

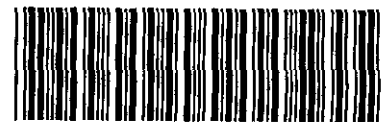
COMPANY NO: SC268072

MREF SHEFFIELD LIMITED

ANNUAL REPORT

Period ended 31 December 2007

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COMPANY INFORMATION

Directors	Graham Stanley Graham Sidwell Marc Gilbard
Secretary	Timothy Sanderson
Registered office	15 Atholl Crescent Edinburgh EH3 8HA
Registered number	SC268072
Auditors	Grant Thornton UK LLP Chartered Accountants Melton Street Euston Square London NW1 2EP

REPORT OF THE DIRECTORS

The directors present their report and the audited financial statements for the period ended 31 December 2007.

Principal activities

The principal activity of the Company is property investment.

Results and dividends

The results for the period ended 31 December 2007 are set out in the Profit and Loss Account on page 6. The directors do not recommend the payment of a dividend.

Directors

The present directors of the Company are set out on page 1.

Directors interest

None of the directors had an interest in the shares of the Company.

Ultimate parent undertaking

The ultimate parent undertaking is MREF Hotels Limited, which is registered in Jersey.

Statement of directors' responsibilities for the Annual Report

Company law in the United Kingdom 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 and of the profit or loss of the Company for that period. In preparing these financial statements, the directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- followed applicable United Kingdom accounting standards; and
- prepared the financial statements on the going concern basis.

The directors are responsible for keeping proper accounting records which 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 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for ensuring that the directors' report and other information included in the Annual Report is prepared in accordance with Company law in the United Kingdom.

Disclosure of Information to Auditors

At the date of making this report each of the company's directors, as set out on page 1, confirm the following:

- so far as each director is aware, there is no relevant information needed by the company's auditors in connection with preparing their report of which the company's auditors are unaware; and
- each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant information needed by the company's auditors in connection with preparing their report and to establish that the company's auditors are aware of that information.

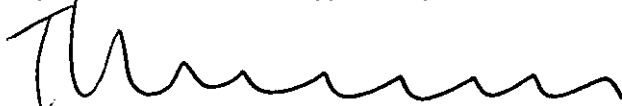
REPORT OF THE DIRECTORS (continued)

Auditors

KPMG LLP resigned as auditors during the period and Grant Thornton UK LLP were appointed. The auditors, Grant Thornton UK LLP, are willing to continue in office, and a resolution to reappoint them will be proposed at the forthcoming annual general meeting.

Approval

The report of the directors was approved by the Board on 12 May 2009 and signed on its behalf by:

A handwritten signature in black ink, appearing to be 'Timothy Sanderson', written in a cursive style.

Timothy Sanderson
Secretary

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MREF SHEFFIELD LIMITED

We have audited the financial statements on pages 6 to 14. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's shareholders, 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 shareholders 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 shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

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

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not 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 transactions with the Company is not disclosed.

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

Basis of audit opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the company as at 31 December 2007 and of its result for the period 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.

Emphasis of matter - Going concern

In forming our opinion on the financial statements, which is not qualified, we have considered the adequacy of the disclosures made in the financial statements concerning the Company's ability to continue as a going concern. As set out in note 1, certain of the financial covenants attaching to the senior debt of the Group of which the Company is a member have been breached post year end. The Group is currently in refinancing discussions with its lender to address both its short term working capital requirements and long term financing arrangements.

The Group continues to operate with the support of its lender and in the opinion of the directors the refinancing arrangements will be approved in due course

The Directors have concluded that these circumstances represent a material uncertainty that casts some doubt upon the Company's ability to continue as a going concern. However, after making enquiries and considering the uncertainties described above, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and accounts.

Grant Thornton UK LLP

Grant Thornton UK LLP
Chartered Accountants and Registered Auditors
London, England
12 May 2009

PROFIT AND LOSS ACCOUNT

for the period ended 31 December 2007

	Note	Period to 31 December 2007 £'000	Period to 26 January 2007 £'000
Turnover		2,197	331
Cost of sales		(60)	(380)
Gross profit		2,137	(49)
Administrative expenses		(363)	(241)
Other Operating Income		-	657
Operating profit	2	1,774	367
Interest receivable and similar income	3	73	44
Interest payable and similar charges	4	(1,109)	(643)
Profit/(loss) on ordinary activities before taxation		738	(232)
Taxation	5	363	(363)
Retained profit/(loss) for the period		1,101	(595)

All activities are continuing activities.

There were no recognised gains or losses other than those shown above.

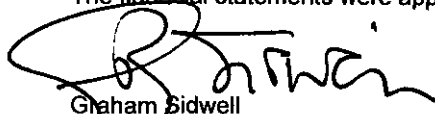
The notes on pages 8 to 14 form part of these financial statements.

