

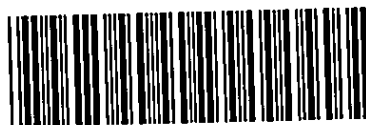
The Malmaison Company (Edinburgh) Limited

**Directors' report and financial
statements**

Registered number 03437534

31 December 2006

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Directors' report and financial statements

Contents

Directors' report	1
Statement of directors' responsibilities in respect of the Directors' report and the financial statements	2
Independent auditors' report to the members of The Malmaison Company (Edinburgh) Limited	3
Profit and loss account	5
Balance sheet	6
Statement of total recognised gains and losses	7
Reconciliation of movements in shareholders funds	7
Note of historical cost profits and losses	7
Notes	8

Directors' report

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

Principal activities

The Company is engaged in the management of a hotel and restaurant

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
IB Cave

JW Harrison
J Singh

JS Shashoua
MA Bibring

None of the directors had any interest in the share capital of the Company. The interests of the directors 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.

Land and buildings

As disclosed in note 8, the Company's freehold property was sold during the period.

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
For and on behalf of

FILEX SERVICES LTD.

Signed by Director/Secretary
Filex Services Limited
Secretary

179 Great Portland Street
London
W1W 5LS

21st July 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 The Malmaison Company (Edinburgh) Limited

We have audited the financial statements of The Malmaison Company (Edinburgh) Limited for the period ended 31 December 2006 which comprise the Profit and loss account, the Balance sheet, the Statement of total recognised gains and losses, the Reconciliation of movements in shareholders' funds, the Note of historical cost profits and losses 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 The Malmaison Company
(Edinburgh) 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

KPMG Audit Plc
Chartered Accountants
Registered Auditor

1 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 £
Turnover	2	6,416,256	3,664,832
Cost of sales		(3,386,586)	(3,139,821)
Gross profit		3,029,670	525,011
Administrative expenses		(2,367,020)	-
Operating profit		662,650	525,011
Interest payable and similar charges	4	(411,380)	(710,057)
Interest receivable and similar income	5	471,359	-
Loss on disposal of tangible fixed assets	8	(408,347)	-
Profit/(loss) on ordinary activities before taxation	6	314,282	(185,046)
Tax on profit/(loss) on ordinary activities	7	-	-
Profit/(loss) for the financial period	13	314,282	(185,046)

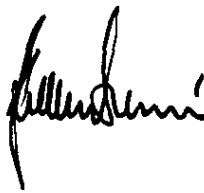
All activities are continuing

Balance sheet
at 31 December 2006

	<i>Note</i>	31 December 2006 £	30 June 2005 £
Fixed assets			
Tangible assets	8	940,216	15,357,000
Current assets			
Stocks		52,212	41,999
Debtors	9	14,121,268	976,478
Cash at bank and in hand		2,000	-
		14,175,480	1,018,477
Creditors amounts falling due within one year	10	(12,124,469)	(13,698,532)
Net current assets/(liabilities)		2,051,011	(12,680,055)
Total assets less current liabilities		2,991,227	2,676,945
Net assets		2,991,227	2,676,945
Capital and reserves			
Called up share capital	12	2	2
Revaluation reserve	13	-	5,835,804
Profit and loss account	13	2,991,225	(3,158,861)
Equity shareholders' funds		2,991,227	2,676,945

These financial statements were approved by the board of directors on *30th July* 2007 and were signed on its behalf by

AF Blurton
 Director



J Singh
 Director



Statement of total recognised gains and losses
for the period ended 31 December 2006

	<i>Note</i>	18 months ended 31 December 2006 £	Year ended 30 June 2005 £
Profit/(loss) for the financial period	14	314,282	(185,046)
Unrealised surplus on revaluation of property	14	-	1,232,081
Total recognised gains and losses relating to the financial period		314,282	1,047,035

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/(loss) for the financial period		314,282	(185,046)
Revaluation of property in the period		-	1,232,081
Equity shareholders' funds at beginning of the period		2,676,945	1,629,910
Equity shareholders' funds at the end of the period		2,991,227	2,676,945

Note of historical cost profits and losses
for the period ended 31 December 2006

	<i>Note</i>	18 months ended 31 December 2006 £	Year ended 30 June 2005 £
Reported profit/(loss) on ordinary activities before taxation		314,282	(185,046)
Realisation of property revaluation gains from previous years	13	5,835,804	-
Difference between a historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount		43,098	20,162
Historical cost profit/(loss) on ordinary activities before taxation		6,193,184	(164,884)
Historical cost profit/(loss) on ordinary activities after taxation		6,193,184	(164,884)

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 Malmaison 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)

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

Land	not depreciated
Buildings, surface finishes and servicing	20-167 years
Furniture, fittings and equipment	5-10 years

