

Meridien Park Hotel Limited
(formerly The Selsdon Park Hotel Limited)

Directors' report and financial
statements

Registered number 244820

For the year ended 30 June 2004



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Directors' report

The Directors present their annual report and the audited financial statements for Meridien Park Hotel Limited, formerly The Selsdon Park Hotel Limited, ("the Company") for the year ended 30 June 2004.

Principal activity

The principal activity during the year was the operation of the Selsdon Park Hotel and Golf Course ("the Hotel").

On 30 July 2003, the Company agreed to transfer the lease of the hotel to the owner (the Royal Bank of Scotland). The transfer was formalised on 23 November 2003 and was deemed to be effective from 30 July 2003. Following the transfer, the Company entered into an agreement to provide managed services to the owner. This agreement concluded on 31 January 2004.

On 29 June 2004, as a result of a Group re-organisation, the Company acquired the beneficial ownership for £19.5m (£29.2m) a series of investments which ultimately controls 62.99% of the Sociedade Turistica de Penina SA, the Portuguese company which owns and operates the Le Meridien Penina Golf & Resort in the Algarve.

Results and dividends

The loss for the year before taxation amounted to £40,455,000 (2003: profit £2,947,000). The Directors do not propose the payment of a dividend for the year (2003: £ nil).

Going concern

The Directors believe that there are sufficient grounds for issuing financial statements prepared on the going concern basis as disclosed more fully in note 1(a), basis of preparation.

Directors and their interests

The Directors who were appointed and held office during the year, and subsequently, were as follows:

I.D. Ferguson	
L.M. Mackenzie	(resigned 28 May 2004)
D.O. Maloney	(resigned 19 December 2003)
R.E. Riley	(appointed 14 January 2004)

The Directors who held office at the end of the financial year had the following interests in the Ordinary B shares of £0.01 of Meridien Services Company Plc, a group company, according to the Register of Directors' Interests:

	Interest at end of year	Interest at start of year or date of appointment
I.D. Ferguson	500	500

None of the Directors who held office at the end of the financial year had any disclosable interest in the shares of the Company.

Political and charitable contributions

The Company made no political or charitable contributions during the year (2003: £ nil).

Change of company name

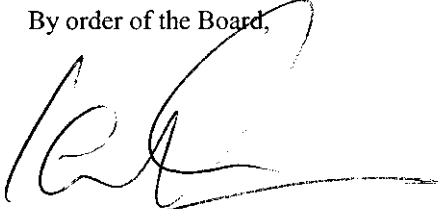
The Company changed its name to Meridien Park Hotel Limited from The Selsdon Park Hotel Limited on 16 January 2004.

Directors' report *(continued)*

Auditors

Pursuant to a shareholders' resolution, the Company is not obliged to reappoint its auditors annually and KPMG Audit Plc will therefore continue in office.

By order of the Board,

A handwritten signature in black ink, appearing to read 'Iain Ferguson', with a long horizontal flourish extending to the right.

Iain Ferguson
Director

CityPoint
1 Ropemaker Street
London
EC2Y 9HT

14 April 2005

Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial period 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 a 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.

Report of the independent auditors to the members of Meridien Park Hotel Limited (formerly The Selsdon Park Hotel Limited)

We have audited the financial statements on pages 5 to 13.

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 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 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.

Fundamental uncertainty - Going concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1(a) to the financial statements concerning the fundamental uncertainty concerning the use of the going concern basis. The appropriateness of this basis assumes the successful renegotiation of the Newgate Capital Limited group's funding arrangements which is referred to in note 1(a), which is fundamentally uncertain. In view of the significance of this fundamental uncertainty we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

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

KPMG Audit Plc
Chartered Accountants
Registered Auditor

14 April 2005

8 Salisbury Square
London
EC4Y 8BB

Profit and loss account

For the year ended 30 June 2004

	Notes	Year ended 30 June 2004 £'000	Year ended 30 June 2003 £'000
Turnover	2	786	7,531
Cost of sales		(467)	(3,813)
Gross profit		319	3,718
Administrative expenses	3	(45,172)	(4,446)
Operating loss		(44,853)	(728)
Loss on termination of discontinued operations	5	(733)	-
Interest receivable and similar income	6	5,131	3,675
(Loss)/profit on ordinary activities before taxation	3	(40,455)	2,947
Tax on profit on ordinary activities	7	9,390	(920)
Retained (loss)/profit for the year for equity shareholders	14	(31,065)	2,027

The notes on pages 7 to 13 form part of these financial statements.

