The Scotsman Hotel Group Limited

Report and Financial Statements

31 December 2008

The Scotsman Hotel Group Limited

Report and financial statements 2008

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The Scotsman Hotel Group Limited

Report and financial statements 2008

Officers and professional advisers

Company Registration No. 3748878

M M Al Jaber
A King

Secretary

T Cranwell

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W1U 2SJ

Bankers

Bank of Scotland
PO Box No 5
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Solicitors

Mcfarlanes
10 Norwich Street
London
EC4A 1BD

Auditors

Ernst & Young LLP
Registered Auditors
1 More London Place
SE1 2AF
London

The Scotsman Hotel Group Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2008 These financial statements contain the financial statements of the company as well as the consolidated financial statements of the company and its subsidiary undertakings, together referred to as the group

Results and dividends

The consolidated loss for the period, after taxation, amounted to £6,026,006 (2007 - £4,042,828) The directors do not recommend the payment of a dividend (2007 – £nil)

Principal activity and review of the business

The principal activity of the group is the financing and managing of subsidiaries that own, develop and manage hotels and related activities

As evidenced by the key performance indicators of Turnover and Operating Profit, trading during the period has been satisfactory during the year and, while affected by the general economic situation, the hotels are performing in line with their competitive set The Directors have noted a strengthening of trading through 2010 and have put in place measure to manage costs The Directors forecast positive revenue and margin growth for the future

Principal risks and uncertainties

The company is exposed to financial risk through its financial assets and liabilities The most important components of financial risk are interest rate risk, currency risk, credit risk, liquidity risk, cash flow risk and price risk Due to the nature of the group's and company's business and the assets and liabilities contained within the group's and company's balance sheet, the main financial risks the directors consider relevant to this company are liquidity, exchange rate and interest rate risk Liquidity risk is mitigated by financial support from the Group's parent company

During March 2011, it was agreed with the bank that the company's third party bank loan would be assigned by the bank to JJW Limited (a member of the ultimate parent undertaking's group) on down-payment of £38m It is anticipated that this payment will be funded by cash arranged by a bridging loan of $200M which will be available within the ultimate parent undertaking's group during July 2011 At the point of down-payment, the bank will have no further rights over the assets of the Group (or of any assets within the ultimate parent undertaking's group)

The Directors note that during 2009, the Group's bank loan was in breach of its information and financial covenants, however the bank did not recall the loan During 2010 and so far in 2011, the financial covenants were not in breach and cash flow forecasts would indicate that they would not be in breach for the remainder of 2011 and 2012 in the unlikely event that the loan continues

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

Directors

The directors who served during the year and up to the date of signing the accounts were

M B I Al Jaber (resigned 28 July 2010)
M M Al Jaber
B M Al Jaber (resigned 28 July 2010)
R J H Brook (resigned 17 March 2008)
A King (appointed 28 July 2010)

The Scotsman Hotel Group Limited

Directors' report

Employees

The company's policy is to consult and discuss with employees, through staff meetings, matters likely to affect employees' interests

Information on matters of concern to employees is given through information bulletins and reports which seek to achieve a common awareness on the part of all employees of the financial and economic factors affecting the company's performance

The company encourages the involvement of employees in its performance through regular communication from the company's managers to all employees providing up to date information on business matters and results Also, where possible, employees' remuneration contains an element linked to business performance to give an opportunity to participate in the success of the business

The company's policy is to recruit disabled workers for those vacancies that they are able to fill All necessary assistance with initial training courses is given Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person Arrangements are made, where possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities

Charitable contribution

During the year the company made charitable donations of £nil (2007 £nil)

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's and the Company's auditors are unaware Having made enquiries of fellow directors, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Group's and the Company's auditors are aware of that information

By order of the board

Andrea King

Director 1 July 2011

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and Financial Statements for the company and the group in accordance with applicable law and regulations Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period In preparing those 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, 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 group and 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 group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Independent auditors' report to the members of
The Scotsman Hotel Group Limited

