

Company Registration No. SC118669

THE TOWN HOUSE COMPANY LIMITED

Annual Report and Financial Statements

31 October 2010



THE TOWN HOUSE COMPANY LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS 2010

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THE TOWN HOUSE COMPANY LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

Peter J Taylor
Mhairi J Taylor
Hamish J Taylor
Iain P Taylor
Hans Rissmann
Douglas J Brotherston

SECRETARY

Douglas J Brotherston

REGISTERED OFFICE

35 Drumsheugh Gardens
Edinburgh
EH3 7RN

BANKERS

Bank of Scotland
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EH2 2YR

SOLICITORS

Bell & Scott LLP
16 Hill Street
Edinburgh
EH2 3LD

McGrigors LLP
Princes Exchange
1 Earl Grey Street
Edinburgh
EH3 9AQ

INDEPENDENT AUDITORS

Deloitte LLP
Edinburgh, United Kingdom

THE TOWN HOUSE COMPANY LIMITED

REPORT AND FINANCIAL STATEMENTS 2010

CHAIRMAN'S STATEMENT

It gives me great satisfaction to report the completion of Blythswood Square, Glasgow's premier hotel and spa. Since we opened fully in September 2010, Blythswood Square has established itself as the outstanding hotel in the city, winning Scottish Hotel of the Year, Spa of the Year, treble awards at the Scottish License Trade Awards and voted as one of the World's Top 66 Hot Spots by Conde Naste Traveller Magazine. Financial performance of the hotel has been excellent since opening and 92% of our guests have reviewed Blythswood Square as excellent or good and the hotel remains highly rated on consumer review websites. The Group's other hotel, The Bonham in Edinburgh, continues to trade well. In a challenging market, we are delighted to have two such attractive hotels in our portfolio.

There has been considerable change in the Group's activities in recent years and an event of critical importance and financial impact was the collapse of a wall at the heart of the Blythswood Square development in November 2007. This resulted in a delay of almost 2 years to completion of the hotel, incurring substantial additional cost and increased bank debt. The Group has submitted a claim under the appropriate insurance policies and the additional costs incurred by the Group as a consequence of the wall collapse and delay are largely reflected in the financial statements for the period ending 31 October 2010. Certain costs continue to be incurred and will be subject to further insurance claims in due course.

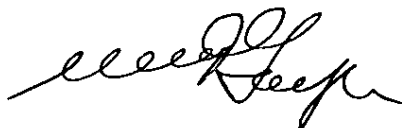
The Group's bank borrowing significantly increased over this difficult period and this has been addressed by the sale of three of the Group's smaller and more mature hotels in Edinburgh. Channings, The Howard and The Edinburgh Residence are fine hotels with a loyal guest following and we wish all involved well under the new ownership. The sale transactions were concluded in late 2010 and the financial statements reflect their performance in the period to 31 October 2010.

For the year to October 2010 the Group's turnover of £8.7m has increased by 61% over the prior year with the partial opening of the Blythswood Square. The Group has continued to trade profitably during this difficult time, returning an underlying operating profit of £109k for the period before exceptional costs of £1.1m and finance charges of £2.27m. The overall pre-tax loss for the year to October 2010 was £3.26m. The Directors are confident that the underlying operating profit will continue to improve during 2011 with the Blythswood Square hotel now fully operational from September 2010.

This has been a difficult period for the Group but we are now focused around two of Scotland's best hotels, with well-founded optimism about the future development of Blythswood Square in particular. We have agreed medium to long term bank facilities with the Group's bankers, Lloyds Banking Group, which provide a stable platform from which to develop our business through The Bonham and Blythswood Square. This agreement with our bankers brings to an end a long period of financial uncertainty and I should like to place on record the Group's thanks to the Bank for their valued support.

Moving forward into 2011, I am delighted to report that Blythswood Square has firmly established itself as Glasgow's premier hotel and Spa and has achieved both an AA 5 star and Visit Scotland 5 star rating, plus 2 Rosettes in its restaurant within the first 6 months of full opening. These achievements are highly significant and are a testament to the high standards of product and service that all employees of The Town House Collection consistently deliver. The scale of this achievement, in such a short timeframe, only becomes fully apparent when one realises that Blythswood Square is the only hotel ever to achieve an AA 5 star status within the city of Glasgow.

I would like to personally thank the employees of The Town House Collection and all of our stakeholders for their continued support over the past two years as I look forward to an exciting future for the Group.



Peter Taylor
Chairman

THE TOWN HOUSE COMPANY LIMITED

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 October 2010.

ACTIVITIES

The principal activities of the Group are hotel management and catering.

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The trading results for the year and the Group's financial position at the end of the year are shown in the attached financial statements.

Turnover increased following the opening of the Blythswood Square hotel at the start of the year. The hotel opened on a partial basis in November 2009 and was fully completed and operational in September 2010.

