

Malmaison Hotels Limited

**Directors' report and financial
statements**

Registered number 03532178

31 December 2006

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Directors' report and financial statements

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Directors' report

The directors present their annual report and the audited financial statements for the period ended 31 December 2006

Principal activities and review of the business

The Company continued to receive funds throughout the period from a loan note from a fellow group undertaking

Results and dividends

The results for the period ended 31 December 2006 are set out on page 5. The directors do not recommend the payment of a dividend (2005 £nil)

Directors and directors' interests

The directors who have held office during the period were as follows

RG Balfour-Lynn
AF Blurton
MA Bibring

JW Harrison
J Singh

JS Shashoua
IB Cave

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

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information 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 to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditors

KPMG Audit Plc were appointed as auditors during the year and in accordance with Section 384 of the Companies Act 1985, a resolution for their re-appointment is to be proposed at the forthcoming Annual General Meeting.

By order of the board

Filex Services Limited
Company Secretary

For & on behalf of

FILEX SERVICES LTD

Signed by Director/Secretary

179 Great Portland Street
London
W1W 5LS

8th August 2007

Statement of directors' responsibilities in respect of the Directors' report and the financial statements

The directors are responsible for preparing the Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

The financial statements are required by law to 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 are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- 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 that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its 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

Independent auditors' report to the members of Malmaison Hotels Limited

We have audited the financial statements of Malmaison Hotels Limited for the period ended 31 December 2006 which comprise the Profit and loss account, the Balance sheet, the Reconciliation of movements in shareholders' funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 2.

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 whether in our opinion the information given in the Directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions 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 judgments 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.

Independent auditors' report to the members of Malmaison Hotels Limited
(continued)

Opinion

In our opinion

the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its profit for the period then 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



KPMG Audit Plc
Chartered Accountants
Registered Auditor

8th August 2007

Profit and loss account
for the period ended 31 December 2006

	<i>Note</i>	18 months ended 31 December 2006 £	Year ended 30 June 2005 £
Operating profit		-	-
Interest receivable and similar income	2	11,351,673	4,117,202
		<hr/>	<hr/>
Profit on ordinary activities before taxation	3	11,351,673	4,117,202
Tax on profit on ordinary activities	4	-	-
		<hr/>	<hr/>
Profit for the financial period	9	11,351,673	4,117,202
		<hr/>	<hr/>

There are no recognised gains or losses other than through the profit and loss account

There is no difference between the result disclosed above and that prepared on a historical cost basis

Balance sheet
at 31 December 2006

	<i>Note</i>	31 December 2006 £	30 June 2005 £
Current assets			
Debtors	5	110,655,808	103,057,135
Creditors amounts falling due within one year	6	-	(3,753,000)
Net current assets		110,655,808	99,304,135
Net assets		110,655,808	99,304,135
Capital and reserves			
Called up share capital	8	95,186,367	95,186,367
Share premium	9	4,117,202	4,117,202
Profit and loss account	9	11,352,239	566
Equity shareholders' funds		110,655,808	99,304,135

These financial statements were approved by the board of directors on 8th August 2007 and were signed on its behalf by


AF Blurton
Director

J Singh
Director



Reconciliation of movements in shareholders' funds
for the period ended 31 December 2006

	<i>Note</i>	18 months ended 31 December 2006 £	Year ended 30 June 2005 £
Profit for the financial period	9	11,351,673	4,117,202
Issue of shares in period		-	95,186,365
Equity shareholders' funds at beginning of the period		99,304,135	568
		<hr/>	<hr/>
Equity shareholders' funds at the end of the period		110,655,808	99,304,135
		<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 MWB Malmaison Holdings Limited, 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)

Deferred taxation

The charge for taxation is based on the result for the period, 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

2 Interest receivable and similar income

	18 months ended 31 December 2006 £	Year ended 30 June 2005 £
Interest on loan to fellow group undertaking	11,351,673	4,117,202

3 Profit on ordinary activities before taxation

Audit fees were borne by another group company

Notes (continued)

4 Tax on profit on ordinary activities

The tax on the profit on ordinary activities has been adjusted from the amount that would arise from applying the prevailing corporation tax rate to the Company's results as follows -

	18 months ended 31 December 2006 £	Year ended 30 June 2005 £
UK Corporation tax at 30% on company profits before tax	3,405,502	1,235,161
Non taxable income	-	(602,264)
Group relief available from other group companies for no consideration	(3,405,502)	(632,897)
	<hr/>	<hr/>
Total corporation tax in the profit and loss account	-	-
	<hr/>	<hr/>

5 Debtors

	31 December 2006 £	30 June 2005 £
Amounts owed by group undertakings	110,655,808	103,057,135
	<hr/>	<hr/>

6 Creditors' amounts falling due within one year

	31 December 2006 £	30 June 2005 £
Amounts owed to group undertakings	-	3,753,000
	<hr/>	<hr/>

Notes (continued)

7 Deferred taxation

The liability for deferred taxation as at 31 December 2006 was £nil (30 June 2005 - £nil). The balance relates to amounts provided and not provided.

8 Called up share capital

	31 December 2006 £	30 June 2005 £
<i>Authorised</i>		
95,186,367 Ordinary shares of £1 each	95,186,367	95,186,367
	<u> </u>	<u> </u>
<i>Allotted, called up and fully paid</i>		
95,186,367 Ordinary shares of £1 each	95,186,367	95,186,367
	<u> </u>	<u> </u>

9 Reserves

	Share premium £	Profit and loss account £
As at 1 July 2005	4,117,202	566
Profit for the period	-	11,351,673
	<u> </u>	<u> </u>
As at 31 December 2006	4,117,202	11,352,239
	<u> </u>	<u> </u>

10 Immediate and ultimate parent companies

The immediate parent company is MWB Malmaison Holdings Limited. The ultimate parent company is Marylebone Warwick Balfour Group Plc. All 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 plc, 30 City Road, London, EC1Y 2AG.