We have audited the group and parent company financial statements (the 'financial statements') of The Scotsman Hotel Group Limited for the year ended 31 December 2008 which comprise the Group Profit and Loss Account, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and the related notes 1 to 26 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 are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) as set out in the Statement of Directors' Responsibilities

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you if, in our opinion, the Directors' Report is consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

We read other information contained in the Annual Report, and consider whether it is consistent with the audited financial statements This other information comprises only the Directors' Report We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements Our responsibilities do not extend to any other information

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 group's and 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 auditors' report to the members of
The Scotsman Hotel Group Limited

Qualified opinion arising from omission of information concerning going concern

As disclosed in Note 1 to these accounts, the Group is reliant on the support of its ultimate parent undertaking and ultimate controlling party to make a £38m payment to the bank (and therefore to clear any further liability to the bank) and otherwise to fund the cash needs of the Group, which has net current liabilities at the balance sheet date

The Group has a letter of support from the ultimate parent undertaking and ultimate controlling party indicating their intention to support the Group to make £38m of payments to the bank in July 2011 and otherwise to support the Group in meeting its debts as and when they fall due Such support is dependent on the availability of a bridging loan of $200m within the ultimate parent undertaking group We have been informed by management that several banks have been approached with regard to the bridging loan and that negotiations with the banks are ongoing However, no binding commitment has yet been entered into on the part of the banks to provide the bridging loan This situation indicates the existence of a material uncertainty regarding the ability of the ultimate controlling party to make the planned payments within the expected timescale which may cast significant doubt upon the Group's ability to continue as a going concern and therefore the Group may be unable to realise its assets and discharge its liabilities as they fall due The financial statements (and notes thereto) do not disclose this fact

Except for the omission of the information referred to in the paragraph above, in our opinion the financial statements

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 December 2008 and of the loss of the group 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 L.L.P.
1st July 2011

Ernst & Young LLP
Registered Auditors
London

Consolidated profit and loss account
Year ended 31 December 2008

	Notes	2008 £	2007 £
Turnover	2	15,649,957	16,193,414
Cost of sales		(7,859,356)	(7,740,286)
Gross profit		7,790,601	8,453,128
Administrative expenses		(8,087,380)	(8,342,169)
Other operating income		68,000	68,000
Impairment of Fixed Assets		(2,150,915)	-
Operating (loss)/profit	4	(2,379,694)	178,959
Interest payable and similar charges	7	(3,630,256)	(4,161,276)
Loss on ordinary activities before taxation		(6,009,950)	(3,982,317)
Tax on loss on ordinary activities	8	(16,056)	(60,511)
Loss for the financial year		(6,026,006)	(4,042,828)

All amounts relate to continuing operations

The Scotsman Hotel Group Limited

Consolidated statement of total recognised gains and losses
Year ended 31 December 2008

	2008 £	2007 £
Loss for the financial period	(6,026,006)	(4,042,828)
Currency translation differences on foreign currency net investment	7,403,737	913,945
Total gains and losses recognised	1,377,731	(3,128,883)

The Scotsman Hotel Group Limited

Consolidated balance sheet
31 December 2008

	Notes	2008 £	2007 £
Fixed assets			
Tangible assets	9	48,189,750	45,205,643
Current assets			
Stocks	11	183,618	185,160
Debtors	12	1,543,140	1,191,891
Cash at bank and in hand		13,090,285	10,749,940
		14,817,043	12,126,991
Creditors: amounts falling due within one year	13	(83,833,651)	(79,553,280)
Net current liabilities		(69,016,608)	(67,426,289)
Total assets less current liabilities		(20,826,858)	(22,220,645)
Creditors: amounts falling due after more than one year	14	(40,726,241)	(40,726,241)
Provisions for liabilities	17	* (174,200)	(158,144)
Net liabilities		(61,727,299)	(63,105,030)
Capital and reserves			
Called up share capital	18	1,000	1,000
Share premium account		938,476	938,476
Capital contribution reserve	19	2,369,052	2,369,052
Profit and loss account	19	(65,035,827)	(66,413,558)
Total shareholder's deficit	20	(61,727,299)	(63,105,030)

These financial statements were approved by the Board of Directors on 1 July 2011