The Group reported a loss before tax for the year of £3,261,601 (2009: £360,543) partially driven by exceptional costs of £1,096,592 (2009: £959,925) associated with the delayed re-development and consequential phased opening of the Blythswood Square hotel (owned and operated by the subsidiary undertaking). The established Edinburgh business (excluding the results of the subsidiary undertaking) remained profitable, with the company only profit after tax reported as £651,126 (2009: £789,454).

The timescales associated with the development of the Blythswood Square hotel extended significantly beyond those originally envisaged at the outset of the project due to the collapse of a wall in November 2007, incurring substantial additional cost and increased bank debt. The directors are seeking full recovery of costs and loss of profits caused by the wall collapse from the insurers. Certain costs continue to be incurred and will be subject to further insurance claims in due course.

The directors have assessed the valuation of the Group's heritable hotel assets at the year end. For the assets divested subsequent to the year end they have referenced their assessment of value to the proceeds received. With regard to the Bonham hotel and the Blythswood Square hotel they have obtained a professional valuation as detailed in note 9. With regard to the Blythswood Square hotel the directors have also determined a value in use assessment based upon future cash flows consequential from the continued ownership of this hotel which indicates a significantly higher valuation.

GOING CONCERN

Subsequent to the year end, the Group divested three of its mature Edinburgh hotels as part of a revised strategy for the Group centred on its principal hotels in Edinburgh and Glasgow. These transactions resulted in a significant reduction in the Group's debt.

On 17 May 2011, the Group agreed new medium to long term facilities with its lenders.

The Directors have prepared Group forecasts and projections, taking account of reasonably possible changes in trading performance. These forecasts show that the Group should be able to operate within the level of its current funding levels and associated financial covenants.

After making enquiries, the directors have a reasonable expectation that the Group and the company have adequate resources to continue in operational existence for the foreseeable future. The financial statements have therefore been prepared on a going concern basis.

THE TOWN HOUSE COMPANY LIMITED

DIRECTORS' REPORT (CONTINUED)

RISK MANAGEMENT

In common with most businesses, The Town House Company Limited in the context of its principal trading activity goes to considerable lengths to ensure that the major risks faced by the group are identified and evaluated, and where possible, well managed and controlled.

This is a family owned company with the principal shareholder working full time within the business. The Board meets on a regular basis to discuss key issues affecting the Group. The day to day management of the Group is carried out by a senior management team who meet fortnightly under the chairmanship of the managing director and principal shareholder to deal with operational, financial and compliance issues. The risk profile of the Group is reviewed at least once a year by the Board.

The principal operational risks are associated with the performance of each of the Group's hotels. The Group continues to focus investment in these hotels in order to continue successful penetration of the marketplace. The Group is also dependent on the economic prosperity of the tourist and business tourist markets in which it sells, and it continues to monitor the risk in these areas.

Through its wholly owned subsidiary, the Group purchased hotel facilities in Glasgow to create a new 100 bedroom hotel which opened in November 2009 and was fully complete by September 2010. The company carried out significant market research to ascertain the need for such facilities. Notwithstanding the significant difficulties encountered with the development of this asset, the directors remain positive as regards to its trading potential evidenced by it being awarded a five star AA rating in March 2011. This is in addition to the existing Visit Scotland rating and the two rosettes achieved by the hotel's restaurant.

As a result of the construction of the Blythswood Square Hotel, the Group actively maintains a mixture of long and short term debt finance designed to ensure it has sufficient funds available for its activities, and has a policy of stabilising interest costs at acceptable levels through a mixture of borrowing arrangements. The Group has an interest rate hedging strategy whereby an interest rate cap and collar was entered into to hedge against the risk of movements in LIBOR.

The Group's principal financial assets are bank balances, cash and trade receivables. The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables. The Board are of the opinion the Group has no concentration of credit risk, with exposure spread over a large number of customers.

The Board of the Group retains overall responsibility for the Group's system of internal financial control, which is designed to give reasonable assurance against material financial misstatement or loss. Financial controls have been established which the Board believes enables it to meet its responsibility for the integrity and accuracy of the company's accounting records.

DIVIDENDS

The directors do not recommend a dividend in the current year (2009 - £nil), and the loss for the financial year of £3,607,229 (2009 - £361,670 loss) has been transferred to reserves.

DIRECTORS INDEMNITIES

The Group has made qualifying third party indemnity provisions for the benefit of its directors which remain in force at the date of this report.

DIRECTORS

The directors who served the company during the year and to the date of this report are listed on page 1.

POST BALANCE SHEET EVENTS

Events subsequent to the balance sheet date are disclosed in note 29 to the financial statements. These include divestment by the Group of three of its hotels and agreements with its bankers as regards to revised debt facilities.

THE TOWN HOUSE COMPANY LIMITED

DIRECTORS' REPORT (CONTINUED)

INDEPENDENT AUDITORS

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Deloitte LLP have expressed their willingness to continue in office and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the directors on 17 May 2011.