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

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 period was

	18 months ended 31 December 2006	Year ended 30 June 2005
Directors	7	7
Hotel administration	97	97
	<u>104</u>	<u>104</u>

	18 months ended 31 December 2006 £	Year ended 30 June 2005 £
Salaries	1,657,702	1,017,805
Social security costs	125,986	77,287
Pension contributions	23,325	10,820
	<u>1,807,013</u>	<u>1,105,912</u>

4 Interest payable and similar charges

	18 months ended 31 December 2006 £	Year ended 30 June 2005 £
On bank loans and overdrafts	403,394	694,087
Other interest	7,986	15,970
	<u>411,380</u>	<u>710,057</u>

Notes (continued)

5 Interest receivable and similar income

	18 months ended 31 December 2006 £	Year ended 30 June 2005 £
On intercompany loans	471,359	-

6 Profit/(loss) on ordinary activities before taxation

	18 months ended 31 December 2006 £	Year ended 30 June 2005 £
This is stated after charging the following		
Auditor's remuneration for Audit	1,500	-
Depreciation and other amounts written off tangible fixed assets Owned	583,332	395,266

With effect from January 2007, audit fees were borne by another group company

7 Tax on profit/(loss) on ordinary activities

The tax on the profit/(loss) 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/(losses) before tax	94,295	(55,514)
Non-taxable loss on disposal of tangible fixed assets	122,503	-
Excess of capital allowances over depreciation	(84,707)	93,882
Group relief available from other group companies for no consideration	-	(38,368)
Brought forward trading losses utilised	(133,081)	-
Total corporation tax in the profit and loss account	-	-

Notes (continued)

8 Tangible fixed assets

	Freehold land and buildings	Fixtures and Fittings	Total £
<i>Cost or valuation</i>			
As at 1 July 2005	13,653,821	2,769,396	16,423,217
Additions	-	551,194	551,194
Disposals	(13,653,821)	(1,139,504)	(14,793,325)
As at 31 December 2006	-	2,181,086	2,181,086
<i>Depreciation</i>			
As at 1 July 2005	-	1,066,217	1,066,217
Charge	109,099	474,233	583,332
Eliminated on disposals	(109,099)	(299,580)	(408,679)
As at 31 December 2006	-	1,240,870	1,240,870
Net book value at 31 December 2006	-	940,216	940,216
Net book value at 30 June 2005	13,653,821	1,703,179	15,357,000

In June 2006, the Company disposed of the freehold property for £14.0m realising a loss of £408,347

9 Debtors

	31 December 2006 £	30 June 2005 £
Trade debtors	111,533	116,872
Amounts owed by group undertakings	13,949,023	826,927
Other debtors	23,440	-
Prepayments and accrued income	37,272	32,679
	<u>14,121,268</u>	<u>976,478</u>

Notes (continued)

10 Creditors: amounts falling due within one year

	31 December 2006 £	30 June 2005 £
Bank overdraft	164,983	207,097
Trade creditors	64,561	179,270
Amounts owed to group undertakings	10,518,171	12,753,644
Taxes and social security costs	1,214,682	-
Other creditors	18,111	415,313
Accruals and deferred income	143,961	143,208
	<u>12,124,469</u>	<u>13,698,532</u>

11 Deferred taxation

The deferred tax balance at 31 December 2006 arose as follows -

	Amount provided 2006 £	Amount not provided 2006 £	Amount provided 2005 £	Amount not provided 2005 £
Accelerated capital allowances	-	(129,180)	-	(481,046)
Trading tax losses carried forward	-	(617,635)	-	(438,216)
Potential tax on property valuation surplus	-	-	-	1,010,450
	<u>-</u>	<u>(746,815)</u>	<u>-</u>	<u>91,188</u>

The Company has approximately £2 2m of tax losses available to carry forward

12 Called up share capital

	31 December 2006 £	30 June 2005 £
<i>Authorised</i>		
1,000 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>
<i>Allotted, called up and fully paid</i>		
2 Ordinary shares of £1 each	<u>2</u>	<u>2</u>

Notes (continued)

13 Shareholders' funds

	Revaluation reserve £	Profit and loss account £
As at 1 July 2005	5,835,804	(3,158,861)
Profit for the period	-	314,282
Crystallisation of revaluation reserve on disposal of tangible fixed assets	(5,835,804)	5,835,804
As at 31 December 2006	-	2,991,225

14 Contingencies

The Company is registered with HM Revenue and Customs as a member of a Group for VAT purposes. As a result, it is jointly and severally liable on a continuing basis for amounts owing by other members of the Group in respect of unpaid VAT.

15 Immediate and ultimate parent companies

The immediate parent company is Malmaison 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.