All operations are discontinued.

There is no difference between the loss or profit reported above and the historical cost loss or profit.

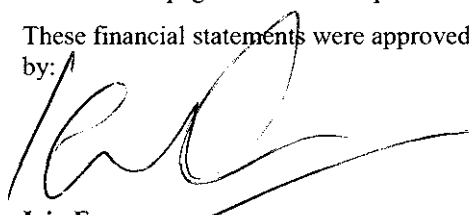
There are no recognised gains or losses in the year or in the prior year, other than the (loss)/profit as reported above.

Balance Sheet
at 30 June 2004

	<i>Note</i>	2004 £'000	2003 £'000
Fixed assets			
Investments	8	<u>19,467</u>	<u>-</u>
Current assets			
Stocks	9	-	52
Debtors	10	<u>587</u>	<u>75,128</u>
		587	75,180
Creditors: amounts falling due within one year	11	<u>(250)</u>	<u>(24,311)</u>
Net current assets		<u>337</u>	<u>50,869</u>
Total assets less current liabilities		<u>19,804</u>	<u>50,869</u>
Net assets		<u>19,804</u>	<u>50,869</u>
Capital and reserves			
Called-up share capital	13	45	45
Share premium reserve	14	24,698	24,698
Other reserve	14	142	142
Profit and loss account	14	<u>(5,081)</u>	<u>25,984</u>
Shareholders' funds – equity	15	<u>19,804</u>	<u>50,869</u>

The notes on pages 7 to 13 form part of these financial statements.

These financial statements were approved by the Board of Directors on 14 April 2005 and were signed on its behalf by:


Iain Ferguson
 Director

1 Statement of 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.

(a) Basis of preparation

The Company is part of the group headed by Newgate Capital Limited (the "Group"). The Company is exempt by virtue of s228 of the Companies Act 1985 from the requirement to prepare group accounts. These financial statements present information about the Company as an individual undertaking and not about its group.

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention. The financial statements are prepared on a going concern basis, which the Directors believe to be appropriate following discussions with the Board of Directors of Meridien Intermediate Holding Company I Limited ("MIHC1"), a wholly owned subsidiary of the Group and whose Directors are engaged in discussions with the Senior, Senior Mezzanine and Junior Mezzanine lenders referred to below. The MIHC1 Directors have summarised the situation as follows:

"During the year ended 30 June 2004, the Group remained in breach of the terms of certain of its borrowing facilities, under which a total of approximately £1,127 million was drawn as at 30 September 2004.

In addition the Group was in breach of the terms of separate secured borrowing facilities with the Royal Bank of Scotland plc ("RBS"), under which a total of approximately £500 million was drawn as at 1 July 2003. Following demand for repayment, RBS placed the group companies which owned and operated the Grosvenor House and Waldorf hotels into administrative receivership on 30 July 2003.

The Group had also breached the terms of leases under which it operated a further nine hotels which are or were owned by RBS.

On 23 November 2003, agreement was reached with RBS whereby the nine leases would be surrendered and the Group would manage the related hotels under short-term agreements. Settlement was also reached in relation to group obligations in respect of the secured borrowing facilities with RBS which related to the Grosvenor House and Waldorf Hotels. By 22 May 2004, all of these nine leased hotels had been transferred to new operators.

Mable Commercial Funding Limited or affiliates of theirs ("Mable") are the lenders of record of junior mezzanine debt in the principal amount of £162m being 100% of the principal amount outstanding under the Junior Mezzanine Facility Agreement dated 29 June 2001 (as amended, restated or supplemented from time to time) and constitute the Majority Lenders for the purposes of the Junior Mezzanine Facility Agreement.