Signed on behalf of the directors



Peter J Taylor

THE TOWN HOUSE COMPANY LIMITED

DIRECTORS' RESPONSIBILITIES STATEMENT

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). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and 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 judgments and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company and group 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 group and 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 TOWN HOUSE COMPANY LIMITED

We have audited the financial statements of The Town House Company Limited for the year ended 31 October 2010 which comprise the Consolidated Profit and Loss Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, and the related notes 1 to 29. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and 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 auditor

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

Scope of the audit of the financial statements

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 group's and the parent 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 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 group's and the parent company's affairs as at 31 October 2010 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.


Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.



Michael McGregor ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Edinburgh, United Kingdom
18 May 2011

THE TOWN HOUSE COMPANY LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 October 2010

	Note	2010 Before exceptional items £	2010 Exceptional items £	2010 Total £	2009 Total £
TURNOVER	2	8,703,662	-	8,703,662	5,396,627
Cost of sales		(4,491,483)	-	(4,491,483)	(2,246,930)
GROSS PROFIT		4,212,179	-	4,212,179	3,149,697
Administrative expenses	6	(4,103,231)	(1,096,592)	(5,199,823)	(3,404,905)
OPERATING PROFIT/(LOSS)	3	108,948	(1,096,592)	(987,644)	(255,208)
Interest payable and similar charges	7	(2,273,957)	-	(2,273,957)	(105,335)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	6	(2,165,009)	(1,096,592)	(3,261,601)	(360,543)
Tax charge on loss on ordinary activities	8	(345,628)	-	(345,628)	(1,127)
LOSS FOR THE FINANCIAL YEAR	20	(2,510,637)	(1,096,592)	(3,607,229)	(361,670)

All of the activities are classed as continuing.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

Year ended 31 October 2010

	2010 £	2009 £
Loss for the financial year attributable to the shareholders	(3,607,229)	(361,670)
Unrealised loss on revaluation of heritable property	(6,538,715)	(7,621,093)
Total gains and losses recognised during the year and since the last annual report	<u>(10,145,944)</u>	<u>(7,982,763)</u>

THE TOWN HOUSE COMPANY LIMITED

CONSOLIDATED BALANCE SHEET

As at 31 October 2010

	Note	2010 £	2009 £
FIXED ASSETS			
Tangible fixed assets	9	39,992,119	42,417,216
CURRENT ASSETS			
Stocks	11	134,486	100,827
Debtors	12	877,585	1,124,409
Cash at bank and in hand		8,279	11,055
		<u>1,020,350</u>	<u>1,236,291</u>
CREDITORS: amounts falling due within one year	13	<u>(17,978,986)</u>	<u>(31,021,002)</u>
NET CURRENT LIABILITIES		<u>(16,958,636)</u>	<u>(29,784,711)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		23,033,483	12,632,505
CREDITORS: amounts falling due after more than one year	14	<u>(20,154,217)</u>	<u>(179,823)</u>
PROVISIONS FOR LIABILITIES	17	<u>(1,189,842)</u>	<u>(708,355)</u>
NET ASSETS		<u>1,689,424</u>	<u>11,744,327</u>
CAPITAL AND RESERVES			
Called up share capital	19	100,000	100,000
Revaluation reserve	20	948,848	7,396,522
Other reserves	20	14,700	14,700
Profit and loss account	20	625,876	4,233,105
SHAREHOLDERS' FUNDS	20	<u>1,689,424</u>	<u>11,744,327</u>

The consolidated financial statements of The Town House Company Limited, registered number SC118669 were approved by the board of directors and authorised for issued on 17 May 2011.

Signed on behalf of the Board of Directors



P Taylor
Director

THE TOWN HOUSE COMPANY LIMITED

COMPANY BALANCE SHEET As at 31 October 2010

	Note	2010 £	2009 £
FIXED ASSETS			
Tangible fixed assets	9	16,098,886	16,181,413
Investments	10	100	100
		<u>16,098,986</u>	<u>16,181,513</u>
CURRENT ASSETS			
Stocks	11	47,511	59,163
Debtors			
- due within one year	12	336,804	389,872
- due after more than one year	12	98,677	695,606
Cash at bank and in hand		245,874	8,505
		<u>728,866</u>	<u>1,153,146</u>
CREDITORS: amounts falling due within one year	13	<u>(1,350,686)</u>	<u>(3,829,276)</u>
NET CURRENT LIABILITIES		<u>(621,820)</u>	<u>(2,676,130)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		15,477,166	13,505,383
CREDITORS: amounts falling due after more than one year	14	<u>(1,334,770)</u>	<u>-</u>
		14,142,396	13,505,383
PROVISIONS FOR LIABILITIES	17	<u>(333,745)</u>	<u>(347,858)</u>
NET ASSETS		<u>13,808,651</u>	<u>13,157,525</u>
CAPITAL AND RESERVES			
Called up share capital	19	100,000	100,000
Revaluation reserve	21	7,396,522	7,396,522
Other reserves	21	14,700	14,700
Profit and loss account	21	6,297,429	5,646,303
SHAREHOLDERS' FUNDS	21	<u>13,808,651</u>	<u>13,157,525</u>

The financial statements of The Town House Company Limited, registered number SC118669 were approved by the board of directors and authorised for issued on 17 May 2011.

