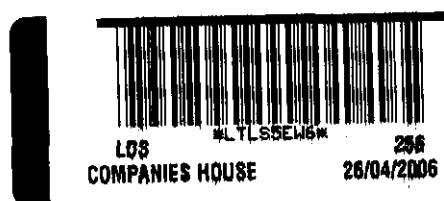


Malmaison Limited

**Directors' report and financial
statements**

Registered number 3141385

30 June 2005



Directors' report and financial statements

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Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 June 2005.

Review of business

The Company acts as holding company for the Malmaison group of companies. The results for the year are set out in the profit and loss account on page 4.

The directors regard the results and future prospects of the Company as satisfactory.

Dividends

The directors do not recommend the payment of a dividend (2004: *£nil*).

Directors and directors' interests

The directors who held office during the year were as follows:

AF Blurton
J Singh
IB Cave

None of the directors who held office at the 30 June 2005 had any interest in the share capital of the Company. The interests of AF Blurton and J Singh in the share capital of the ultimate holding company, Marylebone Warwick Balfour Group Plc, are disclosed in the financial statements of that company.

Auditors

In accordance with Section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the board



G Robson
Company Secretary

179 Great Portland Street
London
W1W 5LS

12 April 2006

Statement of directors' responsibilities

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 and of the profit or loss 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 accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

KPMG Audit Plc

8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Report of the independent auditors to the members of Malmaison Limited

We have audited the financial statements on pages 4 to 9 which comprise the profit and loss account, the balance sheet and losses and the related notes.

Respective Responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. The report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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.

Basis of audit opinion

We conducted our audit in accordance with auditing standards 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 of the state of affairs of the company as at 30 June 2005 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
—
KPMG Audit Plc
Chartered Accountants
Registered Auditor

19 April 2006

Profit and loss account
for the year ended 30 June 2005

	<i>Note</i>	Year ended 30 June 2005 £	Year ended 30 June 2004 £
Administrative expenses		-	-
Operating loss		-	-
Interest payable and similar charges	3	(4,117,202)	(20)
Loss on ordinary activities before taxation	4	(4,117,202)	(20)
Tax on loss on ordinary activities	5	-	-
Retained loss for the year	10	(4,117,202)	(20)

All activities are continuing.

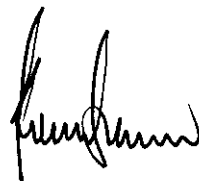
There is no difference between the losses as stated and losses on the historical cost basis.

There were no recognised gains or losses other than the loss for the year.

Balance sheet
at 30 June 2005

	<i>Note</i>	2005 £	2004 £
Fixed assets			
Investments	6	<u>6,032,527</u>	<u>6,032,527</u>
Current assets			
Debtors	7	<u>95,274,534</u>	44,987,340
Cash at bank and in hand		-	95
		<u>95,274,534</u>	<u>44,987,435</u>
Creditors: amounts falling due within one year	8	<u>(105,142,973)</u>	<u>(50,738,672)</u>
Net current liabilities		<u>(9,868,439)</u>	<u>(5,751,237)</u>
Total assets less current liabilities		<u>(3,835,912)</u>	<u>281,290</u>
Net liabilities/assets		<u>(3,835,912)</u>	<u>281,290</u>
Capital and reserves			
Called up share capital	9	269,621	269,621
Profit and loss account	10	<u>(4,105,533)</u>	<u>11,669</u>
Equity shareholders' (deficit)/ funds	10	<u>(3,835,912)</u>	<u>281,290</u>

These financial statements were approved by the board of directors on 12 April 2006 and were signed on its behalf by:


AF Blurton
Director


J Singh
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of preparation

The Company has received an assurance from its ultimate holding company that it will provide such funds as necessary for the Company to meet its liabilities as they fall due. For this reason the financial statements have been prepared on the going concern basis.

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules.

The Company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the Company as an individual undertaking and not about its group.

Under FRS 1 (Revised) the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

As the Company is a wholly owned subsidiary of Marylebone Warwick Balfour Group Plc, it has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties).

Investments

Investments in subsidiary undertaking are stated at cost less any provision for impairment.

Deferred taxation

The charge for taxation is based on the result for the year, which takes account of taxation deferred because of timing differences between the treatment of certain items for taxation purposes and the treatment under the Company's accounting policies.

