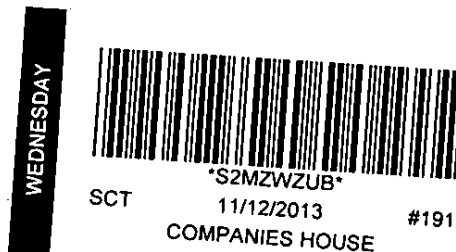


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Annual Report and Financial Statements Stardon (Brighton West Pier) Limited

For the Year Ended 31 December 2012



Registered Number: SC281949

Stardon (Brighton West Pier) Limited

Company Information

Company number	SC281949
Registered office	Holiday Inn East Kilbride Stewartfield Way Glasgow Lanarkshire G74 4LA
Directors	Mr J G Dishner Miss S Broughton Mr J C Bradshaw
Secretary	Mr J Lamb (appointed 1 December 2012) Mr. A Armstrong (resigned 1 December 2012)
Bankers	Bank of Scotland plc The Mound Edinburgh EH1 1YZ Royal Bank of Scotland Corporate Banking Kirkstane House 139 St Vincent Street Glasgow G2 5JF
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 141 Bothwell Street Glasgow G2 7EQ

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Directors' Report

For the Year Ended 31 December 2012

The directors present their report and the audited financial statements for the year ended 31 December 2012.

Principal activities

The company was incorporated in Scotland on 21 March 2005 and was a fully owned subsidiary of Stardon Investments (Brighton West Pier) S.à.r.l. until a restructuring at the end of 2008, when it became a fully owned subsidiary of Stardon Capital Investments S.à.r.l. From the date of incorporation the principal activity of the company has been the operation of the hotel trading as the Holiday Inn Brighton – Seafront, 137 Kings Road, Brighton, BN1 2JF. The company forms part of a group of companies ultimately owned by SOF-VI International Holding L.P., an investment fund sponsored by Starwood Capital Group Global, L.L.C.

Business review

The results for the current year show a loss of £1,516k as a result of impairment of buildings and goodwill, the prior year shows neither a profit or a loss due to the application of variable interest payable to the intermediate holding company, Stardon Investments S.à.r.l., on the accounting profit of the company. Revenue for the year was £3,708k; in 2011 the hotel generated revenues of £3,845k.

From a trading perspective the economic conditions remained challenging. The incumbent managers Chardon were replaced with Kew Green in December 2012.

Balance sheet

The company's non-current asset base principally comprises intangibles land of £1,700k (2011 - £1,700k), buildings of £6,864k (2011 - £8,366k) and plant, equipment, fixtures and fittings of £969k (2011- £897k).

Future developments

The current economic environment continues to be very challenging but the new hotel manager, Kew Green, is undertaking a comprehensive review of costs to drive profitability at the company.

The Company was unable to repay its third party loan at maturity in May 2013, the Lender has not recalled the loan but has issued a "Reservation of Rights" letter. In October 2013 the Parent Company (Stardon Investments Sarl) entered into a non-binding Letter of Intent (LOI) to a sell its equity interest in the hotel to a third party. The sale is expected to complete by the end of 2013.

Principal risks and uncertainties

The management of the business and the execution of the company's strategy are subject to a number of risks.

- The key business risks and uncertainties affecting the company are considered to relate to the economic environment. The hotel business closely follows GDP movements. This is clear from current trading which is being heavily impacted by the current economic environment.
- New hotels entering the company's local market place and existing competitors upgrading their products is also a significant risk to the company's trading performance.
- The resignation of key individuals and the inability to recruit people with the right experience and skills from the local community could adversely impact the performance of the company.

Directors' Report

For the Year Ended 31 December 2012

Principal risks and uncertainties (continued)

- An additional key risk relates to the maturity of the third party loan provided by Bank of Scotland (now part of Lloyds Banking Group). This loan matured in May 2013 and since this date the Directors have been working with the bank to reach a satisfactory conclusion. In October 2013 Stardon Investments Sarl (Parent Company) entered into a non-binding LOI for the sale of its equity interest in Stardon (Brighton West Pier) Limited. The sale is expected to complete by the end of 2013.

Results and dividends

The results for the year and the financial position of the company are as shown in the financial statements.

The directors have not paid a dividend during the year and are not recommending the payment of any dividends to the ordinary shareholder (2011 - £nil).

Key performance indicators (KPI's)

The business has one primary KPI which is monitored regularly, revpar (revenue per available room). Revpar for 2012 was £52 compared to £54 in 2011.

