

The Malmaison Company (Edinburgh) Limited

**Directors' report and financial
statements**

Registered number 3437534

30 June 2004



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 2004.

Review of business

The Company is engaged in hotel management and ownership. 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 (2003: £nil).

Directors and directors' interests

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

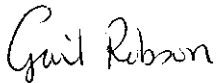
RG Balfour-Lynn
J Singh
IB Cave
MA Bibring
AF Blurton
JW Harrison
JS Shashoua

None of the directors who held office at 30 June 2004 had any interest in the share capital of the Company. The interests of RG Balfour-Lynn, J Singh, MA Bibring, AF Blurton, JW Harrison and JS Shashoua 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



Gail Robson
Company Secretary

1 West Garden Place
Kendal Street
London
W2 2AQ

 2005

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 The Malmaison Company (Edinburgh) Limited

We have audited the financial statements on pages 4 to 12.

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 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 auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

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.

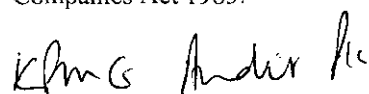
Basis of audit opinion

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 the Company's affairs as at 30 June 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc
Chartered Accountants
Registered Auditor

27 April 2005

Profit and loss account
for the year ended 30 June 2004

	<i>Note</i>	Year ended 30 June 2004 £	Year ended 30 June 2003 £
Turnover		3,269,897	2,862,056
Cost of sales		(2,899,088)	(2,562,744)
Gross profit		370,809	299,312
Administrative expenses		(86)	(1,054,941)
Operating profit/(loss)		370,723	(755,629)
Interest payable and similar charges	4	(731,276)	(1,011,518)
Loss on ordinary activities before taxation	5	(360,553)	(1,767,147)
Tax on loss on ordinary activities	6	-	-
Loss for the financial year	13	(360,553)	(1,767,147)

All activities are continuing.

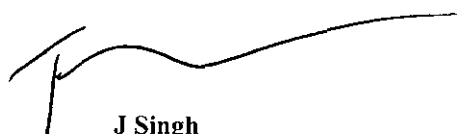
Balance sheet
at 30 June 2004

	<i>Note</i>	2004 £	2003 £
Fixed assets			
Tangible assets	7	14,300,000	14,635,000
Current assets			
Stocks		38,963	37,676
Debtors	8	4,117,646	2,781,504
Cash at bank and in hand		(212,192)	23,640
		3,944,417	2,842,820
Creditors: amounts falling due within one year	9	(16,614,507)	(15,319,733)
Net current liabilities		(12,670,090)	(12,476,913)
Total assets less current liabilities		1,629,910	2,158,087
Creditors: amounts falling due after more than one year	10	-	(119,048)
Net assets		1,629,910	2,039,039
Capital and reserves			
Called up share capital	12	2	2
Revaluation reserve	13	4,623,885	4,712,932
Profit and loss account	13	(2,993,977)	(2,673,895)
Equity shareholders' funds	13	1,629,910	2,039,039

These financial statements were approved by the board of directors on 18th April 2005 and were signed on its behalf by:



IB Cave
 Director



J Singh
 Director

Statement of total recognised gains and losses
for the year ended 30 June 2004

	Year ended 30 June 2004 £	Year ended 30 June 2003 £
Loss for the financial year	(360,553)	(1,767,147)
Unrealised (deficit)/surplus on revaluation of properties	(48,576)	985,477
	<hr/>	<hr/>
Total recognised gains and losses relating to the financial year	(409,129)	(781,670)
	<hr/>	<hr/>

Note of historical cost profits and losses
for the year ended 30 June 2004

	Year ended 30 June 2004 £	Year ended 30 June 2003 £
Reported (loss)/profit on ordinary activities before taxation	(360,553)	1,767,147
Difference between a historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	40,471	34,533
	<hr/>	<hr/>
Historical cost (loss)/profit on ordinary activities before taxation	(320,082)	1,732,614
	<hr/>	<hr/>
Historical cost (loss)/profit on ordinary activities after Taxation	(320,082)	1,732,614
	<hr/>	<hr/>

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 accounting

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of land and buildings.

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).

Depreciation

Depreciation is provided on tangible fixed assets on a straight line basis in order to write off the cost less residual value over their expected useful lives. Depreciation is provided in the month following that in which the hotel opens and applied over the following useful lives:

Freehold land	-
Freehold buildings	100 years
Building surface finishes and services	25 years
Furniture, fittings and equipment	5-15 years

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors.

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 not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Deferred tax is measured on a non-discounted basis.

Notes (continued)

2 Turnover

Turnover, which is wholly generated within the United Kingdom, represents the sales value of work done in respect of hotel management during the period and is exclusive of value added tax.

3 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year was:

	Year ended 30 June 2004	Year ended 30 June 2003
Directors	-	-
Hotel administration	78	78
	<u>78</u>	<u>78</u>
	Year ended 30 June 2004 £	Year ended 30 June 2003 £
Salaries	975,251	925,195
Social security costs	85,201	60,889
Pension contributions	9,101	4,500
	<u>1,069,553</u>	<u>990,584</u>

The directors received no remuneration for their services to the Company.

