 DECEMBER 2011	
	LAND AND BUILDINGS £'000	PLANT AND MACHINERY £'000	LAND AND BUILDINGS £'000	PLANT AND MACHINERY £'000
Operating leases which expire:				
Within one year	-	30	-	83
In two to five years	-	-	-	30
After five years	4,895	-	4,381	-
	4,895	30	4,381	113

The total estimated lease rental payable in 2013 is £4,895,000, while the total amount committed in years 2-5 is £19,580,000.

18 ULTIMATE HOLDING COMPANY

The immediate parent undertaking is HHR UK II B.V., a company incorporated and registered in the Netherlands.

The Directors regard HHR Euro C.V., a dutch limited partnership, as the ultimate controlling party and ultimate parent entity. HHR Piccadilly Ltd. is consolidated in the accounts of HHR Euro C.V. The address from which copies of the parent company's accounts can be obtained is as follows:

HHR Euro C.V.

Prins Bernhardplein 200

1097 JB Amsterdam

The Netherlands