Signed on behalf of the Board of Directors

Andrea King

Director

The Scotsman Hotel Group Limited

Company balance sheet
31 December 2008

	Notes	2008 £	2007 £
Fixed assets			
Tangible assets	9	-	3,442
Investments	10	5,893,637	5,893,637
		5,893,637	5,897,079
Current assets			
Debtors	12	51,056,949	47,838,851
Creditors: amounts falling due within one year	13	(81,153,133)	(76,804,933)
Net current liabilities		(30,096,184)	(28,966,082)
Total assets less current liabilities		(24,202,547)	(23,069,003)
Creditors: amounts falling due after more than one year	14	(40,726,241)	(40,726,241)
Net liabilities		(64,928,788)	(63,795,244)
Capital and reserves			
Called up share capital	18	1,000	1,000
Share premium account		938,476	938,476
Capital contribution reserve	19	2,369,052	2,369,052
Profit and loss account	19	(68,237,316)	(67,103,772)
Total shareholder's deficit		(64,928,788)	(63,795,244)

These financial statements were approved by the Board of Directors on 1 July 2011

Signed on behalf of the Board of Directors

Andrea King

Director

The Scotsman Hotel Group Limited

Consolidated cash flow statement
Year ended 31 December 2008

	Notes	2008 £	2007 £
Reconciliation of operating (loss)/profit to net cash inflow from operating activities			
Operating (loss)/profit		(2,379,694)	178,959
Depreciation of tangible fixed assets	9	2,588,125	2,335,642
Impairment	9	2,150,915	-
Loss on sale of fixed assets		3,219	3,119
(Increase)/decrease in debtors		(351,249)	91,556
Decrease /(increase) in stocks		1,545	(8,670)
Increase in creditors		1,895,104	270,365
Net cash inflow from operating activities		3,907,965	2,870,971
Returns on investments and servicing of finance	21	(3,370,213)	(3,943,027)
Capital expenditure	21	(987,414)	(969,416)
Taxation		(83,890)	172,704
		(533,552)	(1,868,768)
Financing	21	562,133	1,552,203
Increase in cash		28,581	(316,565)
Reconciliation of net cash flow to movement in net debt	22		
Increase in cash in the period		28,581	(316,565)
Cash flow from change in debt		(565,245)	(934,373)
Cashflow from change in finance leases		3,112	35,097
Other non-cash changes		(588,132)	(663,328)
Change in net debt		(1,121,684)	(1,879,169)
Net debt at 31 December 2007		(104,311,337)	(102,432,168)
Net debt at 31 December 2008		(105,433,021)	(104,311,337)

The Scotsman Hotel Group Limited

Notes to the financial statements
Year ended 31 December 2008

1 **Accounting policies**

The financial statements are prepared in accordance with applicable UK law and accounting standards The particular accounting policies adopted have been consistently applied in the current and preceding year, are described below

Accounting convention and basis of preparation

The financial statements are prepared under the historical cost convention

Consolidation policy

The consolidated financial statements are prepared under acquisition accounting and comprise the audited financial statements of the company and its subsidiary undertakings made up to 31 December 2008

A separate profit and loss account for the parent company has not been prepared as permitted by Section 230(2) of the Companies Act 1985 The loss for the financial year of the parent company was £1,133,544 (2007 - £1,188,316)

Consideration of Going Concern

During March 2011, it was agreed with the bank that the third party bank loan taken out by the company, would be assigned by the bank to JJW Limited (a member of the ultimate parent undertaking's group) on down-payment of £38m It is anticipated that this payment will be funded by cash arranged by a bridging loan of $200M which will be available within the ultimate parent undertaking's group during July 2011 At the point of down-payment the bank will have no further rights over the assets of the Group (or of any assets within the ultimate parent undertaking's group)

The Directors note that during 2009, the Group's bank loan was in breach of its information and financial covenants, however the bank did not recall the loan During 2010 and so far in 2011, the financial covenants were not in breach and cash flow forecasts would indicate that they would not be in breach for the remainder of 2011 and 2012 in the unlikely event that the loan continues