4 Interest payable and similar charges

	Year ended 30 June 2004 £	Year ended 30 June 2003 £
Bank interest payable	688,017	880,114
Other Interest payable	43,259	131,404
	<u>731,276</u>	<u>1,011,518</u>

Notes (continued)

5 Loss on ordinary activities before taxation

	2004 £	2003 £
This is stated after charging the following:		
Auditors' remuneration:		
Audit	-	-
Depreciation	417,270	384,151
	<u> </u>	<u> </u>

Audit fees were borne by another group company.

6 Tax on loss on ordinary activities

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

	2004 £	2003 £
UK Corporation tax at 30% on company losses before tax	(123,537)	(514,774)
Excess of depreciation over capital allowances	125,181	115,245
Group relief (available from)/ surrendered to other group companies for no consideration	(1,644)	399,529
	<u> </u>	<u> </u>
Total corporation tax charged in the profit and loss account	-	-
	<u> </u>	<u> </u>

The Company has approximately £600,000 of tax losses available to carry forward.

Notes (continued)

7 Tangible fixed assets

	Freehold land and buildings £	Fixtures and fittings £	Total £
Cost or valuation			
As at 1 July 2003	12,693,419	2,491,400	15,184,819
Additions	73,035	57,811	130,846
Reclassification	-	-	-
Revaluation surplus	(241,557)	-	(241,557)
As at 30 June 2004	12,524,897	2,549,211	15,074,108
Depreciation			
As at 1 July 2003	73,612	476,207	549,819
Charge for period	119,369	297,901	417,270
Revaluation surplus	(192,981)	-	(192,981)
As at 30 June 2004	-	774,108	774,108
Net book value at 30 June 2004	12,524,897	1,775,103	14,300,000
Net book value at 30 June 2003	12,619,807	2,015,193	14,635,000
Depreciated historical cost at 30 June 2004	8,372,773	1,303,342	9,676,115
Depreciated historical cost at 30 June 2003	8,375,000	1,547,068	9,922,068

The Company's fixed assets were valued on the basis of market value at 30 June 2004 by DTZ Debenham Tie Leung Chartered Surveyors. The valuation was carried out in accordance with the appraisal and valuation manual published by the Royal Institution of Chartered Surveyors.

8 Debtors

	2004 £	2003 £
Trade debtors	155,324	92,350
Owed by group undertaking	3,889,729	2,601,310
Other debtors	-	9,108
Prepayments and accrued income	72,593	78,736
	4,117,646	2,781,504

Notes (continued)

9 Creditors: amounts falling due within one year

	2004	2003
	£	£
Obligations under finance lease		-
Trade creditors	89,338	65,313
Amounts owed to group undertakings	16,190,308	14,452,172
Other creditors	196,021	707,450
Accruals and deferred income	138,840	94,798
	<u>16,614,507</u>	<u>15,319,733</u>

10 Creditors: amounts falling due after more than one year

	2004	2003
	£	£
Other creditors	-	119,048
	<u>-</u>	<u>119,048</u>

11 Deferred taxation

The deferred tax balances at 30 June 2004 arose as follows:-

	Amount provided 2004 £	Amount not provided 2004 £	Amount provided 2003 £	Amount not provided 2003 £
Accelerated capital allowances	-	(583,342)	-	(418,907)
Short term timing differences and tax losses	-	(181,392)	-	(181,392)
Potential tax on property valuation surplus	-	918,623	-	1,104,967
	<u>-</u>	<u>153,889</u>	<u>-</u>	<u>504,668</u>

No deferred tax has been provided in respect of the excess of the hotel's valuation at 30 June 2004 over its original cost as the Company does not intend to dispose of the asset in the foreseeable future.

A deferred tax asset has not been recognised in respect of the accelerated capital allowances because the Company does not anticipate taxable profits arising in the near future due to the availability of group relief provided by other group companies for no consideration.

Notes (continued)

12 Called up share capital

	2004 £	2003 £
<i>Authorised</i>		
1,000 ordinary shares of £1 each	1,000	1,000
	<hr/>	<hr/>
<i>Allotted, called up and fully paid:</i>		
2 ordinary shares of £1 each	2	2
	<hr/>	<hr/>

13 Reconciliation of movements in shareholders' funds

	Share capital £	Revaluation reserve £	Profit and loss account £	Shareholders' Funds £
As at 1 July 2003	2	4,712,932	(2,673,895)	2,039,039
Loss for the year	-	-	(360,553)	(360,553)
Revaluation deficit	-	(48,576)	-	(48,576)
Transfer of depreciation on revalued tangible fixed assets	-	(40,471)	40,471	-
	<hr/>	<hr/>	<hr/>	<hr/>
As at 30 June 2004	2	4,623,885	(2,993,977)	1,629,910
	<hr/>	<hr/>	<hr/>	<hr/>

14 Immediate and ultimate parent companies

The immediate parent company is Malmaison 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, 25 City Road, London EC1Y 1BQ.