

Company Registration No. 1462880

The Baby Grand Hotel Company Limited

Report and Financial Statements

31 December 2008



The Baby Grand Hotel Company Limited

Report and financial statements 2008

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The Baby Grand Hotel Company Limited

Report and financial statements 2008

Officers and professional advisers

Company Registration No. 1462880

Directors

M B I Al Jaber
M M Al Jaber
B M Al Jaber

Secretary

T Cranwell

Registered Office

78-80 Wigmore Street
London
W1U 2SJ

Bankers

Bank of Scotland
PO Box No 5
The Mound
Edinburgh
EH1 1YZ

Solicitors

Mcfarlanes
10 Norwich Street
London
EC4A 1BD

Auditors

Ernst & Young LLP
1 More London place
London
SE1 2AF

The Baby Grand Hotel Company Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2008

Principal activity

The company is engaged in the ownership and management of a hotel

Principal risks and uncertainties

As a result of the difficult trading conditions during late 2008 and during 2009, the company's immediate parent entity, Scotsman Hotel Group Limited (the "Group") is in breach of its banking covenants at the date of approval of the financial statements and the company's loan facility is repayable on demand. To date the bank has not given indication that they wish to withdraw the debt. As required by the loan agreement, the Group has provided the bank with monthly management account information and has continued to make all interest payments in accordance with agreement.

Further description of the uncertainties is included in note 1 to the financial statements

Business Review

The year 2008 saw a 6% decrease in overall turnover, with both room occupancy and average room rate being impacted by the economic downturn and increased room supply in Leeds. Operating profit, before exceptional items grew, reflecting the consolidation of operating costs within the business and continued focus on delivering margins. The profit after tax for the year was £151,598 (2007: 98,867).

Directors

The directors who served during the year were

M B I Al Jaber,

M M Al Jaber

B M Al Jaber (appointed 17 March 2008)

R J H Brook (resigned 17 March 2008)

The Baby Grand Hotel Company Limited

Directors' report

Statement of Disclosure of Information to Auditors

The directors who were members of the board at the time of approving the directors' report are listed on page 1. Having made enquiries of fellow directors and of the company's auditors, each of these directors confirms that

- to the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the company's auditors are unaware, and
- each director has taken all the steps that a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the company's auditors are aware of that information

Auditors

Ernst & Young LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting

Special provisions relating to small companies

This report had been prepared in accordance with the special provisions of Part VII of the Companies Act 1985 relating to small companies

By order of the Board



Mashael Mohammed Al Jaber
Director
17 March 2010

The Baby Grand Hotel Company Limited

Statement of directors' responsibilities

The directors are responsible for preparing the annual 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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 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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report

to the members of The Baby Grand Hotel Company Limited

We have audited the company's financial statements for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, and the related notes 1 to 22. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Basis of audit opinion

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

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

Independent auditor's report

to the members of The Baby Grand Hotel Company Limited (cont)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the directors' report is consistent with the financial statements

Ernst & Young C.C.P.

Ernst & Young LLP
Registered Auditors
London

17 March 2010

The Baby Grand Hotel Company Limited

Profit and loss account

Year ended 31 December 2008

	Notes	2008 £	2007 £
Turnover	2	1,331,894	1,413,692
Cost of sales		(635,056)	(633,233)
Gross profit		696,838	780,459
Administrative expenses		(532,971)	(678,508)
Other operating income		68,000	68,000
Operating profit	3	231,867	169,951
Interest payable and similar charges	5	(64,213)	(98,207)
Profit on ordinary activities before taxation		167,654	71,744
Taxation	6	(16,056)	27,123
Profit for the financial year		151,598	98,867

All amounts relate to continuing operations

Statement of total recognised gains and losses

Year ended 31 December 2008

There were no recognised gains or losses for both 2008 and 2007 other than those included in the Profit and Loss Account

The Baby Grand Hotel Company Limited

Note of historical cost profits and losses

Year ended 31 December 2008

	Note	2008 £	2007 £
Reported profit on ordinary activities before taxation		167,654	71,744
Difference between historical cost depreciation charge and actual depreciation charge for the year calculated on the revalued amount	7	31,622	31,622
Historical cost profit on ordinary activities before taxation		<u>199,276</u>	<u>103,366</u>
Historical cost profit for the year retained after taxation		<u>183,220</u>	<u>130,489</u>