Directors and directors' interests

The directors of the company who were in office during the year and up to the date of signing the financial statements were:

Mr M V Taylor (resigned 1 December 2012)

Mr J G Dishner

Mr D L M Taljaard (resigned 31 December 2012)

Miss S Broughton (appointed 21 December 2012)

Mr T Drinka (appointed 21 December 2012; resigned 14 February 2013)

Mr J C Bradshaw (appointed 14 February 2013)

No directors have any interests in the share capital of the company.

Financial instruments

The company's third party financing arrangements were transacted on a group wide basis. Debt was initially raised centrally and then assigned to those group companies which own the hotels' operating assets. On 2 June 2008 the previous facility was repaid in full and the group's external borrowings were re-financed for a further five years, on improved terms, with an alternative provider. The loan was taken out by Stardon (UK) Ltd. and then assigned to its fellow subsidiaries.

The debt bears a variable rate interest based on LIBOR plus a fixed margin of 3.25% and a variable rate mandatory cost and is repayable in 2013. The fixed rate margin increased from 1.25% to 3.25% on 2 May 2010. In order to manage the interest rate risk, Stardon (UK) Ltd took out an interest rate swap in February 2009 which hedged the entire outstanding loan at a fixed interest rate of 3.5%. This was terminated in January 2010. In May 2010 Stardon (UK) Ltd bought a cap on the entire loan at 4.0% which expired in May 2012.

The Company was unable to repay the third party loan at maturity in May 2013, the Lender has not recalled the loan but has issued a "Reservation of Rights" letter. In October 2013 the Parent Company (Stardon Investments Sarl) entered into a non-binding LOI to a sell its equity interest in the hotel to a third party. The sale is expected to complete by the end of 2013.

The day to day treasury transactions are managed by the company.

Directors' Report

For the Year Ended 31 December 2012

Current Funding Arrangement and Going Concern

The balance sheet as at 31 December 2012 shows the company in a net current liability position. Notwithstanding this, the directors have prepared these financial statements on the going concern basis which assumes that the company will be able to realise its assets and discharge its liabilities in the normal course of business.

The directors would like to highlight a material uncertainty which casts significant doubt on the entity's ability to continue as a going concern, relating to negotiations with the group's principal lender, Bank of Scotland, now part of Lloyds Banking Group. In the event of a sale, the company will be dependent on the ability of the purchaser to provide adequate funding to the company to enable it to meet its debts as they fall due. The Company was unable to repay the third party loan at maturity in May 2013 and whilst the Lender has not recalled the loan, it has issued a "Reservation of Rights" letter. In October 2013 the Parent Company (Stardon Investments Sarl) and Bank of Scotland Plc entered into a non-binding letter of intent ("LOI") with a third party to sell its equity interest and loan interests in the Company respectively. The sale is expected to complete by the end of 2013.

The potential sale of the Company and cooperation of Lloyds Banking Group has enabled the directors to form the judgement that the company will continue to be able to maintain an appropriate level of funding and meet its short term debts until a sale is concluded.

For these reasons the directors believe it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

The directors would like to highlight that this signed LOI is not confirmation that the transaction will complete. Therefore the going concern basis of accounting is dependent on the bank's continuing support until a sale is concluded, and the ability of the purchaser to provide adequate funding to the company to enable it to meet its debts as they fall due. In the event that the Company is unsuccessful in securing a new purchaser and reaching a satisfactory agreement with the principal lender, the Company would have insufficient funds to repay the bank loan or to continue to operate the business and therefore the use of the going concern basis of preparation in these financial statements would be inappropriate. The implications of this would be a significant reduction in the carrying value of the hotel and other assets included on the balance sheet. These financial statements do not reflect the adjustments which would be required if the Company was not considered to be a going concern.

Significant contracts with related parties

On 17 May 2005 the company entered into a service agreement with Chardon Management Limited to manage the hotel operations. On 15 April 2010 the terms of this agreement were renegotiated to extend from 5 to 8 years, on marginally better terms. In December 2012 the agreement was terminated and Chardon were replaced by Kew Green as manager of the hotel.

Further details regarding transactions that took place during the year can be found in note 20 of the financial statements.

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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and

Directors' Report

For the Year Ended 31 December 2012

Statement of directors' responsibilities (continued)

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 International Financial Reporting Standards (IFRSs) as adopted by the European Union 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.

Statement as to disclosure of information to auditors

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Independent Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office, and a resolution that they be re-appointed will be proposed at the annual general meeting.