In light of the previous breach, the intended repayment, and noting that the Group has net current liabilities and net liabilities at 31 December 2008, the Directors have obtained the following confirmations

- The Group's ultimate controlling party, Mohamed Bin Issa Al Jaber, has confirmed that he will not seek repayment of any balances due to him from any company within the Group for a period of at least 15 months from the date of signing of the accounts,
- MBI International & Partners Inc (the ultimate parent undertaking) and Mohamed Bin Issa Al Jaber, have also confirmed that they will provide financial support as and when any company in the Group may require to meet liabilities as they fall due, for a period of at least 15 months from the date of signing the accounts, and
- Mohamed Bin Issa Al Jaber has also confirmed that a bridging loan of $200m within the ultimate parent undertaking group, which is controlled by him, which is anticipated to be available in July 2011 will be used to make the £38m down payment to the bank and to fund the Group cash flows and debts as and when they fall due

As a result of their cash flow forecasts for the Group, the agreement with the bank and obtaining these letters of support, the Directors consider that it is appropriate to prepare the financial statements on a going concern basis as they consider that the Group loan will be paid off during July 2011 and that all companies within the Group will be able to meet their liabilities as and when they fall due

Notes to the financial statements
Year ended 31 December 2008

1. **Accounting policies (continued)**

Turnover

Turnover, which excludes value added tax and trade discounts, represents the invoiced value of goods and services supplied

Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases

Freehold buildings	-	50 years straight line
Leasehold land and buildings	-	over term of lease (except Hotel de la Tremoille, see note 9)
Fixtures and fittings	-	10-33% per annum straight line

Freehold land is not depreciated

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

Investments

Investments are stated at cost less provision for any impairment

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 Provision is made for obsolete, slow-moving or defective items where appropriate

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay less tax in the future have occurred at the balance sheet date Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

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

Foreign currencies

Transactions denominated in foreign currencies are recorded at the rate ruling on the date of the transaction At the balance sheet date monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at that date Exchange differences are taken into account in arriving at the operating profit

The financial statements of foreign subsidiaries are translated into sterling at the closing rates of exchange and the differences arising from the translation of the opening net investment in subsidiaries at the closing rate are recorded directly in reserves

Notes to the financial statements
Year ended 31 December 2008

1. **Accounting policies (continued)**

Borrowings

Interest rates on loans, which have stepped increases over the period of the borrowing have been incorporated in the financial statements on an overall average rate

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 elements of rental obligations is charged to the profit and loss account over the period of the lease

Operating leases

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

Pensions

The group makes contributions to personal pension plans and the pension charged in the consolidated profit and loss account represents amounts payable by the group to the funds in respect of the period

French law does not require the recognition of a retirement cost provision In order to comply with UK GAAP a retirement provision in respect of the French subsidiaries has been included within the consolidated accounts at the best estimate of retirement liabilities falling due The liability at the balance sheet date is £319,213 (2007 £252,609) and the current cost is £66,604 (2006 £8,876)

2. **Turnover**

Turnover is attributable to one class of business, ownership and operation of hotels It is analysed by geographical market as follows

	2008	2007
	£	£
United Kingdom	6,975,645	8,658,413
France	8,674,312	7,535,001
Total	15,649,957	16,193,414

3. **Segmental analysis**

Loss before taxation and net assets are attributable to one class of business, ownership and operation of hotels

Loss before taxation and net assets by geographical origin are analysed by geographical segment below

	Loss before taxation		Net liabilities	
	2008	2007	2008	2007
	£	£	£	£
United Kingdom	(1,990,231)	(3,450,342)	(41,985,624)	(53,842,696)
France	(4,019,719)	(531,975)	(19,741,675)	(9,262,334)
	(6,009,950)	(3,982,317)	(61,727,299)	(63,105,030)

Notes to the financial statements
Year ended 31 December 2008

4. Operating profit/(loss)

The operating loss is stated after charging/(crediting)