Signed on behalf of the Board of Directors



P Taylor
Director

THE TOWN HOUSE COMPANY LIMITED

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 October 2010

	Note	2010 £	2009 £
Net cash inflow/(outflow) from operating activities	22	290,528	(343,316)
Servicing of finance	22	(1,660,172)	(105,335)
Capital expenditure	22	<u>(5,048,421)</u>	<u>(10,233,406)</u>
Cash outflow before financing		(6,418,065)	(10,682,057)
Financing	22	<u>4,789,324</u>	<u>10,313,619</u>
Decrease in cash	23	<u><u>(1,628,741)</u></u>	<u><u>(368,438)</u></u>

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 October 2010

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below and have been applied consistently throughout the current and prior year.

Basis of preparation

The financial statements are prepared under the historical cost convention as modified by the revaluation of heritable property.

The Group's business activities, together with the factors likely to affect its future prospects, are discussed in the directors' report on pages three and four. After making enquiries, the directors have a reasonable expectation that the company and its subsidiary undertaking have adequate resources to continue in operational existence for the foreseeable future following the renewal of the Group's banking facilities as disclosed in the directors' report and in note 29. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements.

Consolidation

The Group's financial statements consolidate the financial statements of the company and its subsidiary undertaking drawn up to 31 October each year. In accordance with section 408 of the Companies Act 2006, a separate profit and loss account for The Town House Company Limited is not presented as the results of the company are disclosed in the consolidated profit and loss account. The profit for the year for The Town House Company Limited was £651,126 (2009: £789,454).

Turnover

The turnover shown in the profit and loss account represents amounts invoiced during the year, exclusive of Value Added Tax.

Fixed assets

The Group has adopted a valuation policy for heritable property. Heritable property is valued including trading potential. A full valuation of each property is carried out every five years by a qualified external valuer, with interim valuations every three years. The surplus or deficit on book value is transferred to the revaluation reserve, except that a deficit which is in excess of any previously recognised surplus over depreciated cost relating to the same property, or the reversal of such a deficit, is charged (or credited) to the profit and loss account. A deficit which represents a clear consumption of economic benefits is charged to the profit and loss account regardless of any such previous surplus. Other fixed assets are stated at cost net of depreciation and any provision for impairment.

In relation to assets under the course of construction, the Group's policy is to capitalise borrowing costs during the development phase. Capitalisation ceases when substantially all the activities that are necessary to get the asset ready for use are complete. All assets under the course of construction are carried at historical cost.

Depreciation

No depreciation is provided on heritable property or assets under development. The Group follows a programme of regular refurbishment and maintenance of its heritable property, which includes the reinstatement of the fabric of the buildings, where necessary, in order to maintain them to a high standard. The costs of refurbishment and maintenance are charged to the profit and loss account as incurred. The directors review the value of heritable property annually and a provision is made for any impairment accordingly.

This policy is not in accordance with the Companies Act 2006. However, the directors consider that any depreciation arising would not be material to the Group.

Depreciation is provided on all other tangible fixed assets at rates calculated to write off the cost of the assets over their expected useful lives as follows:

Furniture and equipment - 10% per annum reducing balance and 20% per annum straight line

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) Year ended 31 October 2010

1. ACCOUNTING POLICIES (CONTINUED)

Depreciation (continued)

Motor vehicles - 25 % per annum reducing balance.

Investments

Investments are recorded at cost. The directors carry out a review annually and a provision is made for impairment accordingly.

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items.

Hire purchase agreements

Assets held under hire purchase agreements are capitalised and disclosed under tangible fixed assets at their fair value. The capital element of the future payments is treated as a liability and the interest is charged to the profit and loss account on a straight line basis over the lease term.

Finance lease agreements

Where the Group enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a finance lease. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated in accordance with the above depreciation policies. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account using the actuarial method, and the capital element which reduces the outstanding obligation for future instalments.

Operating lease rentals are charged to the profit and loss account in equal annual amounts over the lease term.

Taxation

Current tax, comprising UK corporation 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 more tax, in the future or a right 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.

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

Deferred tax is measured on a non discounted basis.

Government grants

Government grants relating to tangible fixed assets are treated as deferred income and released to the profit and loss account over the expected useful lives of the assets concerned. Other grants are credited to the profit and loss account as the related expenditure is incurred.

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as either financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31 October 2010

1. ACCOUNTING POLICIES (CONTINUED)

Financial derivatives

The Group uses derivative financial instruments to reduce exposure to interest rate movements. The Group does not hold or issue derivative financial instruments for speculative purposes.

Pension contributions

The Group operates a defined contribution pension scheme for all employees. Contributions to the scheme are charged to the profit and loss account as they become payable in accordance with the rules of the scheme.

Exceptional items

Exceptional items comprise abnormal costs caused by the wall collapse at the Blythwood Square hotel, offset by a sum received from insurers. In the prior year, pre-opening expenses related to the Blythwood Square hotel are reflected as exceptional items. The Directors consider such items as material to the profit and loss account and that their separate disclosure is necessary for an appropriate understanding of the Group's financial performance.

