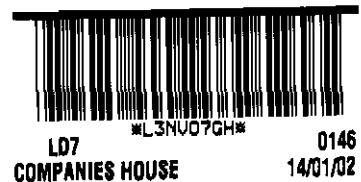


The Malmaison Company (Edinburgh) Limited

Directors' report and financial
statements

Registered number 3437534

30 June 2001



Directors' report and financial statements

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Directors' report

The directors present their annual report and the audited financial statements for the 18 months ended 30 June 2001. The comparative period is for the year ended 31 December 1999.

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 5.

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

Dividends

The directors do not recommend the payment of a dividend (1999: £nil).

Directors and directors' interests

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

CG Upton	(resigned 31 May 2000)
J Bohlmann	(resigned 3 November 2000)
E Blum	(resigned 3 November 2000)
A Raymond	(resigned 24 March 2000)
RJ Tutty	(resigned 3 November 2000)
JD Carreker	(resigned 3 November 2000)
RG Balfour-Lynn	(appointed 6 November 2000)
JW Harrison	(appointed 6 November 2000)
JS Shashou	(appointed 6 November 2000)
AF Blurton	(appointed 6 November 2000)
J Singh	(appointed 3 November 2000)
MA Bibring	(appointed 6 November 2000)
IB Cave	(appointed 3 November 2000)

None of the directors had any interest in the share capital of the Company. The interests of RG Balfour-Lynn, JW Harrison, JS Shashou, J Singh, MA Bibring and AF Blurton in the share capital of the ultimate holding company, Marylebone Warwick Balfour Group Plc, are disclosed in the financial statements of that company.

IB Cave held the following options to purchase shares of Marylebone Warwick Balfour Group Plc:

3 November 2000	256,710 options at 117p
30 June 2001	256,710 options at 117p
8 January 2002	256,710 options at 117p and 125,000 options at 95p

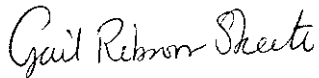
No other director had any interest in the share capital of Marylebone Warwick Balfour Group Plc.

Directors' report *(continued)*

Auditors

During the period PricewaterhouseCoopers resigned as auditors to the Company and KPMG Audit Plc were appointed by the directors to fill the vacancy. 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-Skeete
Company Secretary

1 West Garden Place
Kendal Street
London
W2 2AQ

8th January 2002

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

PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Report of the auditors to the members of The Malmaison Company (Edinburgh) Limited

We have audited the financial statements on pages 5 to 14.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 3, 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. 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 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 2001 and of the loss of the Company for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

10 January 2002

Profit and loss account
for the 18 months ended 30 June 2001

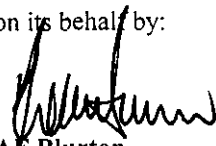
	<i>Note</i>	18 months ended 30 June 2001 £	Year ended 31 December 1999 £
Turnover	2	4,094,448	515,978
Cost of sales		(2,698,515)	-
Gross profit		1,395,933	515,978
Administrative expenses		(794,952)	(325,625)
Operating profit		600,981	190,353
Interest receivable and similar income	4	-	2,099
Interest payable and similar charges	5	(940,797)	(1,006,924)
Loss on ordinary activities before taxation	6	(339,816)	(814,472)
Tax on loss on ordinary activities	7	51,233	-
Loss for the financial year	13	(288,583)	(814,472)

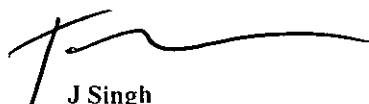
All activities are continuing.