Deferred tax assets and liabilities arise from timing differences between the recognition of gains and losses in the financial statements and their recognition in a tax computation.

In accordance with FRS 19, Deferred Tax is provided in respect of all timing differences that have originated, but not reversed at the balance sheet date that may give rise to an obligation to pay more or less tax in the future except as otherwise required by FRS19. Deferred tax is measured on a non-discounted basis.

2 Directors and employees

The Company employed no staff during the current year or the prior year.

None of the directors received any emoluments from the Company (2004: £nil).

Notes *(continued)*

3 Interest payable and similar charges

	Year ended 30 June 2005 £	Year ended 30 June 2004 £
Other interest payable	4,117,202	20
	<u>4,117,202</u>	<u>20</u>

4 Loss on ordinary activities before taxation

Audit fees were borne by another group company.

5 Tax on losses on ordinary activities

The tax charge on the loss on ordinary activities has been reduced from the amount that would arise from applying the prevailing corporation tax rate to the Company's profits as follows:

	Year ended 30 June 2005 £	Year ended 30 June 2004 £
UK corporation tax at 30% on company loss before tax	(1,235,161)	(6)
Group relief surrendered to other group companies for no consideration	1,235,161	6
	<u>-</u>	<u>-</u>
Total corporation tax charged to the profit and loss account	<u>-</u>	<u>-</u>

Notes (continued)

6 Investments

	Interest in subsidiary Undertakings
	£
<i>Cost</i>	
At beginning and end of year	6,032,527

The Company has investments in the following subsidiary undertakings

Subsidiary undertakings	Country of incorporation and operation	Principal activity	Proportion of ordinary share capital	Proportion of voting rights
The Malmaison Company (Edinburgh) Limited	England/ Scotland	Hotel ownership	100%	100%
The Malmaison Hotel (Birmingham) Limited	England	Hotel ownership	100%	100%
The Malmaison Hotel (Glasgow) Limited	Scotland	Hotel ownership	100%	100%
The Malmaison Hotel (Newcastle) Limited	England	Hotel ownership	100%	100%
The Malmaison Hotel (Manchester) Limited	England	Hotel ownership	100%	100%
The Malmaison Hotel (Leeds) Limited	England	Hotel ownership	100%	100%
MWB Malmaison Brand Limited (formerly Malmaison Brand Limited)	Scotland	Dormant	100%	100%
Malmaison Resources Limited	England	Dormant	100%	100%
Malmaison Hotels Limited	England	Dormant	100%	100%
Malmaison (Chart Square) Limited	England	Hotel ownership	100%	100%

7 Debtors

	2005 £	2004 £
Amounts owed by group undertakings	95,274,534	44,987,340

Notes (continued)

8 Creditors: amounts falling due within one year

	2005 £	2004 £
Trade creditors	2,535	2,630
Amounts owed to group undertakings	105,134,146	50,729,750
Accruals and deferred income	6,292	6,292
	<u>105,142,973</u>	<u>50,738,672</u>

9 Called up share capital

	2005 £	2004 £
Authorised		
27,000,000 ordinary shares of 1p each	270,000	270,000
1,900,000 'B' deferred convertible shares of 1p each	19,000	19,000
	<u>289,000</u>	<u>289,000</u>
Allotted, called up and fully paid:		
26,962,147 ordinary shares of 1p each	<u>269,621</u>	<u>269,621</u>

10 Reconciliation of movements in shareholders' (deficit)/funds

	Share capital £	Profit and loss account £	Shareholders' (deficit)/funds £
As at 1 July 2004	269,621	11,669	281,290
Loss for the year	-	(4,117,202)	(4,117,202)
	<u>269,621</u>	<u>(4,105,533)</u>	<u>(3,835,912)</u>
As at 30 June 2005			

11 Immediate and ultimate parent companies

The immediate parent company is MWB Malmaison Holdings Limited and the ultimate parent company is Marylebone Warwick Balfour Group Plc. Both companies are registered in England and Wales.

The only group in which the results of the Company are consolidated is that headed by Marylebone Warwick Balfour Group Plc. The consolidated financial statements are available to the public and may be obtained from the Company Secretary, City Group P.L.C., 30 City Road, London EC1Y 2AG.