2. TURNOVER

Turnover represents amounts derived from the provision of goods and services and is recognised when the goods and services have been provided. All amounts fall within the Group's ordinary activities after deduction of Value Added Tax and arise in the United Kingdom.

3. OPERATING LOSS

	2010 £	2009
Operating loss is stated after charging:		
Depreciation		
- on owned assets	444,436	131,550
- on assets under finance leases	36,979	-
Auditor's remuneration	19,000	19,500
Exceptional items (note 6)	1,096,592	959,925
Operating lease payments - property	20,000	20,000

4. PARTICULARS OF EMPLOYEES

The average number of staff employed by the company during the financial year amounted to:

	2010 No	2009 No
Number of staff	260	162

	£	£
Staff costs during the year (including directors)		
Wages and salaries	3,622,468	2,087,742
Social security costs	308,291	182,351
Pension contributions	42,078	36,512
	3,972,837	2,306,605

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) Year ended 31 October 2010

5. DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were:

	2010 £	2009 £
Emoluments receivable	197,977	132,221
Value of company pension contributions to money purchase schemes	6,773	5,231
	<u>204,750</u>	<u>137,452</u>

One director participated in the company defined contribution pension scheme (2009 – 1). Details of transactions with directors are given in note 12.

The above details include the following amounts in respect of the highest paid director:

	2010 £	2009 £
Emoluments	103,137	86,992
Pension contributions	6,039	5,231
	<u>109,176</u>	<u>92,223</u>

6. EXCEPTIONAL ITEMS

Exceptional items comprise the following:

	2010 £	2009 £
Abnormal costs caused by the wall collapse	1,083,516	632,744
Sums received from insurers to date	(200,000)	-
Exceptional legal and professional costs	213,076	-
Pre-opening expenses	-	327,181
	<u>1,096,592</u>	<u>959,925</u>

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) Year ended 31 October 2010

7. INTEREST PAYABLE AND SIMILAR CHARGES

	2010 £	2009 £
<i>Included in the profit and loss account</i>		
Bank interest and charges	45,405	38,580
Term loan interest	1,582,327	66,755
Finance leases	32,440	-
Redemption premium	613,785	-
	<u>2,273,957</u>	<u>105,335</u>

In addition to the above, the following amounts have been capitalised as part of the cost of construction of Blythwood Square:

Bank and term loan interest	329,129	957,236
	<u>2,603,086</u>	<u>1,062,571</u>

The directors are of the opinion that interest totalling £1,817,696 is directly attributable to the wall collapse at the Blythwood Square hotel as discussed in the Directors' Report.

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31 October 2010

8. TAX ON LOSS ON ORDINARY ACTIVITIES

	2010 £	2009 £
Current tax:		
UK corporation tax	(135,859)	(144,481)
Adjustment in respect of prior period	-	(38,125)
Deferred tax charge	481,487	183,733
Total tax charge on loss on ordinary activities	345,628	1,127

The differences between the total current tax shown above and the amount calculated, by applying the standard rate of UK corporation tax to the loss before tax, is as follows:

	2010 £	2009 £
Loss on ordinary activities before tax	(3,261,601)	(360,543)
Tax charge on loss on ordinary activities at standard UK corporation tax rate of 28% (2009: 28%)	(913,248)	(100,952)
<i>Factors affecting charge for the year</i>		
Non deductible expenses	(52,376)	7,019
Surrender for ECA credit	108,245	68,438
Non taxable revenue	(216,310)	(232,631)
Tax rate adjustment	30,915	-
Movement in short term timing differences	27,544	-
Capital allowances in excess of depreciation	(375,189)	(390,601)
Losses carried forward	1,254,560	504,246
Total actual amount of current tax	(135,859)	(144,481)

A deferred tax asset of £2,024,519 (2009: £1,070,603) has not been recognised in relation to losses brought forward due to uncertainties of the timing of future taxable profits.

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) Year ended 31 October 2010

9. TANGIBLE FIXED ASSETS GROUP

	Heritable property £	Assets under development £	Furniture & equipment £	Motor vehicles £	Total £
Cost or valuation					
At 1 November 2009	15,057,081	26,203,537	3,257,807	60,858	44,579,283
Reclassifications	23,914,780	(26,203,537)	2,288,757	-	-
Additions	3,329,398	-	1,174,594	-	4,503,992
Revaluation	(6,447,674)	-	-	-	(6,447,674)
At 31 October 2010	<u>35,853,585</u>	<u>-</u>	<u>6,721,158</u>	<u>60,858</u>	<u>42,635,601</u>
Accumulated depreciation					
At 1 November 2009	-	-	2,104,932	57,135	2,162,067
Charge for the year	-	-	480,517	898	481,415
At 31 October 2010	<u>-</u>	<u>-</u>	<u>2,585,449</u>	<u>58,033</u>	<u>2,643,482</u>
Net book value					
At 31 October 2010	<u>35,853,585</u>	<u>-</u>	<u>4,135,709</u>	<u>2,825</u>	<u>39,992,119</u>
At 31 October 2009	<u>15,057,081</u>	<u>26,203,537</u>	<u>1,152,875</u>	<u>3,723</u>	<u>42,417,216</u>

Included within assets under development are cumulative capitalised finance charges totalling £2,025,244 (2009: £1,696,115).