BALANCE SHEET

at 31 December 2007

	Note	31 December 2007 £'000	26 January 2007 £'000
Fixed assets			
Tangible assets	8	22,048	22,048
Current assets			
Debtors	9	2,270	860
Current liabilities			
Creditors: Amounts falling due within one year	10	(863)	(17,618)
Net current assets / (liabilities)		1,407	(16,758)
Total assets less current liabilities		23,455	5,290
Creditors: Amounts falling due after one year	11	(17,427)	-
Provisions for liabilities and charges	12	-	(363)
Net assets		6,028	4,927
Capital and reserves			
Called up share capital	13	4,000	4,000
Revaluation Reserve	14	5,254	5,254
Profit and loss account	14	(3,226)	(4,327)
Equity shareholders' funds	15	6,028	4,927

The financial statements were approved by the Board on 12 May 2009 and signed on its behalf by:


 Graham Sidwell
 Director

The notes on pages 8 to 14 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2007

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements are prepared under the historical cost convention as modified by the revaluation of certain land and buildings and in accordance with applicable accounting standards.

The financial statements have been prepared on the going concern basis which the directors believe to be appropriate for the following reasons:

- The Company has few operating costs but any future working capital requirements are dependent on the repayment of intercompany debtors and the ongoing support of its parent company
- Certain of the financial covenants attaching to the Group's senior debt (which is held in a number of entities including the Company) have been breached post year end. The Group is in discussions with its lender, a major UK clearing bank, to restructure the debt facilities. The revised financing arrangements being discussed would result in a waiver of the covenant breaches and provide increased working capital facilities to ensure that the Group can continue to operate during the current economic down turn.
- The Directors have considered the trading position and market for the Group and the cash flow forecasts for the twelve months following the date of approval of these financial statements. The Group has continued to receive support from its lender throughout the period since the covenant breach was identified and during the current refinancing discussions, and this support has included temporary increases in the existing overdraft facility as required. Furthermore, whilst capital expenditure programs have been slowed due to the current economic environment, the lender has continued to allow the Group to draw on an existing capital expenditure facility.
- Whilst there cannot be absolute certainty on the outcome of the refinancing discussions, the directors are of the opinion that the revised financing arrangements will be completed and will be sufficient to accommodate the Group's, and hence the Company's, working capital requirements for the foreseeable future.

Taking into account all information available at the time of approving these financial statements, the directors have a reasonable expectation that the Company is a going concern and therefore believe that it is appropriate to prepare the financial statements on a going concern basis.

Cash flow statement

The Company is exempt from publishing a cash flow statement as the ultimate controlling parties prepare consolidated financial statements which are publicly available.

Turnover

Turnover comprises rental income, excluding VAT.

Leases

Rentals receivable under operating leases are credited to the profit and loss account on an accruals basis over the term of the lease. Any initial advance receipt in relation to operating leases is treated as part of the rentals receivable and accordingly these receipts are credited to the profit and loss account on a straight line basis over the period of the lease and are classified within deferred income.

1. ACCOUNTING POLICIES

Tangible Fixed Assets

Tangible fixed assets are stated at cost or valuation net of depreciation and any provisions for impairment.

No depreciation is provided on freehold hotel properties or hotel properties with leases of twenty years or more to run at the balance sheet date. The directors consider that the lives of these assets are so long, and residual values are so high, that their depreciation is not material.

Whilst the initial costs incurred on extensive repair and refurbishment programmes are capitalised, those in respect of items subsequently replaced are written off to the profit and loss account as incurred. In accordance with FRS 15 "Tangible Fixed Assets", the directors perform an annual impairment review. Any deficits noted are charged to the profit and loss account.

There are no other fixed assets in the company other than freehold hotel properties and therefore there is no depreciation recognised in the financial statements.

Deferred taxation

The payment of taxation is deferred or accelerated because of timing differences in the treatment of certain items for taxation and accounting purposes. Full provision for deferred taxation is made under the liability method, without discounting, on all timing differences that have arisen, but not reversed by the balance sheet date, unless such provision is not permitted by FRS 19. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered.

In accordance with FRS 19 deferred tax is not provided on revaluation gains on land and buildings, unless there is a binding agreement to sell them at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2007

2. OPERATING PROFIT

Audit fees are borne by a related undertaking.