On 30 December 2003, Mable became the lender of record of senior debt in the principal amount of approximately £629 million being 100% of the principal amount outstanding under the Senior Facility Agreement dated 25 May 2001 (as amended, restated or supplemented from time to time). Mable constitute the Majority Lenders under the Senior Facility Agreement.

On 12 March 2004, Mable became the lender of record of Senior Mezzanine debt in the principal amount of €21m being 16.9% of the principal amount outstanding under the Senior Mezzanine Facility Agreement dated 25 May 2001 (as amended, restated or supplemented from time to time). Through voting arrangements, any decision being made which requires the consent of the Majority Lenders under the Senior Mezzanine Facility Agreement, also requires the consent of Mable.

Notes (continued)

1 Statement of accounting policies (continued)

Notwithstanding the various events of default, since 27 January 2004, Mable have permitted further drawings to be made of undrawn facilities under the Senior Facility Agreement in an aggregate amount of £41m for the purpose of meeting the Group's liquidity needs and have confirmed their present intention to consider favourably further requests to provide additional liquidity to the Group on an as needed basis pending a consensual recapitalisation and refinancing of the Group. A new "C" term loan facility for this purpose has been put in place. This facility is capable of extension until 31 December 2006. The current operational cash flow forecasts of the Group do not envisage a need to draw on that facility in the year to 30 June 2005.

Notwithstanding the various breaches and events of default, in the light of the agreement with RBS and the current intention of Mable, which is now the lender of record of approximately 93% of principal amounts outstanding under the above mentioned Senior, Senior Mezzanine and Junior Mezzanine Facility Agreements, to continue to support the Group, the Directors of MIHC1 believe it is appropriate that the Group financial statements are prepared on a going concern basis. The use of the going concern basis assumes that there will be a solvent recapitalisation of the Group which will place the Group on a viable footing for the future. The Directors having considered all the circumstances and having made due enquiry, including taking professional advice, have concluded that the prospects of a solvent recapitalisation remain good."

The Directors of both Meridien Park Hotel Limited and MIHC1 acknowledge that the achievement of a solvent recapitalisation, although good, remains uncertain. In the event that it was not achieved, and consequently the going concern basis of accounting was no longer appropriate, adjustments would be required to the financial statements to reflect these different circumstances. It is not possible to estimate the amounts of such adjustments.

(b) Cash Flow Statement

Under Financial Reporting Standard 1 (revised), the Company is exempt from the requirement to prepare a cash flow statement on the grounds that its ultimate parent company includes the Company's cash flows in its own published consolidated financial statements.

(c) Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

In accordance with FRS 19, deferred tax has been recognised in respect of all timing differences, which have originated, but not reversed, by the balance sheet date.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

(d) Foreign Exchange

Overseas net assets and UK loans denominated in foreign currencies are translated into sterling at year end rates of exchange. Exchange differences arising on the Company's net investments in overseas subsidiary undertakings and on borrowings in foreign currencies specifically taken out to hedge those investments are dealt with through reserves. Other exchange differences are taken to the profit and loss account.

(e) Turnover

Turnover represents sales (excluding value added tax and similar taxes) of goods and services, net of discounts, provided in the normal course of business.

(f) Operating leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Notes (continued)

(g) Pension costs

The Company provides pensions to certain employees through a funded defined contribution pension scheme. The assets of the scheme are held independently of the Company by trustees and insurance companies. The amount charged to the profit and loss account for the scheme is the contribution payable in the year.

(h) Stocks

Stocks are stated at the lower of cost and net realisable value.

2 Turnover

All turnover arose in the UK from the Company's principal activity, hotel and golf course operation, which has now been discontinued.