Balance sheet
 at 30 June 2001

	<i>Note</i>	30 June 2001 £	31 December 1999 £
Fixed assets			
Tangible assets	8	10,900,000	7,345,467
Current assets			
Stocks		44,906	-
Debtors	9	3,271,526	1,339,134
Cash at bank and in hand		39,210	23,660
		3,355,642	1,362,794
Creditors: amounts falling due within one year	10	(10,446,847)	(965,322)
Net current assets/(liabilities)		(7,091,205)	397,472
Total assets less current liabilities		3,808,795	7,742,939
Creditors: amounts falling due after more than one year	11	(785)	(7,300,888)
Net assets		3,808,010	442,051
Capital and reserves			
Called up share capital	12	2	2
Revaluation reserve	13	4,910,420	1,296,506
Profit and loss account	13	(1,102,412)	(854,457)
Equity shareholders' funds	13	3,808,010	442,051

These financial statements were approved by the board of directors on 8th January 2002 and were signed on its behalf by:


 A.F. Blurton
 Director


 J Singh
 Director

Statement of total recognised gains and losses
for the 18 months ended 30 June 2001

	<i>Note</i>	18 months ended 30 June 2001 £	Year ended 31 December 1999 £
Loss for the financial year	13	(288,583)	(814,472)
Unrealised surplus on revaluation of properties	13	3,654,542	-
Total recognised gains and losses relating to the financial year		3,365,959	(814,472)

Note of historical cost profits and losses
for the 18 months ended 30 June 2001

	18 months ended 30 June 2001 £	Year ended 31 December 1999 £
Reported loss on ordinary activities before taxation	(339,816)	(814,472)
Difference between a historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	40,628	49,168
Historical cost loss on ordinary activities before taxation	(299,188)	(765,304)
Historical cost loss on ordinary activities after taxation	(247,955)	(765,304)

Notes

(forming part of the financial statements)

1 Accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom, which have been applied consistently, and with the Companies Act 1985.

Basis of accounting

The financial statements have been prepared under the historical cost convention as modified by the revaluation of land and buildings.

Cash flow

Under Financial Reporting Standard 1 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.

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 depreciated over the following useful lives:

		Pre 3 November 2000	Post 3 November 2000
Freehold land	-	35 years	-
Freehold buildings	-	35 years	25-100 years
Furniture, fittings and equipment	-	3-6 years	5-15 years

Leases

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

Deferred taxation

Provision is made for deferred taxation using the liability method to take account of timing differences between the incidence of income and expenditure for taxation and accounting purposes except to the extent that the directors consider that a liability to taxation is unlikely to crystallise in the foreseeable future. No charge for deferred taxation was made in the period (1999: £nil).

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.

Notes (continued)

3 Staff numbers and costs

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

	18 months ended 30 June 2001	Year ended 31 December 1999
Directors	-	-
Hotel administration	70	-
	<u>70</u>	<u>-</u>

	18 months ended 30 June 2001 £	Year ended 31 December 1999 £
Salaries	1,079,527	-
Social security costs	77,918	-
Pension contributions	5,983	-
	<u>1,163,428</u>	<u>-</u>

4 Interest receivable and similar income

	18 months ended 30 June 2001 £	Year ended 31 December 1999 £
Bank interest receivable	-	2,099

5 Interest payable and similar charges

	18 months ended 30 June 2001 £	Year ended 31 December 1999 £
On bank loans	937,419	254,705
Finance charges payable in respect of finance leases	3,378	2,768
On loans from group undertakings	-	749,451
	<u>940,797</u>	<u>1,006,924</u>

Notes (continued)

6 Profit/(loss) on ordinary activities before taxation

	18 months ended 30 June 2001 £	Year ended 31 December 1999 £
This is stated after charging the following:		
Auditors' remuneration:		
Audit	-	-
Depreciation		
Owned	600,467	209,832
Leased	13,349	20,538
	<u> </u>	<u> </u>

Audit fees were borne by another group company.

7 Tax on profit/(loss) on ordinary activities

	18 months ended 30 June 2001 £	Year ended 31 December 1999 £
Corporation tax	51,233	-
	<u> </u>	<u> </u>

There is no actual or potential liability for deferred taxation (1999: £nil).