3. OTHER INTEREST RECEIVABLE AND SIMILAR INCOME

	Period to 31 December 2007 £'000	Period to 26 January 2007 £'000
Interest Earned	25	44
Interest receivable from group companies	48	-
	73	44

4. OTHER INTEREST PAYABLE AND SIMILAR CHARGES

	Period to 31 December 2007 £'000	Period to 26 January 2007 £'000
Loan Interest Payable	392	643
Finance Costs	9	-
Interest payable to group companies	708	-
	1,109	643

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2007

5. TAXATION

	Period to 31 December 2007 £'000	Period to 26 January 2007 £'000
United Kingdom Corporation Tax		
Current tax on income for the period	-	-
Deferred taxation	363	(363)
Total taxation	363	(363)
Current tax reconciliation		
	Period to 31 December 2007 £'000	Period to 26 January 2007 £'000
Profit/ (loss) on ordinary activities before taxation	738	(232)
Theoretical tax at UK corporation tax rate 30% (period to 26 January 2007: 30%)	221	(70)
Effects of:		
- expenditure that is not tax deductible / (income not taxable)	(149)	1
- Group relief surrendered/(claimed) and not paid for	(72)	87
- accelerated capital allowances / other timing differences	-	(18)
Actual current taxation charge	-	-

Factors that may affect future tax charges

It is anticipated that tax losses and the availability of capital allowances in excess of depreciation will reduce future tax charges.

Deferred tax

There are no actual or potential deferred tax assets or liabilities.

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2007

6. EMPLOYEES

The Company has no employees.

7. DIRECTORS REMUNERATION

The Directors did not receive any remuneration from the Company during the current or the previous period.

8. TANGIBLE ASSETS

	Freehold property £'000
At 26 January 2007	22,048
At 31 December 2007	22,048

9. DEBTORS

	31 December 2007 £'000	26 January 2007 £'000
Other Debtors and Prepayments	1	860
Amounts due from group undertakings	2,269	-
	2,270	860

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 2007 £'000	26 January 2007 £'000
Other creditors	860	860
Amounts due to group undertakings	-	16,346
Accruals and deferred income	2	412
	862	17,618

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2007

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

	31 December 2007 £'000	26 January 2007 £'000
Bank Loans	12,359	-
Amounts due to group undertakings	5,068	-
	17,427	-

Bank loan borrowings are secured by fixed charges on group properties and floating charges on certain other group assets. Bank loans comprise variable rate debt at a margin of 140 basis points over LIBOR. The loan is repayable in full in July 2014.

On 30th March 2007 and 28 September 2007 MREF Tradeco Limited, a fellow group company, entered into interest rate swap agreements in order to hedge exposure to interest rates on bank loans until 31st March 2014. This arrangement enables the Group to manage its interest rate exposure, by swapping floating rates on borrowings into fixed rate amounts. Utilising this arrangement the company effectively obtains borrowings at a different rate to those available from borrowing directly at prevailing floating rates.

The related loans are held in fellow group companies. The cost/gain of the interest rate swap is reallocated out to the these companies in proportion to the value of the loan held within each company. The allocation received by MREF Sheffield Limited for the year ended 31 December 2007 is £47,888 (period to 26 January 2007: Nil).

In the period post the balance sheet date the Group of which the Company is a member has defaulted on certain covenants attaching to the senior debt which is held in a number of entities including the Company. As set out in the basis of accounting, the Group is in discussions with its lender on a refinancing which would result in a waiver of or adjustment to these covenants.

The covenant defaults represent a non-adjusting post balance sheet event per FRS 21. As a result the related loans have been disclosed as falling due after more than one year.

12. PROVISIONS FOR LIABILITIES AND CHARGES

	Period to 31 December 2007 £'000	Period to 26 January 2007 £'000
Deferred tax - accelerated capital allowances		
At the start of the period	363	-
Charged to the profit and loss account	(363)	363
At the end of the period	-	363

NOTES TO THE FINANCIAL STATEMENTS

for the period ended 31 December 2007

13. SHARE CAPITAL

	31 December 2007 £'000	26 January 2007 £'000
Authorised, issued and fully paid 4,000,002 Ordinary shares of £1 each	4,000	4,000

14. RESERVES

	Revaluation reserve £'000	Profit and loss account £'000
At 26 January 2007	5,254	(4,327)
Retained profit for the period	-	1,101
At 31 December 2007	5,254	(3,226)

15. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDERS' FUNDS

	Period to 31 December 2007 £'000	Period to 26 January 2007 £'000
Profit for the period	1,101	(595)
Shares issued in the period	-	4,000
Unrealised surplus on revaluation of properties	-	5,254
Opening shareholders' funds	1,101 4,927	8,659 (3,732)
Closing shareholders' funds	6,028	4,927

16. ULTIMATE PARENT UNDERTAKING

The ultimate parent undertaking is MREF Hotels Limited which is registered in Jersey.

17. RELATED PARTY TRANSACTIONS

The Company has not disclosed related party transactions with fellow subsidiary undertakings as the ultimate controlling parties prepare consolidated financial statements which are publicly available.