COMPANY

	Heritable property £	Furniture & equipment £	Motor vehicles £	Total £
Cost or valuation				
At 1 November 2009	15,057,081	3,194,787	60,858	18,312,726
Additions	8,063	33,070	-	41,133
At 31 October 2010	<u>15,065,144</u>	<u>3,227,857</u>	<u>60,858</u>	<u>18,353,859</u>
Accumulated depreciation				
At 1 November 2009	-	2,074,178	57,135	2,131,313
Charge for the year	-	122,762	898	123,660
At 31 October 2010	<u>-</u>	<u>2,196,940</u>	<u>58,033</u>	<u>2,254,973</u>
Net book value				
At 31 October 2010	<u>15,065,144</u>	<u>1,030,917</u>	<u>2,825</u>	<u>16,098,886</u>
At 31 October 2009	<u>15,057,081</u>	<u>1,120,609</u>	<u>3,723</u>	<u>16,181,413</u>

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31 October 2010

9. TANGIBLE FIXED ASSETS (CONTINUED)

Finance leases agreements

Included within the net book value of £47,328,197 is £517,708 (2009 - nil) relating to assets held under finance leases. The depreciation charged to the financial statements in the year in respect of such assets amounted to £36,979 (2009 - £nil).

Heritable property

The directors have valued the Edinburgh and Blythswood Square heritable properties at the year end. The valuation of the Edinburgh properties is supported by the proceeds received for the three properties divested in December 2010 (note 29), and for the remaining Edinburgh property by a valuation obtained performed by Jones Lang La Salle dated 1 October 2010. This indicated that the fair value of the heritable properties, including the fixtures and fittings within each property, was £16,235,000. The carrying value of the Blythswood Square property at £24,000,000, including the fixtures and fittings, is supported by a valuation performed by Colliers International during March 2011. The directors are of the opinion that these valuations are indicative of market valuations as at 31 October 2010 for these assets.

Comparable amounts in respect of the revalued heritable property determined according to the historical cost convention are as follows:

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Cost	<u>34,904,737</u>	<u>7,660,559</u>	<u>7,668,622</u>	<u>7,660,559</u>

Such properties are not depreciated. It is not possible to quantify the depreciation that would have otherwise been charged under the historical cost convention.

Assets under development in 2009 were represented by the Blythswood Square hotel. This was fully completed and operational in September 2010.

10. INVESTMENTS

The company owns 100% of the issued share capital of Blythswood Square Limited, a company incorporated in Scotland. The company will provide hotel management and catering services relating to the Blythswood Square hotel.

Company

Blythswood Square Limited £

Cost

At 1 November 2009 and at 31 October 2010 100

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) Year ended 31 October 2010

11. STOCKS

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Food and liquor	134,486	100,827	47,511	59,163

12. DEBTORS

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Due within one year:				
Trade debtors	226,965	194,087	153,465	190,321
Other debtors	126,322	78,593	41,691	56,044
Corporation tax debtors	320,085	184,226	-	-
Prepayments and accrued income	204,213	187,612	141,648	143,507
Other taxes and social security	-	479,891	-	-
	877,585	1,124,409	336,804	389,872
Due after more than one year:				
Amounts due from subsidiary undertaking	-	-	98,677	695,606
	877,585	1,124,409	435,481	1,085,478

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Bank overdraft	2,297,180	671,215	-	563,496
Bank loans	12,792,702	27,362,782	421,500	2,174,380
Trade creditors	847,188	2,041,287	346,701	371,239
Other taxation and social security	432,207	-	252,357	239,319
Finance lease creditors (note 16)	163,822	-	-	-
Other creditors	202,288	491,391	142,804	161,472
Director's loan account (note 18)	14,771	137,053	14,771	137,053
Accruals and deferred income	1,207,161	304,429	172,553	182,317
Government grant (note 15)	21,667	12,845	-	-
	17,978,986	31,021,002	1,350,686	3,829,276

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31 October 2010

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Government grants (note 15)	281,666	179,823	-	-
Finance lease creditor (note 16)	204,777	-	-	-
Director's loan accounts (note 18)	413,000	-	-	-
Bank loans	19,254,774	-	1,334,770	-
	<u>20,154,217</u>	<u>179,823</u>	<u>1,334,770</u>	<u>-</u>