On behalf of the Board



Miss S. Broughton
Director
4th December 2013

Independent Auditors' Report to the Members of Stardon (Brighton West Pier) Limited

We have audited the financial statements of Stardon (Brighton West Pier) Limited for the year ended 31 December 2012 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 7, 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. In addition, we read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 loss and cash flows for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Independent Auditors' Report to the Members of Stardon (Brighton West Pier) Limited (continued)

Emphasis of Matter – Going Concern

In forming our opinion on the financial statements, which is not modified, we have considered the adequacy of the disclosure made in the Directors' Report and note 1 to the financial statements concerning the company's ability to continue as a going concern. The company incurred a net loss of £1,516,000 during the year ended 31 December 2012 and, at that date, the company's current liabilities exceeded its total assets by £1,516,000. The parent company is in negotiations with a third party and the principal lender to secure funding for the company going forward. At the time of signing these financial statements the outcome of these discussions is not known. These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the company were unable to continue as a going concern.

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.



Kenneth Wilson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Glasgow
4th December 2013

Income statement

For the Year Ended 31 December 2012

		Year ended 31 December 2012	Year ended 31 December 2011
	Notes	£'000	£'000
Revenue		3,707.8	3,845.1
Cost of sales		(1,639.3)	(2,450.2)
Gross operating profit		2,068.5	1,394.9
Other income	3	43.7	115.8
Impairment of buildings & goodwill	10, 11	(1,720.4)	-
Administrative expenses		(1,622.6)	(938.2)
Operating (loss)/profit	4	(1,230.8)	572.5
Finance costs	8	(285.2)	(572.5)
(Loss)/result before taxation		(1,516.0)	-
Taxation	9	-	-
(Loss)/result for the year attributable to owners of the company	19	(1,516.0)	-

All operations are continuing.

The company has no recognised income or expenses other than those included in the Income Statement above and therefore no separate Statement of Comprehensive Income has been presented.

The notes on pages 14 to 28 form part of these financial statements.

Statement of changes in equity

For the Year Ended 31 December 2012

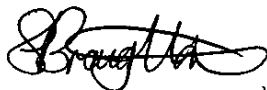
	Ordinary shares £'000	Retained earnings £'000	Total Equity £'000
Equity at 31 December 2010	-	-	-
Profit for the year and total comprehensive income	-	-	-
Equity at 31 December 2011	-	-	-
Loss for the year and total comprehensive income	-	(1,516.0)	(1,516.0)
Closing equity at 31 December 2012	-	(1,516.0)	(1,516.0)

Balance Sheet

As at 31 December 2012

	Notes	As at 31 December 2012 £'000	As at 31 December 2011 £'000
Assets			
Non-current assets			
Intangibles	10	-	396.8
Property, plant and equipment	11	9,533.4	10,963.2
		9,533.4	11,360.0
Current assets			
Inventories	12	64.2	68.6
Trade and other receivables	13	3,155.5	2,161.8
Cash and cash equivalents	14	391.1	1,100.6
		3,610.8	3,331.0
Total assets		13,144.2	14,691.0
Current liabilities			
Trade and other payables	15	4,612.6	4,598.7
Financial liabilities	16	3,586.1	3,586.1
Bank borrowings	17	6,461.5	6,506.2
Total liabilities		14,660.2	14,691.0
Net assets		(1,516.0)	-
Issued capital and reserves attributable to the owners of the company			
Ordinary shares	18	-	-
Retained earnings	19	(1,516.0)	-
Total equity		(1,516.0)	-

The financial statements on pages 10 to 28 were approved by the board of directors on 4th December 2013 and were signed on its behalf by:



Miss S. Broughton
Director
4th December 2013

Cash flow statement

For the Year Ended 31 December 2012

		Year ended 31 December 2012	Year ended 31 December 2011
	Notes	£'000	£'000
Operating profit		(1,230.8)	572.5
Adjustments for:			
Impairment of Buildings and Goodwill	10, 11	1,720.4	-
Depreciation	11	384.7	507.0
Changes in working capital:			
Decrease/(increase) in inventories	12	4.4	(0.5)
Increase in trade and other receivables		(114.3)	(102.1)
(Decrease)/increase in trade and other payables		(5.2)	58.3
Net cash generated from operating activities		759.2	1,035.2
Cash flows from investing activities			
Purchase of property, plant and equipment		(278.5)	(225.9)
Net cash used in investing activities		(278.5)	(225.9)
Cash flows from financing activities			
Increase in loans to group companies		(879.4)	(1,196.6)
Increase in loans from group companies		19.1	304.8
Decrease in bank loan		(44.7)	(115.7)
Interest paid		(285.2)	(572.5)
Net cash used in financing activities		(1,190.2)	(1,580.0)
Net decrease in cash and cash equivalents		(709.5)	(770.7)
Cash and cash equivalents at the beginning of the year		1,100.6	1,871.3
Cash and cash equivalents at the end of the year	14	391.1	1,100.6

Notes to the Financial Statements

For the Year Ended 31 December 2012

1. Principal accounting policies

The principal accounting policies adopted in the presentation of these financial statements are set out below. These policies have been consistently applied throughout the period under review, unless otherwise stated.