The Baby Grand Hotel Company Limited

Balance sheet 31 December 2008

	Notes	2008 £	2007 £
Fixed assets			
Tangible assets	7	4,917,734	4,984,410
Current assets			
Stocks	8	8,305	19,618
Debtors	9	88,266	160,212
Cash at bank and in hand		4,144,095	3,510,365
		4,240,666	3,690,195
Creditors: amounts falling due within one year	10	(158,004)	(206,289)
Net current assets		4,082,662	3,483,906
Total assets less current liabilities		9,000,396	8,468,316
Creditors: amounts falling due after more than one year	11	(1,755,663)	(1,391,236)
Provisions for liabilities and charges	13	(174,200)	(158,144)
Net assets		7,070,533	6,918,935
Capital and reserves			
Called up share capital	14	30,152	30,152
Revaluation reserve	15	2,611,782	2,643,404
Capital redemption reserve		48	48
Profit and loss account	15	4,428,551	4,245,331
Total equity shareholders' funds	16	7,070,533	6,918,935

These financial statements were approved by the Board of Directors on 17 March 2010

Signed on behalf of the Board of Directors



Masha'el Mohammed Al Jaber
Director

The Baby Grand Hotel Company Limited

Notes to the financial statements Year ended 31 December 2008

1. Basis of preparation

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention, as modified by the revaluation of freehold land and buildings (see note 7), and in accordance with applicable accounting standards.

Consideration of Going Concern

As a result of the difficult trading conditions during late 2008 and during 2009, the company's immediate parent entity, Scotsman Hotel Group Limited (the "Group") is in breach of its banking covenants at the date of approval of the financial statements and the company's loan facility is repayable on demand. To date the bank has not given indication that they wish to withdraw the debt. As required by the loan agreement, the Group has provided the bank with monthly management account information and has continued to make all interest payments in accordance with agreement.

In line with general market conditions, trading improved through the end of Q4 2009 and Q1 2010. The directors foresee that trading is likely to improve marginally through 2010, with more significant growth expected in 2011. Such forecasts are consistent with those expected by the hotel industry in general. The directors have produced cash flow forecasts for the Group for the period until 31 December 2011 which indicate however that the company will require the support of its ultimate controlling party Mohamed Bin Issa Al Jaber in order to meet its trading liabilities as and when they fall due. Should the Group loan facility require repayment, additional support would be required.

The directors have obtained a letter of support from the company's ultimate controlling party Mohamed Bin Issa Al Jaber and two of the company's parent undertakings, JJW Hotels and Resorts Holdings Inc (intermediary holding company) and MBI International & Partners Inc (the ultimate parent undertaking) as follows:

- The company's ultimate controlling party and sole shareholder, Mohamed Bin Issa Al Jaber, has confirmed that it will not seek repayment of the balance due to it from the company for a period of at least 15 months from the date of signing of the accounts, and
- JJW Hotels and Resorts Holdings Inc (intermediary holding company), MBI International & Partners Inc (the ultimate parent undertaking) and Mohamed Bin Issa Al Jaber, have also confirmed that it will provide financial support as and when the company may require to meet liabilities as they fall due, for a period of at least 15 months from the date of signing the accounts.

As a result of obtaining this letter of support, the directors consider that it is appropriate to prepare the financial statements on a going concern basis as they consider that the company will be able to meet its liabilities as and when they fall due.

Turnover

Turnover comprises the invoiced value of goods and services supplied by the company, net of value added tax and trade discounts.

Rent income

The rental income arising from leases is credited to the profit and loss account in equal annual amounts over the lease term, net of value added tax.

The Baby Grand Hotel Company Limited

Notes to the financial statements Year ended 31 December 2008

1. Accounting policies (continued)

Tangible fixed assets

Depreciation is provided on all tangible fixed assets, other than freehold land, to write off the cost or revalued amounts less estimated residual value (based on prices prevailing at the date of acquisition or revaluation) over the estimated useful economic lives at the following rates on the basis stated

Buildings - 50 years straight line per annum

Fixtures and fittings - 10 – 33% straight line per annum

A full year's depreciation is provided in the year of purchase. On revalued assets an amount equal to the difference in depreciation on cost and the revalued amount is transferred between the revaluation reserve and the profit and loss account reserve.

The company has taken advantage of the transitional provisions of FRS 15 "Tangible Fixed Assets" and retained the book amounts of freehold property which was revalued prior to implementation of that standard.

The carrying values of tangible fixed assets are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

Stocks

Stocks are held for resale and stated at the lower of cost and net realisable value. Cost is based on the purchase price and net realisable value is based on the estimated selling price.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Full provision is made for deferred tax assets and liabilities arising from timing differences between the recognition of gains and losses in the financial statements and their recognition in the tax computation, except for those timing differences in respect of which the standard specifies that deferred tax should not be recognised. Deferred assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse.

A net deferred tax asset is regarded 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 not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (revised) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes consolidated financial statements.

The Baby Grand Hotel Company Limited

Notes to the financial statements Year ended 31 December 2008

1. Accounting policies (continued)

Pensions

The company makes contributions to personal pension plans and the pension charge in the profit and loss account represents the amount payable by the company to the plans in respect of the year

Finance leases and hire purchase

Assets acquired under finance leases or hire purchase are treated as tangible fixed assets and depreciation is provided accordingly. The present value of future rentals is shown as a liability and the interest element of rental obligations is charged to the profit and loss account over the period of the lease in proportion to the capital balance outstanding.