	2008	2007
	£	£
Depreciation of tangible fixed assets		
- owned by the group	2,585,935	2,311,452
- held under finance lease or hire purchase contracts	2,190	24,190
Loss on sale of fixed assets	3,219	3,119
Impairment of Fixed Assets	2,150,915	-
Auditors' remuneration – audit of financial statements	30,354	30,000
Auditors' remuneration – audit of the company's subsidiaries	50,000	40,000
Operating lease rentals		
- land and buildings	1,441,425	1,176,490
Rental income	(68,000)	(68,000)

5. Directors' emoluments and benefits

	2008	2007
	£	£
Directors' emoluments		
Emoluments	-	-

No directors (2007 - none) were members of company pension schemes

The directors appointed following the acquisition on 31 January 2006 were not remunerated by the group All directors were remunerated by the Company's parent undertaking

6. Staff costs

Staff costs, including directors' emoluments, were as follows

	2008	2007
	£	£
Wages and salaries	4,914,162	4,637,244
Social security costs	1,203,984	1,007,444
Pension costs	273,104	202,451
	6,391,250	5,847,139

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

	Number	Number
	233	243

7. Interest payable and similar charges

	2008	2007
	£	£
Bank loans and overdrafts	3,042,124	3,562,743
Interest payable to group undertakings	588,132	588,132
Finance charges under finance lease and hire purchase contracts	-	10,401
	3,630,256	4,161,276

8. Taxation

(a) Analysis of charge in year	2008 £	2007 £
UK corporation tax		
Current tax on income for the year	-	-
Foreign tax		
Current tax on income for the year	-	87,634
Total current tax	-	87,634
Deferred tax		
Changes in deferred tax balances arising from		-
Origination or reversal of timing differences	16,056	(27,123)
Tax charge on profit on ordinary activities	16,056	60,511

(b) Factors affecting the tax charge for the year

The tax assessed for the year does not reflect a credit equivalent to the loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 28 5% (2007 - 30%) The differences are explained below

	2008 £	2007 £
Profit (Loss) on ordinary activities before tax	(6,009,950)	(3,982,317)
Profit (Loss) on ordinary activities multiplied by the standard rate of corporation tax of 28 5% (2007 - 30%)	(1,712,836)	(1,194,695)
Effects of		
Expenses not deductible for tax purposes	953,216	435,349
Capital allowances in excess of depreciation	81,191	270,396
Transfer pricing adjustment	(580,348)	(580,348)
Tax rate differences	-	(17,557)
Utilisation of tax losses	1,258,777	1,174,489
Current tax charge for the year	-	87,634

A deferred tax asset has not been recognised in respect of tax losses and timing differences as at 31 December 2008 as there is insufficient evidence that the asset will be recovered The amount of the asset not recognised is £14 7m (2007 £13 4m)

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 the weighted average rate of 28 5% and deferred tax balances have been calculated at 28%

c) Factors that may affect future charges

The following changes were announced in the UK budget on 22 June 2010, (i) the full rate of corporation tax will reduce to 26% with effect from 1 April 2011, and will decrease by a further 1% each 1 April thereafter until reaching 23% with effect from 1April 2014, (ii) the rate of the annual writing down allowances on qualifying plant and machinery will reduce by 2%, to 18% for the general capital allowance pool and to 8% for the integral features pool, with effect from 1 April 2012

8. Taxation (continued)

As this legislation was not substantively enacted by the balance sheet date, the figures within these financial statements are calculated in accordance with existing rates It is not yet possible to quantify the impact of these rate changes upon current or deferred tax

9. Tangible fixed assets

	Freehold hotel properties £	Leasehold hotel properties £	Fixtures and fittings £	Total £
Cost				
At 1 January 2008	21,560,561	29,209,333	8,103,271	58,873,165
Additions	-	58,422	928,992	987,414
Disposals	-	-	(186,893)	(186,893)
Exchange difference	-	7,781,120	1,234,008	9,015,128
At 31 December 2008	21,560,561	37,048,875	10,079,378	68,688,814
Depreciation				
At 1 January 2008	1,798,971	6,129,263	5,739,289	13,667,523
Charge for the year	257,361	1,372,458	958,306	2,588,125
On disposals	-	-	(183,674)	(183,674)
Impairment	-	1,897,037	253,878	2,150,915
Exchange difference	-	1,533,879	742,296	2,276,175
At 31 December 2008	2,056,332	10,932,637	7,510,095	20,499,064
Net book value				
At 31 December 2008	19,504,229	26,116,238	2,569,283	48,189,750
At 31 December 2007	19,761,590	23,080,070	2,363,982	45,205,642