Basis of accounting

The financial statements have been prepared in accordance with EU adopted International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC) interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The financial statements have been prepared on a going concern basis under the historical cost convention.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, events or actions, actual results ultimately may differ from those estimates.

Changes in accounting policies and disclosures

The financial statements have been prepared in accordance with the accounting policies adopted in the last annual financial statements for the year to 31 December 2011.

As of 31 December 2012, the following standards and interpretations are in issue but not effective for accounting periods commencing on 1 January 2012:

- IFRS 10 Consolidated Financial Statements (effective 1 January 2014)
- IFRS 11 Joint Arrangements (effective 1 January 2014)
- IFRS 12 Disclosure of Interests in Other Entities (effective 1 January 2014)
- IFRS 13 Fair Value Measurement (effective 1 January 2013)
- IAS 27 Separate Financial Statements (effective 1 January 2014)
- IAS 28 Investments in Associates and Joint Ventures (effective 1 January 2014)

The company does not intend to apply any of these pronouncements early.

Going Concern

The balance sheet as at 31 December 2012 shows the company in a net current liability position. Notwithstanding this, the directors have prepared these financial statements on the going concern basis which assumes that the company will be able to realise its assets and discharge its liabilities in the normal course of business.

The directors would like to highlight a material uncertainty which casts significant doubt on the entity's ability to continue as a going concern, relating to negotiations with the group's principal lender, Bank of Scotland, now part of Lloyds Banking Group. In the event of a sale, the company will be dependent on the ability of the purchaser to provide adequate funding to the company to enable it to meet its debts as they fall due. The Company was unable to repay the third party loan at maturity in May 2013 and whilst the Lender has not recalled the loan, it has issued a "Reservation of Rights" letter. In October 2013 the Parent Company (Stardon Investments Sarl) and Bank of Scotland Plc entered into a non-binding letter of intent ("LOI") with a third party to sell its equity interest and loan interests in the Company respectively. The sale is expected to complete by the end of 2013.

The potential sale of the Company and cooperation of Lloyds Banking Group has enabled the directors to form the judgement that the company will continue to be able to maintain an appropriate level of funding

Stardon (Brighton West Pier) Limited

and meet its short term debts until a sale is concluded.

Notes to the Financial Statements

For the Year Ended 31 December 2012

Principal accounting policies (continued)

Going Concern (continued)

For these reasons the directors believe it is appropriate to continue to adopt the going concern basis in preparing the financial statements.

The directors would like to highlight that this signed LOI is not confirmation that the transaction will complete. Therefore the going concern basis of accounting is dependent on the bank's continuing support until a sale is concluded, and the ability of the purchaser to provide adequate funding to the company to enable it to meet its debts as they fall due. In the event that the Company is unsuccessful in securing a new purchaser and reaching a satisfactory agreement with the principal lender, the Company would have insufficient funds to repay the bank loan or to continue to operate the business and therefore the use of the going concern basis of preparation in these financial statements would be inappropriate. The implications of this would be a significant reduction in the carrying value of the hotel and other assets included on the balance sheet. These financial statements do not reflect the adjustments which would be required if the Company was not considered to be a going concern.

Revenue

Revenue is measured at the fair value of the consideration received excluding VAT and net of trade discounts.

Revenue in respect of hotel accommodation, food and beverage and related services is recognised at the point the services are rendered.

Goodwill

On the acquisition of a business, fair values are attributed to the net assets (including any identifiable intangible assets) acquired. Goodwill arises where the fair value of the consideration given exceeds the fair value of the net assets acquired. Goodwill is recognised as an asset and is reviewed for impairment at least annually. Impairments are recognised immediately in the income statement. On the disposal of a business, goodwill relating to that business remaining on the balance sheet is included in the determination of the profit or loss on disposal.

Impairment

The carrying amount of the company's assets, other than financial assets within the scope of IAS 39 and deferred tax assets, are reviewed at each balance sheet date to determine whether there is an indication of impairment. If any such indication exists, the assets' recoverable amount is estimated. The recoverable amount is determined based on value in use calculations, which require the use of estimates. An impairment loss is recognised in the income statement whenever the carrying amount of the assets exceeds their recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the assets, with the exception of goodwill and other intangibles, is increased to the revised estimate of their recoverable amount. This cannot exceed the carrying amount prior to the impairment charge. An impairment recognised in the income statement in respect of goodwill is not subsequently reversed.