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
The term loans are repayable in instalments as follows:				
Within one year	12,792,702	27,362,782	421,500	2,174,380
Between one and two years	1,701,496	-	421,500	-
Between two and five years	4,753,258	-	913,270	-
After more than five years	12,800,020	-	-	-
	<u>32,047,476</u>	<u>27,362,782</u>	<u>1,756,270</u>	<u>2,174,380</u>
Included in creditors falling due within one year	<u>(12,792,702)</u>	<u>(27,362,782)</u>	<u>(421,500)</u>	<u>(2,174,380)</u>
	<u>19,254,774</u>	<u>-</u>	<u>1,334,770</u>	<u>-</u>

The bank loans and overdraft are secured by a first standard security and bond and floating charge over the property and assets of the Group. The loans bear interest at rates of 3% to 10% over LIBOR. As at 31 October 2009 all loans were classified as being repayable during one year due to breaches of banking covenants during that period. During the current period the Group received formal notification from the bank that the breaches had been waived. The bank facilities, were re-financed subsequent to the year end as detailed in note 29 and the Group is no longer in breach of banking covenants.

The Group holds financial instruments only to manage the interest rate risk arising from its borrowings. As all transactions are undertaken in sterling and within the UK, there is no perceived currency risk. No speculative transactions are permitted.

The long term risk of interest rates is managed by an interest rate collar. At 31 October 2010 the fair value of the interest rate collar was a liability of £1,872,001 (2009: £1,230,572).

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31 October 2010

15. GOVERNMENT GRANTS

	2010 £	2009 £
Government grants brought forward	192,668	-
Received during the year	132,332	192,668
Released to the profit and loss account	(21,667)	-
	<u>303,333</u>	<u>192,668</u>
Government grants carried forward		
Government grants are due to be released to the profit and loss account as follows:		
	2010 £	2009 £
Within one year	21,667	12,845
Greater than one year	281,666	179,823
	<u>303,333</u>	<u>192,668</u>

The company had no government grants in either the current or prior year.

16. FINANCE LEASES

Future commitments under finance leases are as follows:

	Group		Company	
	2010 £	2009 £	2010 £	2009 £
Due within one year	163,822	-	-	-
Between one and two years	163,822	-	-	-
Between two and five years	40,955	-	-	-
	<u>368,599</u>	<u>-</u>	<u>-</u>	<u>-</u>

17. PROVISION FOR LIABILITIES

The movement in the deferred taxation provision during the year was:

	Group		Company	
	2010 £	2009 £	2010 £	2009 £
Provision brought forward	708,355	524,622	347,858	340,730
Charge/(credit) for the year	481,487	183,733	(14,113)	7,128
Provision carried forward	<u>1,189,842</u>	<u>708,355</u>	<u>333,745</u>	<u>347,858</u>

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31 October 2010

17. PROVISION FOR LIABILITIES (CONTINUED)

The provision for deferred taxation consists of the tax effect of timing differences in respect of:

	Group		Company	
	2010	2009	2010	2009
	£	£	£	£
Excess of taxation allowances over depreciation on fixed asset	1,282,772	773,740	344,774	359,296
Other timing differences	(92,930)	(65,385)	(11,029)	(11,438)
	<u>1,189,842</u>	<u>708,355</u>	<u>333,745</u>	<u>347,858</u>

18. RELATED PARTY TRANSACTIONS

In the 2006/2007 financial year Mr P. Taylor, provided an interest free unsecured loan of £195,000 to the company. A further loan of £413,000 was provided in the current year. The balance due as at 31 October 2010 was £427,771 (2009: £137,053).

During the year the Group incurred costs of £16,800 (2009: £50,400) invoiced by Ezone Interactive LLP. Ezone Interactive LLP is owned by Mr Iain Taylor, a director of The Town House Company Limited. As at 31 October £2,008 was outstanding with this related party (2009: £1,681 credit due from related party).

During the year the company paid £20,000 (2009: £20,000) as rent to The Trustees of The Town House Company Limited Retirement Benefits Scheme, of which Mr P. Taylor is a trustee.

19. CALLED UP SHARE CAPITAL

	2010	2009
	£	£
Called up, allotted and fully paid		
1,000,000 ordinary shares of £0.1 each	<u>100,000</u>	<u>100,000</u>

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31 October 2010

20. GROUP RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS IN RESERVES

	Share capital £	Revaluation reserve £	Other reserves £	Profit and loss account £	Total share- holders' funds £
Balance brought forward	100,000	7,396,522	14,700	4,233,105	11,744,327
Revaluation	-	(6,447,674)	-	-	(6,447,674)
Loss for the year	-	-	-	(3,607,229)	(3,607,229)
Balance carried forward	<u>100,000</u>	<u>948,848</u>	<u>14,700</u>	<u>625,876</u>	<u>1,689,424</u>

21. COMPANY RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS IN RESERVES

	Share capital £	Revaluation reserve £	Other reserves £	Profit and loss account £	Total share- holders' funds £
Balance brought forward	100,000	7,396,522	14,700	5,646,303	13,157,525
Profit for the year	-	-	-	651,126	651,126
Balance carried forward	<u>100,000</u>	<u>7,396,522</u>	<u>14,700</u>	<u>6,297,429</u>	<u>13,808,651</u>

22. NOTES TO THE CASH FLOW STATEMENT

RECONCILIATION OF OPERATING LOSS TO NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES

	2010 £	2009 £
Operating loss	(987,644)	(255,208)
Depreciation charge	481,415	131,550
Amortisation of government grant	(21,667)	-
Increase in stock	(33,659)	(64,858)
Decrease / (increase) in debtors	382,683	(496,118)
Increase in creditors	469,400	341,318
Net cash inflow/(outflow) from operating activities	<u>290,528</u>	<u>(343,316)</u>

The operating cash flows include an outflow of £891,095 (2008: 959,925) relating to exceptional items as disclosed within note 6.