Net book amount of leasehold hotel properties comprises	2008 £	2007 £
Long leaseholds	18,550,839	16,702,693
Short leaseholds	7,565,399	6,377,377
	26,116,238	23,080,070

All freehold hotel property, short leasehold hotel property and other assets, except as noted below, were held as at 31 December 2008 under fixed and floating charges in favour of the Bank of Scotland, as security for the debts of the Scotsman Hotel Group Limited

Notes to the financial statements
Year ended 31 December 2008

9. Tangible fixed assets (continued)

The Hotel de la Tremoille is held under a lease which expires on 31 December 2013 and the group owns the 'fonds de commerce' which is the hotel trade The company is legally entitled to renew the lease for a further period of nine years and again at the end of each subsequent renewal date, unless the landlord pays compensation corresponding to the value of the business, including future potential trading profits On the basis that the company has a right to renew the lease or receive compensation, and given that the company intends to renew the lease indefinitely, the carrying value of the leasehold interest (which includes the value of the hotel trading), less estimated residual value, of the hotel is being depreciated over a one hundred year period

The properties of the group were valued by HVS Limited on 1 April 2009 The basis of 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 lead to an impairment of fixed assets of £2,150,915

The net book amounts of fixtures and fittings above include £nil (2007 - £2,190) in respect of assets held under finance leases or hire purchase contracts

Company	**Fixtures and fittings £**
Cost	
At 1 January 2008 and 31 December 2008	247,548
Depreciation	
At 1 January 2008	244,106
Charge for year	3,442
At 31 December 2008	247,548
Net book amount	
At 31 December 2008	-
At 31 December 2007	3,442

The net book amounts of fixtures and fittings above include £nil (2007 - £nil) in respect of assets held under finance leases or hire purchase contracts

Notes to the financial statements
Year ended 31 December 2008

10. Fixed asset investments

Company	Loans to subsidiaries	Shares in subsidiaries	Total £
Cost			
At 1 January and 31 December 2008	12,046,969	12,726,064	24,773,033
Impairment provision			
At 1 January 2008	10,168,382	8,711,014	18,879,396
At 31 December 2008	10,168,382	8,711,014	18,879,396
Net book amount			
At 31 December 2008	1,878,587	4,015,050	5,893,637
At 31 December 2007	1,878,587	4,015,050	5,893,637

The company holds the following investments in subsidiary undertakings

Name	Country of incorporation/ registration and operation	Activity	Type of share	% of nominal value of shares
The Baby Grand Hotel Company Limited	Great Britain	Hotel operator	Ordinary	100
The Scotsman Hotel Company Limited	Great Britain	Hotel operator	Ordinary	100
Tremoille Hotel SA	France	Holding company	Ordinary	100
Hotel de la Tremoille SA	France	Hotel operator	Ordinary	100*
Baby Grand Hotels Limited	Great Britain	Dormant company	Ordinary	100
Baby Grand Restaurants SARL	France	Restaurant operator	Ordinary	100

* This is an indirect holding through Tremoille Holding SA

There are no post balance sheet events to date which would indicate an impairment in the value of these investments is necessary as at the date of this report

11. Stocks

	Group 2008 £	Group 2007 £	Company 2008 £	Company 2007 £
Goods held for resale	183,618	185,160	-	-

12. Debtors

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Due within one year				
Trade debtors	321,911	462,179	-	-
Amounts due from subsidiary undertakings	-	-	51,038,286	47,801,467
Amounts due from related parties	40,491	-	-	-
Corporation tax debtor	-	-	-	10,703
Other debtors	410,172	318,288	-	12,223
Prepayments and accrued income	770,566	411,424	18,663	14,458
	1,543,140	1,191,891	51,056,949	47,838,851