Property, plant and equipment

Property, plant and equipment are shown at historical cost or fair value less accumulated depreciation and any impairment value.

Depreciation is provided at rates calculated to write off the cost, less estimated residual value of each asset, on a straight line basis over its expected useful life as follows:

Notes to the Financial Statements

For the Year Ended 31 December 2012

Principal accounting policies (continued)

Buildings	50 years
Plant and equipment	10 years
Fixtures and fittings	5 years
Computer equipment	3 years

All land is freehold and is not depreciated. Buildings were acquired at the end of the year and have therefore not been depreciated.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. Amounts due from lessees under finance leases are recorded as receivables at the amount of the company's net investment in the lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the company's net investment outstanding in respect of the leases. All other leases are operating leases, and the rental of these is charged to the income statement as incurred over the life of the lease. Operating lease income is recognised in the income statement as it is earned.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first in first out basis.

Trade receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer) they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Notes to the Financial Statements

For the Year Ended 31 December 2012

Foreign currency

The functional currency of the company is pounds sterling. Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currency are recognised in the income statement.

Taxation

The taxation expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax expected to be payable or recoverable on differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes is accounted for using the liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax is calculated at the rates of taxation enacted or substantively enacted at the balance sheet date and is not discounted.

Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and other short-term, highly liquid deposits that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Bank borrowings

Interest-bearing bank loans are recorded at the proceeds received, net of direct issue costs. Finance costs, including premiums payable on settlement or redemption costs and direct issue costs, are accounted for on an accruals basis in the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

Pensions

The company operates a defined contribution pension scheme on behalf of certain employees of the company. The assets are held separately from those of the company in independently administered funds. Payments made to the scheme are charged to the income statement as incurred and comprise current service contributions.

Notes to the Financial Statements

For the Year Ended 31 December 2012

2. Critical accounting estimates and assumptions

The company makes estimates and assumptions concerning the future. The estimates and assumptions that have a significant risk of causing material adjustments to the carrying amount of assets are addressed below.

Estimated impairment of goodwill

The group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amount is determined based on value in use calculations which require the use of estimates (see note 10). During the year intangible assets were impaired by £396.8k and buildings were impaired by £1,323.6k.

3. Other income

	Year Ended 31 December 2012	Year Ended 31 December 2011
	£'000	£'000
Rental income	43.7	115.8
	43.7	115.8

Note: Other income relates to proceeds received from lease extensions at Bedford Towers.

Notes to the Financial Statements

For the Year Ended 31 December 2012

4. Operating profit

The operating profit has been arrived at after charging:

		Year ended 31 December 2012	Year ended 31 December 2011
	Notes	£'000	£'000
Employee benefit expenses	5	1,111.0	1,154.5
Impairment of buildings and goodwill	10, 11	1,720.4	-
Depreciation	11	384.7	507.0
Operating lease rentals:			
- Other		27.1	32.3
Repairs and maintenance expenditure		169.4	140.7
Auditors' remuneration	7	8.8	10.2

5. Employee benefit expenses

Employee benefit expenses of the company during the year were as follows:

	Year ended 31 December 2012	Year ended 31 December 2011
	£'000	£'000
Wages and salaries	935.4	1,055.0
Social security costs	161.2	70.6
Other pension costs	4.8	4.7
Other employee benefits	9.6	24.2
	1,111.0	1,154.5

The average number of full time employees employed during the year was 75 (2011 – 65). As the company considers the employees of the hotel as a single category, no further analysis of staff numbers is appropriate.

6. Directors' remuneration

No directors have received any remuneration from the company for their services to the company in the current or prior year. No directors had retirement benefits accruing under the company pension scheme in the current or prior year.

7. Auditors' remuneration

	Year ended 31 December 2012	Year ended 31 December 2011
	£'000	£'000
Audit services		
- Statutory audit	6.0	6.9
Tax and consultancy services		
- Consultancy services	2.8	3.3
Total auditors' remuneration	8.8	10.2

Notes to the Financial Statements

For the Year Ended 31 December 2012

8. Finance costs

	Year ended 31 December 2012	Year ended 31 December 2011
	£'000	£'000
Interest payable on bank borrowings	267.3	267.7
Interest payable on amounts owed to intermediate holding company	17.9	304.8
Finance costs	285.2	572.5

