The Malmaison Hotel (Birmingham) Limited

Directors' report and financial statements

Registered number 3767885

30 June 2002

Directors' report and financial statements

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 June 2002.

The comparative period is for the 18 months ended 30 June 2001.

Review of business

The Company is engaged in hotel development 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 *(2001: £nil)*.

Directors and directors' interests

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

RG Balfour- Lynn	(resigned 17 May 2002)
JW Harrison	(resigned 16 May 2002)
JS Shashou	(resigned 16 May 2002)
AF Blurton	(resigned 16 May 2002)
J Singh	
MA Bibring	(resigned 16 May 2002)
IB Cave	

None of the directors who held office at 30 June 2002 had any interest in the share capital of the Company. The interests of 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.

At 30 June 2001, IB Cave held an option to purchase 256,710 ordinary shares in Marylebone Warwick Balfour Group Plc at 117p per share and a further option to purchase 125,000 ordinary shares in Marylebone Warwick Balfour Group Plc at 95p per share. These options were cancelled during the year ended 30 June 2002.

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-Skeete

Gail Robson-Skeete
Company Secretary

1 West Garden Place
Kendal Street
London
W2 2AQ

9th February 2003

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 independent auditors to the members of The Malmaison Hotel (Birmingham) Limited

We have audited the financial statements on pages 4 to 10.

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 affairs of the Company as at 30 June 2002 and of the profit of the Company 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

10 February 2003

Profit and loss account
for the year ended 30 June 2002

	Note	**Year ended 30 June 2002 £**	18 months ended 30 June 2001 £
Administrative expenses		**(55)**	(6,572)
Operating loss		**(55)**	(6,572)
Interest receivable and similar income	*3*	**13,264**	-
Profit/(loss) on ordinary activities before taxation	*4*	**13,209**	(6,572)
Tax on profit/(loss) on ordinary activities	*5*	**-**	-
Profit/(loss) for the financial year	*11*	**13,209**	(6,572)

All activities are continuing.

There is no difference between profits/(losses) as stated and profits/(losses) on the historical cost basis.

Balance sheet
at 30 June 2002

	Note	**2002** **£**	2001 £
Fixed assets			
Tangible assets	*6*	**17,550,000**	7,300,000
Current assets			
Debtors	*7*	**458,738**	24,535
Cash at bank and in hand		**157,541**	415,088
		616,279	439,623
Creditors: amounts falling due within one year	*8*	**(16,618,332)**	(7,613,938)
Net current liabilities		**(16,002,053)**	(7,174,315)
Total assets less current liabilities		**1,547,947**	125,685
Net assets		**1,547,947**	125,685
Capital and reserves			
Called up share capital	*10*	**2**	2
Revaluation reserve	*11*	**1,541,308**	132,255
Profit and loss account	*11*	**6,637**	(6,572)
Equity shareholders' funds	*11*	**1,547,947**	125,685

These financial statements were approved by the board of directors on 9th February 2003 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 2002

	Note	**Year ended 30 June 2002 £**	18 months ended 30 June 2001 £
Profit/(loss) for the financial year	*11*	**13,209**	(6,572)
Unrealised surplus on revaluation of property	*11*	**1,409,053**	132,255
Total recognised gains and losses relating to the financial year		**1,422,262**	125,683

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:

	Pre 3 November 2000	Post 3 November 2000
Long leasehold buildings	35 years	50 years
Building surface finishes and services	35 years	25 years
Furniture, fittings and equipment	3-6 years	5-15 years

Properties in the course of development are not depreciated.

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. Previously, the Company's accounting policy was to provide for deferred tax only to the extent that liabilities or assets were expected to be payable or receivable in the foreseeable future. This was in accordance with Generally Accepted Accounting Principles in the UK.

In accordance with FRS 19, Deferred Tax is now 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.

The change in policy has no effect on comparatives for earlier periods.

Notes *(continued)*

2 Staff numbers and costs

The Company did not employ any staff during the current year or the prior period. None of the directors received any emoluments from the Company *(2001: £nil)*.

3 Interest receivable and similar income

	Year ended 30 June 2002	18 months ended 30 June 2001
	£	£
Bank interest receivable	**13,264**	-

4 Profit/(loss) on ordinary activities before taxation

Audit fees were borne by another group company.

5 Tax on profit/(loss) on ordinary activities

The tax charge/(credit) on the company's profits/(losses) at the 30% standard rate of tax should have been £3,963 *(2001:credit £1,972)*. Due to the availability in 2002 of losses received from other group companies for no consideration, the charge has been reduced to £nil. No tax credit is available in 2001 as the company had not commenced to trade.

Notes *(continued)*

6 Tangible fixed assets

	Long leasehold land and buildings £
Cost or valuation	
As at 1 July 2001	7,300,000
Additions	8,840,947
Revaluation surplus	1,409,053
As at 30 June 2002	17,550,000
Depreciation	
As at 1 July 2001 and 30 June 2002	-
Net book value	
At 30 June 2002	17,550,000
At 30 June 2001	7,300,000

The Company's fixed assets were valued on the basis of open market value at 30 June 2002 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.

The property was under development during the year and therefore, in accordance with the Company's accounting policy, not depreciated.

The historical cost of the property is £16,008,692 *(2001: £7,167,745)*.

7 Debtors

	2002 £	2001 £
Other debtors	**458,738**	24,535

8 Creditors: amounts falling due within one year

	2002 £	2001 £
Trade creditors	**137,025**	30,808
Amounts owed to group undertakings	**15,839,158**	7,168,042
Other creditors	**227,061**	415,088
Accruals and deferred income	**415,088**	-
	16,618,332	7,613,938

Notes *(continued)*

9 Deferred taxation

The deferred tax balance at 30 June 2002 arose as follows:-

	Amount provided 2002 £	**Amount not provided 2002 £**	Amount provided 2001 £	Amount not provided 2001 £
Potential tax on property valuation surplus	**-**	**299,279**	-	192,709
	-	**299,279**	-	192,709

No deferred tax liability has been provided in respect of the property valuation surplus as the company does not intend to dispose of the asset in the foreseeable future.

10 Called up share capital

	2002 £	2001 £
Authorised		
1,000 Ordinary shares of £1 each	**1,000**	1,000
Allotted, called up and fully paid:		
2 Ordinary shares of £1 each	**2**	2

11 Reconciliation of movements in shareholders' funds

	Share capital £	**Revaluation reserve £**	**Profit and Loss account £**	**Shareholders' funds £**
As at 1 July 2001	2	132,255	(6,572)	**125,685**
Profit for the year	-	-	13,209	**13,209**
Revaluation surplus	-	1,409,053	-	**1,409,053**
As at 30 June 2002	2	1,541,308	6,637	**1,547,947**

12 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 Limited, 25 City Road, London EC1Y 1BQ.