Operating leases

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

2. Turnover

Turnover is attributable to one class of business, operating a hotel. All turnover arose within the United Kingdom.

3. Operating profit

The operating profit is stated after charging/(crediting)

	2008 £	2007 £
Depreciation of tangible fixed assets		
- owned by the company	113,470	134,796
- held under finance lease or hire purchase contracts	15,446	15,446
Operating lease rentals		
- land and buildings	35,407	32,102
Rental income	(68,000)	(68,000)

The audit fee was borne by the parent company in the current year and the previous year.

The Baby Grand Hotel Company Limited

Notes to the financial statements Year ended 31 December 2008

4. Staff costs

Staff costs, including directors' emoluments, were as follows

	2008 £	2007 £
Wages and salaries	417,430	403,037
Social security costs	29,545	61,817
Other pension costs	2,234	2,082
	<u>449,209</u>	<u>466,936</u>

The average monthly number of employees, including executive directors, during the year was

	No.	No.
Hotel	38	38
Administration	1	1
	<u>39</u>	<u>39</u>

Directors' remuneration

The directors received no remuneration for their services to this company (2007 £nil) The directors' services to this company are regarded as non-executive in nature

5. Interest payable and similar charges

	2008 £	2007 £
Interest payable to group companies	64,213	96,550
Finance charges under finance lease and hire purchase contracts	-	1,657
	<u>64,213</u>	<u>98,207</u>

The Baby Grand Hotel Company Limited

Notes to the financial statements Year ended 31 December 2008

6. Taxation

a) Analysis of tax credit

	2008 £	2007 £
Deferred tax		
Changes in deferred tax balances arising from Origination or reversal of timing differences	16,056	(27,123)

b) Factors affecting the current tax

The tax assessed on the loss on ordinary activities for the year is lower than the stated rate of corporation tax in the UK of 28.5% (2007 30%). The differences are reconciled below

	2008 £	2007 £
Profit on ordinary activities before tax	167,654	71,744
Profit on ordinary activities multiplied by the standard rate of corporation tax of 30% (2007 30%)	47,781	21,523
Effects of		
Expenses not deductible for tax purposes	18,810	19,650
Transfer pricing adjustment	(19,950)	
Abolition of hotel allowances	(8,679)	(11,248)
Capital allowances in arrears of depreciation	(16,343)	47,166
Utilisation of losses	(16,274)	-
Group relief claimed	(5,346)	(77,091)
Current tax charge for the year	-	-

c) Factors that may affect future charges

In July 2007, changes to UK Corporation tax were enacted. From 1 April 2008 the rate of corporation tax on profits will be reduced from 30% to 28%. As a result the current tax for the period has been calculated using a weighted average rate of 28.5% and unrecognised deferred tax balances have been calculated at 28%.

The Baby Grand Hotel Company Limited

Notes to the financial statements Year ended 31 December 2008

7. Tangible fixed assets

	Freehold land and buildings £	Fixtures and fittings £	Total £
Cost or valuation			
At 1 January 2007	5,276,325	1,161,668	6,437,993
Additions		62,240	62,240
At 31 December 2008	5,276,325	1,223,908	6,500,233
Depreciation			
At 1 January 2007	526,146	927,437	1,453,583
Charge for year	63,316	65,600	128,916
At 31 December 2008	589,462	993,037	1,582,499
Net book amount			
At 31 December 2008	4,686,863	230,871	4,917,734
At 31 December 2007	4,750,179	234,231	4,984,410

Freehold land and buildings were revalued at £5,276,325 on 31 August 1999 by external valuers Weatherall Green Smith, Chartered Surveyors, at the open market value, having regard for its trading potential as a fully operating hotel. This valuation has not been updated as the company has not revalued its property since the implementation of FRS15.

All freehold hotel property and other assets were held as at 31 December 2008 under fixed and floating charges in favour of the Bank of Scotland, as security for the debt of the Scotsman Hotel Group Limited and its subsidiaries.

The historical cost of freehold land and buildings is £2,348,322 (2007 £2,348,322) with net book value of £2,106,847 (2007 £2,106,847).

Included in freehold land and buildings is land with a value of £526,325 (2007 £526,325).

The net book value of fixtures and fittings includes an amount of £13,145 (2007 £28,591) in respect of assets held under finance leases and hire purchase contracts.

The long leasehold properties of the company were valued by HVS on 1 April 2009. The basis of the valuation was the market value of the property at the value date and was carried out in accordance with the Practice Statements in the RICS Appraisal and Valuation Manual (Sixth Edition) issued by the Royal Institution of Chartered Surveyors. The valuation supported the carrying value of the assets at the balance sheet date.