9. Taxation

	Year ended 31 December 2012	Year ended 31 December 2011
	£'000	£'000
UK corporation tax at 24.5% (2011 – 26.5%)	-	-
Total current tax charge	-	-
Deferred tax	-	-
Taxation	-	-

The tax assessed for the year is lower (2011: the same as) than the standard rate applying in the UK 24.5% (2011: 26.5%). The differences are explained below:

	Year ended 31 December 2012	Year ended 31 December 2011
	£'000	£'000
Loss on ordinary activities before tax	(1,516.0)	-
Loss on ordinary activities at the UK tax rate 24.5% (2011: 26.5%)	(371.4)	-
Effects of:		
Group relief claimed not paid	(44.2)	(114.9)
Expenses not deductible for tax purposes	4.6	82.7
Income not deductible for tax purposes	(10.6)	-
Deferred tax movement not recognised	421.6	32.2
Total taxation	-	-

Unrecognised deferred tax assets at 31 December 2012 are analysed below.

Amounts not recognised in respect of deferred taxation:

	Year ended 31 December 2012	Year ended 31 December 2011
	£'000	£'000
Accelerated tax depreciation	(722.9)	(298.5)
Provisions	-	(0.1)
	(722.9)	(298.6)

Notes to the Financial Statements

For the Year Ended 31 December 2012

9. Taxation (continued)

During the year, the standard rate of corporation tax in the UK reduced from 26% to 24% with effect from 1 April 2012. A further reduction to 23%, effective from 1 April 2013, was announced and substantively enacted in July 2012. The relevant deferred tax balances have been re-measured accordingly.

In addition to the changes in rates of Corporation tax disclosed above further changes to the UK Corporation tax rates were substantively enacted as part of the Finance Bill 2013 on 2 July 2013. These include reductions to the main rate to reduce the rate to 21% from 1 April 2014 and to 20% from 1 April 2015.

As the changes had not been substantively enacted at the balance sheet date their effects are not included in these financial statements. The overall effect of these further changes, if applied to the deferred tax balance at the balance sheet date, would not have a significant impact on the financial statements.

10. Intangibles

	Goodwill	Capitalised fees	Total
Cost	£'000	£'000	£'000
At 31 December 2011	396.8	-	396.8
Impairment	(396.8)	-	(396.8)
At 31 December 2012	-	-	-

All goodwill has previously been allocated to the Holiday Inn Brighton - Seafront, which is a cash-generating unit of the company. During the year, goodwill was reviewed for impairment in accordance with IAS 36 "Impairment of Assets". The Directors do not believe there is any recoverable value in the goodwill and so this has been impaired down to zero.

Notes to the Financial Statements

For the Year Ended 31 December 2012

11. Property, plant and equipment

	Land	Buildings	Plant and equipment	Fixtures and fittings	Computer equipment	Total
Cost	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2011	1,700.0	8,900.0	1,386.0	1,650.7	174.7	13,811.4
Additions	-	-	69.1	132.2	24.6	225.9
At 31 December 2011	1,700.0	8,900.0	1,455.1	1,782.9	199.3	14,037.3

Accumulated depreciation

At 1 January 2011	-	356.0	738.4	1,320.8	151.9	2,567.1
Charge for the year	-	178.0	108.8	203.4	16.8	507.0
At 31 December 2011	-	534.0	847.2	1,524.2	168.7	3,074.1

Net book value

At 31 December 2011	1,700.0	8,366.0	607.9	258.7	30.6	10,963.2
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Cost	£'000	£'000	£'000	£'000	£'000	£'000
At 1 January 2012	1,700.0	8,900.0	1,455.1	1,782.9	199.3	14,037.3
Additions	-	-	51.0	212.8	14.7	278.5
At 31 December 2012	1,700.0	8,900.0	1,506.1	1,995.7	214.0	14,315.8

Accumulated depreciation

At 1 January 2012	-	534.0	847.2	1,524.2	168.7	3,074.1
Charge for the year	-	178.0	109.9	79.5	17.3	384.7
Impairment of building	-	1,323.6	-	-	-	1,323.6
At 31 December 2012	-	2,035.6	957.1	1,603.7	186.0	4,782.4

Net book value

At 31 December 2012	1,700.0	6,864.4	549.0	392.0	28.0	9,533.4
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The depreciation charge for the year is included within administrative expenses in the income statement.

During the year, the carrying value of the hotel was reviewed for impairment in accordance with IAS 36 "Impairment of Assets". The Directors believe the impaired value of the hotel reflects the recoverable amount.