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED) Year ended 31 October 2010

22. NOTES TO THE CASH FLOW STATEMENT (CONTINUED) RETURNS ON INVESTMENT AND SERVICING OF FINANCE

	2010 £	2009 £
Interest paid	(1,627,732)	(105,335)
Interest element of finance leases	(32,440)	-
Net cash outflow from returns on investments and servicing of finance	<u>(1,660,172)</u>	<u>(105,335)</u>

CAPITAL EXPENDITURE

	2010 £	2009 £
Payments to acquire tangible fixed assets	(4,851,624)	(9,468,838)
Interest paid and capitalised	(329,129)	(957,236)
Receipt of government grant	132,332	192,668
Net cash outflow from capital expenditure	<u>(5,048,421)</u>	<u>(10,233,406)</u>

FINANCING

	2010 £	2009 £
Drawdown of bank loans	4,684,694	10,333,467
Director's loan account	290,718	(10,691)
Repayment of finance leases	(186,088)	(9,157)
Net cash outflow from financing	<u>4,789,324</u>	<u>10,313,619</u>

23. RECONCILIATION OF NET CASH FLOW TO MOVEMENTS IN NET DEBT

	2010 £	2009 £
Decrease in cash during the period	(1,628,741)	(368,438)
Net cash inflow from bank loans	(4,684,694)	(10,333,467)
Net cash (inflow)/outflow from director's loan	(290,718)	10,691
Net cash outflow in respect of hire purchase agreements	186,088	9,157
New finance lease agreements	(554,687)	-
Change in net debt arising from cash flows	<u>(6,972,752)</u>	<u>(10,682,057)</u>
Net debt at 1 November 2009	<u>(28,159,995)</u>	<u>(17,477,938)</u>
Net debt at 31 October 2010	<u>(35,132,747)</u>	<u>(28,159,995)</u>

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31 October 2010

24. ANALYSIS OF CHANGES IN NET DEBT

	At 1 November 2009 £	Cash flows £	Non-cash flow changes £	At 31 October 2010 £
Cash at bank and in hand	11,055	(2,776)	-	8,279
Bank overdraft	(671,215)	(1,625,965)	-	(2,297,180)
	<u>(660,160)</u>	<u>(1,628,741)</u>	<u>-</u>	<u>(2,288,901)</u>
Debt due within 1 year	(27,362,782)	(4,684,694)	19,254,774	(12,792,702)
Director's loan account	(137,053)	(290,718)	-	(427,771)
Debt due after more than one year	-	-	(19,254,774)	(19,254,774)
Finance lease creditors	-	186,088	(554,687)	(368,599)
	<u>(27,499,835)</u>	<u>(4,789,324)</u>	<u>(554,687)</u>	<u>(32,843,846)</u>
Net debt	<u>(28,159,995)</u>	<u>(6,418,065)</u>	<u>(554,687)</u>	<u>(35,132,747)</u>

25. PENSIONS

During the year the company paid contributions into the company defined contribution pension scheme amounting to £42,078 (2009 – £36,512) as detailed in notes 4 and 5. There were no amounts outstanding or prepaid at either year end.

26. CAPITAL COMMITMENTS

The Group's capital commitments are as follows:

	2010 £	2009 £
Contracted for by not provided for: - construction costs	<u>271,571</u>	<u>1,740,869</u>

At 31 October 2010 the Group was committed to making the following payments during the next year in respect of operating leases:

	2010 £	2009 £
Leases which expire: Between two and five years	<u>20,000</u>	<u>20,000</u>

At 31 October 2010 the company had no capital or operating lease commitments (2009: nil).

THE TOWN HOUSE COMPANY LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Year ended 31 October 2010

27. CONTINGENT ASSET

The directors are seeking full recovery of costs and loss of profits caused by the collapse of a wall in November 2007 within the Blythwood Square hotel. The Group has received £200,000 during the year, as detailed within note 6.

28. CONTROLLING PARTY

The ultimate controlling party is Peter Taylor, director and majority shareholder.

29. EVENTS AFTER THE BALANCE SHEET DATE

Property sales

Subsequent to 31 October 2010, the Group sold three mature heritable hotel assets at their respective 31 October 2010 balance sheet values. The proceeds were applied in reducing the Group's outstanding debt.

Bank facilities

On 17 May 2011, the Group agreed new medium to long term facilities with its lenders.