13. Creditors: amounts falling due within one year

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Bank overdrafts	13,078,664	10,766,900	13,078,644	10,722,525
Bank loans (note 15)	51,232,224	51,232,224	51,232,224	51,232,224
Trade creditors	1,349,534	953,734		228
Other tax and social security	488,635	487,996	-	-
Net obligations under finance lease and hire purchase contracts (note 16)	-	3,112	-	-
Other creditors	1,185,151	960,116	-	-
Parent company loan (note 15)	13,486,177	12,332,800	15,063,695	13,668,665
Amounts owed to related parties	1,544,403	814,866	1,010,000	-
Corporation Tax	-	67,834	-	-
Accruals and deferred income	1,468,863	1,933,697	768,570	1,234,185
	83,833,651	79,553,279	81,153,133	76,857,827

The bank overdraft is secured with a guarantee and debenture over the whole of the group's assets

Notes to the financial statements
Year ended 31 December 2008

14 **Creditors: amounts falling due after more than one year**

	Group 2008 £	Group 2007 £	Company 2008 £	Company 2007 £
Group Funding Loans	40,726,241	40,726,241	40,726,241	40,726,241
Net obligations under finance lease and hire purchase contracts (note 16)	-	-	-	-
	40,726,241	40,726,241	40,726,241	40,726,241

The Group Funding loans are due to the ultimate parent company, MBI International & Partners Inc They are collateral free, non-interest bearing and with no fixed repayment term

The Group Funding loans are held as long term as the Directors have a letter of support from the MBI International & Partners Inc stating that they will not seek repayment of any balances due to them for a period of at least 15 months from the date of signing of the accounts

15. Loans

	Group 2008 £	Group 2007 £	Company 2008 £	Company 2007 £
Group Fundıng Loans	40,726,241	40,726,241	40,726,241	40,726,241
Bank loans – term A (LIBOR + 1 5%)	32,000,000	32,000,000	32,000,000	32,000,000
Bank loans – term B (LIBOR + 0 0%)	19,232,224	19,232,224	19,232,224	19,232,224
Parent company loan	13,486,177	12,332,800	13,486,177	13,668,665
Total loans (excludıng overdrafts)	105,444,642	104,291,265	105,444,642	105,627,130

Loans fall due for payment as follows

	Group 2008 £	Group 2007 £	Company 2008 £	Company 2007 £
Group Fundıng Loans				
Between two and five years	40,726,241	40,726,241	40,726,241	40,726,241
Parent company loan				
Wıthın one year	13,486,177	12,332,800	15,063,695	13,668,665
Bank loans				
Wıthın one year	51,232,224	51,232,224	51,232,224	51,232,224

Group Fundıng Loans

On 31 January 2007, the Group Fundıng Loan stocks were acquıred by the MBI Internatıonal & Partners Inc and subsequent ınterest was waıved The guarantees and charges ıssued to the prevıous loan stock holders were transferred to MBI Internatıonal & Partners Inc

Bank Loans

Also on 31 January 2007, followıng an ınjectıon of funds by MBI Internatıonal & Partners Inc, the bank loans were restructured The current loans wıth the Bank of Scotland are subdıvıded ınto term A and term B loans wıth ınterest charged at 1 5% above LIBOR and 0% above LIBOR respectıvely

Under the amended agreement, the bank debt ıs repayable at the end of the term of 10 years, wıth ınterest on both loans beıng paıd quarterly As dısclosed ın Note 1, certaın of the Group's loan covenants are ın breach and,as a result, the loans are repayable on demand Consequently, the Group's bank loans have been classıfied as current lıabılıtıes

Parent Company Loan

The parent company loan also payable to MBI Internatıonal & Partners Inc, carrıes ınterest at 5% but otherwıse has no other formal terms and ıs repayable on demand

16. Finance leases

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

	Group 2008 £	Group 2007 £	Company 2008 £	Company 2007 £
Within one year	-	3,112	-	-
	-	3,112	-	-

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

17. Provisions for liabilities

Group

	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 advance of depreciation	174,200	158,144