Notes to the Financial Statements

For the Year Ended 31 December 2012

12. Inventories

	As at 31 December 2012	As at 31 December 2011
	£'000	£'000
Food and beverage	12.2	16.6
Operating stocks	52.0	52.0
	64.2	68.6

Inventories recognised as expenses in the income statement in the year are as follows:-

	Year ended 31 December 2012	Year ended 31 December 2011
	£'000	£'000
Food and beverage	193.3	232.3
Operating stocks	28.8	48.9
	222.1	281.2

No expenses have been recognised to write down inventories to net realisable value in the year (2011-£nil).

13. Trade and other receivables

	As at 31 December 2012	As at 31 December 2011
	£'000	£'000
Trade receivables	48.2	69.7
Amounts owed by parent company	187.2	132.7
Amounts owed by subsidiaries of intermediate holding company	2,546.9	1,722.0
Prepayments	70.4	86.2
Other receivables	302.8	151.2
	3,155.5	2,161.8

The ageing of trade receivables is as follows:

	As at 31 December 2012	As at 31 December 2011
	£'000	£'000
Up to 30 days past due date	27.9	44.0
31 – 60 days past due date	18.6	23.7
61 – 90 days past due date	1.2	1.7
Over 91 days past due date	0.5	0.3
	48.2	69.7

Notes to the Financial Statements

For the Year Ended 31 December 2012

13. Trade and other receivables (continued)

Concentrations of credit risk with respect to trade receivables are limited due to the company's customer base being large and unrelated. Due to this, the management believe there is no further credit risk provision required in excess of normal provisions for doubtful receivables, estimated by the company's management based on prior experience and their assessment of the current economic environment. The carrying amounts of the company's receivables are denominated in GBP (UK sterling).

The directors consider that the carrying amount of trade debtors approximates their fair value.

The other classes within Trade and other receivables do not contain impaired assets.

The movement on the provision for impairment of trade receivables is as follows:

14. Cash and cash equivalents

Cash and cash equivalents comprise of cash at bank and in hand and the carrying amount of £391k (2011-£1,101k) equates to the fair value.

15. Trade and other payables

	As at 31 December 2012	As at 31 December 2011
	£'000	£'000
Trade payables	152.7	130.5
Amounts owed to intermediate holding company	4,098.0	4,078.9
Other tax and social security	122.5	102.2
Other creditors	0.5	1.9
Deferred income	37.1	69.1
Accruals	201.8	216.1
	4,612.6	4,598.7

Amounts owed to the intermediate holding company (Stardon Investments S.à.r.l.) comprise of both fixed and variable rate interest on unsecured loans due by the company and its previous parent company, Stardon Investments (Brighton West Pier) S.à.r.l., whose liability was brought into the company when the group was restructured.

Amounts owed to subsidiaries of the intermediate holding company principally comprise of VAT payable on the purchase of the buildings from Stardon Investments (Brighton West Pier) S.à.r.l. on the restructuring of the group in December 2008.

The directors consider that the carrying amount of trade payables and other payables approximates their fair value.

Notes to the Financial Statements

For the Year Ended 31 December 2012

16. Financial liabilities

	As at 31 December 2012	As at 31 December 2011
	£'000	£'000
Amounts owed to intermediate holding company	3,586.1	3,586.1

Amounts owed to the intermediate holding company (Stardon Investments S.à.r.l.) comprise of an unsecured GBP sterling loan which is repayable on 17 February 2015. Either party may terminate the agreement at any time before this date by giving 30 days' notice but the loan is not expected to be repaid within the next twelve months. The loan bears a fixed interest rate of 0.5% and a variable interest rate based on the net accounting profit of the company (see note 20).

17. Bank borrowings

	As at 31 December 2012	As at 31 December 2011
	£'000	£'000
Bank loans	6,461.5	6,506.2
	6,461.5	6,506.2

The GBP sterling bank loan is secured via floating charges and a share pledge and was repayable in a single instalment in May 2013. The external bank loan drawn down by the company has been assigned to it from Stardon (UK) Limited, a fellow subsidiary of the intermediate holding company, and forms part of a facility taken out by Stardon (UK) Limited. As part of the restructuring exercise, the company also assumed the external bank loan that had originally been assigned to its parent. Stardon (UK) Limited provides a cross guarantee to all parties included in the facility agreement.

The debt bears a variable rate interest based on LIBOR plus a fixed margin of 3.25% and a variable rate mandatory cost and is repayable in 2013. The fixed rate margin increased from 1.25% to 3.25% on 2 May 2010. In order to manage the interest rate risk, Stardon (UK) Ltd took out an interest rate swap in February 2009 which hedged the entire outstanding loan at a fixed interest rate of 3.5%. This was terminated in January 2010. In May 2010 Stardon (UK) Ltd bought a cap on the entire loan at 4.0% which expired in May 2012.