Notes (continued)

8 Tangible fixed assets

	Freehold land and buildings £	Fixtures and fittings £	Total £
<i>Cost or valuation</i>			
As at 1 January 2000	7,139,041	603,992	7,743,033
Additions	153,725	360,082	513,807
Revaluation surplus	2,747,579	(29,734)	2,717,845
As at 30 June 2001	10,040,345	934,340	10,974,685
<i>Depreciation</i>			
As at 1 January 2000	275,668	121,898	397,566
Charge for period	173,254	440,562	613,816
Revaluation surplus	(448,922)	(487,775)	(936,697)
As at 30 June 2001	-	74,685	74,685
Net book value at 30 June 2001	10,040,345	859,655	10,900,000
Net book value at 31 December 1999	6,863,373	482,094	7,345,467
Depreciated historical cost at 30 June 2001	5,590,389	399,191	5,989,580
Depreciated historical cost at 31 December 1999	5,566,867	482,094	6,048,961

The Company's fixed assets were valued on the basis of open market value at 3 November 2000 by Christie & Co. and at 30 June 2001 by DTZ Debenham Tie Leung Chartered Surveyors. The valuations were carried out in accordance with the appraisal and valuation manual published by the Royal Institute of Chartered Surveyors.

Leased assets included above.

	Fixtures and fittings £
<i>Net book value</i>	
At 31 December 1999	16,488
At 30 June 2001	3,139

Notes (continued)

9 Debtors

	30 June 2001 £	31 December 1999 £
Trade debtors	103,199	-
Owed by group undertaking	3,136,649	1,328,745
Other debtors	3,127	10,389
Prepayments and accrued income	28,551	-
	<u>3,271,526</u>	<u>1,339,134</u>

10 Creditors: amounts falling due within one year

	30 June 2001 £	31 December 1999 £
Bank loan	-	213,900
Obligations under finance lease	2,354	24,232
Trade creditors	78,055	28,001
Amounts owed to group undertakings	10,161,476	655,482
Other creditors	60,864	-
Accruals and deferred income	144,098	43,707
	<u>10,446,847</u>	<u>965,322</u>

11 Creditors: amounts falling due after more than one year

	30 June 2001 £	31 December 1999 £
Bank loan	-	2,500,400
Obligations under finance leases	785	4,120
Amounts owed to fellow subsidiaries	-	4,796,368
	<u>785</u>	<u>7,300,888</u>

	30 June 2001 £	31 December 1999 £
Bank loans are repayable		
Within 1-2 years	-	213,900
Within 2-5 years	-	2,286,500
	<u>-</u>	<u>2,500,400</u>

The bank loan bore interest at 1.5% over LIBOR and was secured by charges over the hotel property.

Notes (continued)

11 Creditors: amounts falling due after more than one year (continued)

The maturity of obligations under finance leases is as follows:

	30 June 2001 £	31 December 1999 £
Within one year	3,068	24,232
In the second to fifth years	1,022	4,120
	<u>4,090</u>	<u>28,352</u>

12 Called up share capital

	30 June 2001 £	31 December 1999 £
<i>Authorised</i> 1,000 ordinary shares of £1 each	1,000	1,000
<i>Allotted, called up and fully paid:</i> 2 ordinary shares of £1 each	2	2

13 Reconciliation of movements in shareholders' funds

	Share capital £	Revaluation reserve £	Profit and loss account £	2001 £	1999 £
As at 1 January 2000	2	1,296,506	(854,457)	442,051	1,256,523
Loss for the period	-	-	(288,583)	(288,583)	(814,472)
Revaluation surplus	-	3,654,542	-	3,654,542	-
Transfer of depreciation on revalued tangible fixed assets	-	(40,628)	40,628	-	-
Closing shareholders' funds	<u>2</u>	<u>4,910,420</u>	<u>(1,102,412)</u>	<u>3,808,010</u>	<u>442,051</u>

14 Related party transactions

The Company has taken advantage of the exemption, allowed by Financial Reporting Standard number 8, not to disclose transactions with related parties which are at least 90% owned within the same group and whose consolidated financial statements are publicly available.

Notes *(continued)*

15 Parent company

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.

Prior to 3 November 2000 the immediate parent company was Wyndham International Inc., which is registered in the United States of America.

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 Limited, 25 City Road, London EC1Y 1BQ.