18. Called up share capital

	2008 £	2007 £
Authorised:		
ordinary shares of £0 01 each	1,000	1,000
Called up, allotted and fully paid		
ordinary shares of £0 01each	1,000	1,000

Notes to the financial statements
Year ended 31 December 2008

19. Reserves

	Group £	Company £
Profit and loss account		
At 31 December 2007	(66,413,558)	(67,103,772)
(Loss) / Profit for the year	(6,026,006)	(1,133,544)
Exchange difference	7,403,737	-
At 31 December 2008	(65,035,827)	(68,237,316)

	Group and Company £
Capital contribution reserve	
At 31 December 2007	2,369,052
Capital contribution	-
At 31 December 2008	2,369,052

20. Shareholders' deficit

	2008 £	2007 £
Shareholders' deficit at 31 December 2007	(63,105,030)	(59,976,147)
(Loss) / Profit for the year	(6,026,006)	(4,042,828)
Other recognised gains and losses	7,403,737	913,945
Shareholders' deficit at 31 December 2008	(61,727,299)	(63,105,030)

21. Gross cash flows

		2008 £	2007 £
Returns on investments and servicing of finance			
Interest paid		(3,370,213)	(3,901,792)
		(3,370,213)	(3,901,792)
Capital expenditure			
Payments to acquire tangible fixed assets	9	(987,414)	(969,416)
Financing			
New loans		565,245	1,587,300
Capital element of finance lease rentals		(3,112)	(35,097)
		562,133	1,552,203

Notes to the financial statements
Year ended 31 December 2008

22. Analysis of changes in net debt

	2007 £	Cash flows £	Other changes £	2008 £
Cash at bank and in hand	10,749,940	2,340,345	-	13,090,285
Overdrafts	(10,766,900)	(2,311,764)	-	(13,078,664)
Cash less overdrafts	(16,960)	28,581	-	11,621
Debt due within one year – bank	(51,232,224)	-	-	(51,232,224)
Debt due within one year – parent	(12,332,800)	(565,245)	(588,132)	(13,486,177)
Debt due after one year	(40,726,241)	-	-	(40,726,241)
Finance leases	(3,112)	3,112	-	-
Total	(104,311,337)	(533,552)	(588,132)	(105,433,021)

23. Other commitments

Group

At 31 December 2006 the group has annual commitments under operating leases as follows

	Land and buildings		Other	
	2008 £	2007 £	2008 £	2007 £
Expiry date:				
After more than five years	1,012,286	1,012,286	-	-

24. Contingent liabilities

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 subsidiaries

25. Transactions with related parties

Company

The company is taking advantage of the exemption granted by paragraph 3(c) of Financial Reporting Standard 8, Related party disclosures, not to disclose transactions, with group companies which are related parties

25. Transactions with related parties (continued)

Group

During the year the group entered into financing transactions with other related parties Balances outstanding at 31 December, are as follows

		Amounts owed from related parties £	Amounts owed to related parties £
MBI International & Partners Inc	2008	-	54,212,418
	2007	-	53,711,968
Eton Group Limited	2008	-	1,544,403
	2007	-	814,866
The Glasshouse Hotel Limited	2008	40,491	-
	2007	-	-

MBI International & Partners Inc is the company's ultimate parent undertaking The terms of the Group Funding Loan and Parent Company Loan held by the Group with its ultimate parent are disclosed in Note 15 During the year interest charges to the profit and loss account and fees incurred in respect of the loans were £588,132 (2007 - £588,132)

Eton Group Limited and The Glasshouse Hotel Limited are a 100% owned subsidiary within the MBI International & Partners Inc group No interest is payable/receivable on the balances held with Eton Group Limited and The Glasshouse Hotel Limited and there is no fixed repayment date Subsequent to the balance sheet date, the Eton Group Limited went into administration

26 Controlling ultimate parent company

On 2 December 2008, the shares of Scotsman Hotel Group Limited were transferred from MBI International & Partners Inc to JJW Hotels & Resorts Holding Inc, a company incorporated in the British Virgin Islands which is now the company's immediate parent company MBI International & Partners Inc remains the company's ultimate parent undertaking and the controlling party is Mohamed Bin Issa Al Jaber