The Company was unable to repay its third party loan at maturity in May 2013 and whilst the Lender has not recalled the loan, it has issued a "Reservation of Rights" letter. In October 2013 the Parent Company (Stardon Investments Sarl) entered into a non-binding LOI to sell its equity interest in the hotel to a third party. The sale is expected to complete by the end of 2013.

Notes to the Financial Statements

For the Year Ended 31 December 2012

18. Ordinary shares

	As at 31 December 2012 £'000	As at 31 December 2011 £'000
Issued and fully paid		
1 (2011 – 1) ordinary share of £1	-	-

19. Retained earnings

	Retained earnings £'000
At 1 January 2012	-
Loss for the year	(1,516.0)
At 31 December 2012	(1,516.0)

Notes to the Financial Statements

For the Year Ended 31 December 2012

20. Related party transactions

During the year the company has traded in its normal course of business with businesses which are subject to joint control as follows:

Related party	Nature of the transaction	Purchases from 2012 £'000	Sales to 2012 £'000	Net debtor/ (creditor) outstanding 2012 £'000	Purchases from 2011 £'000	Sales to 2011 £'000	Net debtor/ (creditor) outstanding 2011 £'000
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Intermediate holding company

Stardon Investments S.à.r.l.	Interest/loan	-	-	(7,495.7)	-	19.1	(7,245.4)
		-	-	(7,495.7)	-	19.1	(7,245.4)

Subsidiaries of intermediate holding company

Stardon (UK) Limited	Cost recharge	-	-	1,930.7	-	1,159.6	1,705.7
Stardon (Corby) Limited	Cost recharge	-	-	605.2	-	-	5.1
Stardon (East Kilbride) Limited	Cost recharge	-	-	2.3	-	-	2.3
Stardon (Leeds) Limited	Cost recharge	-	-	2.7	-	-	2.7
Stardon (Moorside) Limited	Cost recharge	-	-	4.8	-	-	4.8
Stardon (Norwich) Limited	Cost recharge	-	-	1.4	-	-	1.4
		-	-	2,547.1	-	1,159.6	1,722.0

Other related party

Chardon Management Limited	Management services	170.6	-	68.3	180.6	-	-
		170.6	-	68.3	180.6	-	-

The loan of £3,586k included in the amounts owed to Stardon Investment S.à.r.l. is an unsecured loan repayable on 17 February 2015. Either party may terminate the agreement at any time before this date by giving 30 days' notice. The loan bears a fixed interest rate of 0.5% and a variable interest rate based on the net accounting profit of the company.

All other transactions are settled in line with the company's creditor payment policy.

Notes to the Financial Statements

For the Year Ended 31 December 2012

21. Financial and capital commitments

At 31 December 2012 the total of future minimum lease payments under non-cancellable operating leases was as follows:

	As at 31 December 2012 £'000	As at 31 December 2011 £'000
Total commitments under operating leases		
Expiring within one year	12.9	12.6
Expiring between two and five years	14.2	19.5
	27.1	32.1

The company leases plant and machinery under non-cancellable operating lease agreements.

In addition, the company has operating lease commitments under rolling contracts without an agreed termination date. The minimum lease commitment payable under these leases is therefore one month, a figure significantly less than the annual income statement charge.

At 31 December 2012, the company had entered into unprovided contractual commitments for the acquisition of property, plant and equipment amounting to £Nil (2011 - £37k).

22. Pensions

The company operates a defined contribution pension plan. Contributions of £5k (2011 - £5k) were paid into the scheme during the year. Outstanding contributions from the company of £nil (2011 - £405) existed at the balance sheet date.

23. Ultimate parent undertaking and controlling party

The immediate parent undertaking is Stardon Capital Investments S.à.r.l.

The ultimate parent undertaking and controlling party is SOF-VI International Holdings L.P., a company incorporated in the United States of America.

Stardon Capital Group European S.à.r.l. is the parent undertaking of the largest group of undertakings to consolidate these financial statements at 31 December 2012. The consolidated financial statements of Stardon Capital Group European S.à.r.l. can be obtained from 5 Rue Guillaume Kroll, L-1882 Luxembourg.

24. Post Balance Sheet Events

The Company was unable to repay its third party loan at maturity in May 2013 and whilst the Lender has not recalled the loan, it has issued a "Reservation of Rights" letter. In October 2013 the Parent Company (Stardon Investments Sarl) entered into a non-binding LOI to sell its equity interest in the hotel to a third party. The sale is expected to complete by the end of 2013.