The Baby Grand Hotel Company Limited

Notes to the financial statements Year ended 31 December 2008

8. Stocks

	2008 £	2007 £
Goods held for resale	8,305	19,618

There is no material difference between the balance sheet value of stocks and their replacement costs

9. Debtors

	2008 £	2007 £
Due within one year		
Trade debtors	40,428	136,812
Prepayments and accrued income	47,838	23,400
	88,266	160,212

10. Creditors: amounts falling due within one year

	2008 £	2007 £
Trade creditors	59,516	41,408
Other tax and social security	37,833	62,895
Net obligations under finance lease and hire purchase contracts (note 12)		1,729
Accruals and deferred income	60,655	100,257
	158,004	206,289

11. Creditors: amounts falling due after more than one year

	2008 £	2007 £
Amounts owed to group undertakings	1,755,663	1,391,236

Interest is payable the funding amounts passed down to the company on acquisition at 4% Other amounts owed to group undertakings are non-interest bearing There are no fixed dates for repayment

The Baby Grand Hotel Company Limited

Notes to the financial statements Year ended 31 December 2008

12. Finance leases

Net obligations under finance lease and hire purchase agreements fall due as follows

	2008 £	2007 £
Within one year	-	1,729

Finance leases and hire purchase creditors are secured on the assets concerned

13. Provisions for liabilities and charges

	Deferred taxation £
At 31 December 2007	158,144
Debited to profit and loss	16,056
At 31 December 2008	174,200

Deferred tax is analysed as follows

	2008 £	2007 £
Capital allowances in excess of depreciation	174,200	158,144

14. Called up share capital

	2008 £	2007 £
Authorised		
ordinary shares of £1 each	50,000	50,000
Allotted, called up, and fully paid		
ordinary shares of £ 1 each	30,152	30,152

The Baby Grand Hotel Company Limited

Notes to the financial statements Year ended 31 December 2008

15 Reserves

	£
Revaluation reserve	
At 31 December 2007	2,643,404
Depreciation transferred to profit and loss account	(31,622)
	<hr/>
At 31 December 2008	2,611,782
	<hr/>
Profit and loss account	
At 31 December 2007	4,245,331
Profit for the year	151,598
Depreciation transferred from revaluation reserve	31,622
	<hr/>
At 31 December 2008	4,428,551
	<hr/>

16. Shareholders' funds

	2008 £	2007 £
Shareholders' funds at 31 December 2007	6,918,935	6,820,068
Profit for the year	151,598	98,867
	<hr/>	<hr/>
Shareholders' funds at 31 December 2008	7,070,533	6,918,935
	<hr/>	<hr/>

17. Commitments under operating leases

At 31 December 2008 the company had annual commitments under non-cancellable operating leases as follows

	Land and buildings 2008 £	2007 £
Expiry date:		
After more than five years	27,342	27,342
	<hr/>	<hr/>

18. Contingent liabilities

As at 31 December 2008 the company has issued guarantees and debentures incorporating fixed and floating charges over all assets of the company present and future, to the Bank of Scotland in respect of monies due to them by the company and its parent company and fellow subsidiaries. At the year end the parent company had third party debts with a book value of £51.2m (2007: £51.2m).

The Baby Grand Hotel Company Limited

Notes to the financial statements Year ended 31 December 2008

19. Transactions with related parties

In accordance with the exemption permitted by the Financial Reporting Standard No 8 "Related Party Disclosures", transactions with other members of the Scotsman Hotel Group undertakings have not been disclosed in these financial statements

The company holds financing balances with fellow group entities. At 31 December 2008 the company owed £78,296 (2007: £2,599) to the Eton Group Limited, a fellow 100% owned subsidiary within the MBI International & Partners Inc group (the company's ultimate parent undertaking). Interest is payable on the funding amounts passed down to the company on acquisition at 4%. Other amounts owed to group undertakings are non-interest bearing. There are no fixed dates for repayment.

20. Pension costs

The company contributes to personal pension plans for the benefit of the employees. Contributions paid during the year amounted to £2,234 (2007: £2,082).

21. Parent undertakings and controlling parties

The parent undertaking for which consolidated accounts are prepared is The Scotsman Hotel Group Limited, which is the company's immediate parent company. Consolidated financial statements of The Scotsman Hotel Group Limited are available from the company secretary, The Scotsman Hotel Group Limited, 78-80 Wigmore Street, London W1U 2SJ.

The company's ultimate parent company is MBI International & Partners Inc, a company registered in the British Virgin Islands and controlled by Mohamed Bin Issa Al Jaber.

22. Other Financial Commitments

The assets of the company are held as security under the terms of the Scotsman Hotel Group Limited loan facilities.