3 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging:

	Year ended 30 June 2004	Year ended 30 June 2003
	£'000	£'000
Impairment of assets	-	14
Operating lease rentals		
- land and buildings	230	2,203
- plant and machinery	-	61
	<hr/>	<hr/>

On 29 June 2004, the company assigned a £64,366,027 balance receivable from Meridien Hotels (P) Limited to Meridien Overseas I Limited. Meridien Overseas I Limited paid £19,466,667 to acquire this debt and the Company has written the difference off (£44,899,360) as a bad debt expense.

The auditors' remuneration in the year and prior year was borne by a fellow Group undertaking.

4 Staff costs

The Company leased the Hotel for one month in the year. During that month, the average number of staff in the Company was 221 (2003: 180), subsequently it was nil.

The aggregate payroll costs of these persons during the year were as follows:

	Year ended 30 June 2004	Year ended 30 June 2003
	£'000	£'000
Wages and salaries	223	2,230
Social security costs	19	179
Other pension costs	1	26
	<hr/>	<hr/>
	243	2,435
	<hr/>	<hr/>

No Director of the Company received emoluments for services to the Company during the year ended 30 June 2004 (2003: nil).

Notes (continued)

5 Loss on termination of discontinued activities

As disclosed in the Directors' report, the Company transferred its principal business, the operation and the Hotel with effect from 30 July 2003. The losses on termination amounted to £733,000.

This has no effect on the tax credit for the year.

6 Interest receivable and similar income

	Year ended 30 June 2004 £'000	Year ended 30 June 2003 £'000
Interest from Group undertakings	5,131	3,675

7 Taxation

	Year ended 30 June 2004 £'000	Year ended 30 June 2003 £'000
UK corporation tax	-	920
Adjustments in respect of previous periods	(9,390)	-
	<u>(9,390)</u>	<u>920</u>

Factors affecting the current tax credit for the year

The difference between the current tax shown above and the amount calculated by applying the standard rate of UK corporation tax at 30% (2003: 30%) to the (loss)/profit before tax is shown below:

	Year ended 30 June 2004 £'000	Year ended 30 June 2003 £'000
(Loss)/profit on ordinary activities before tax	(40,455)	2,947
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax 30%	(12,137)	884
Effects of:		
Expenses not deductible for tax purposes	13,583	36
Current year Group relief not paid for	(1,446)	-
Adjustments in respect of previous periods	(9,390)	-
	<u>(9,390)</u>	<u>920</u>

Notes (continued)

8 Investments

	2004 £'000	2003 £'000
<i>Shares in subsidiary undertakings</i>		
Acquisitions	19,467	-

On 29 June 2004, as a result of a Group re-organisation, the Company acquired for £19.5m (€29.2m) the beneficial interest in a series of investments which ultimately control 62.99% of Sociedade Turistica de Penina SA.

9 Stocks

	2004 £'000	2003 £'000
Goods held for resale	-	52

There is no material difference between the balance sheet value of stocks and their replacement cost.

10 Debtors

	2004 £'000	2003 £'000
Trade debtors	-	557
Amounts owed by Group undertakings	587	73,880
Prepayments and accrued income	-	691
	587	75,128

Notes (continued)

11 Creditors: amounts falling due within one year

	2004 £'000	2003 £'000
Bank overdraft	-	188
Trade creditors	-	586
Group relief payable	-	9,390
Amounts owed to group undertakings	250	13,816
Taxation and social security	-	40
Other creditors	-	248
Accruals and deferred income	-	43
	250	24,311

12 Financial commitments

At 30 June 2004, the Company had annual commitments under non-cancellable operating leases as follows:

	2004 £'000	2003 £'000
Operating lease commitments: Other		
Expiring in:		
- less than one year	-	7
- 2-5 years	-	60
- greater than 5 years	-	-
	-	67

13 Called-up share capital

	2004 £'000	2003 £'000
<i>Authorised, allotted, called-up and fully paid</i>		
44,669 ordinary shares of £1 each	45	45

Notes (continued)

14 Reserves

	Share premium £'000	Other Reserves £'000	Profit and loss account £'000
At beginning of year	24,698	142	25,984
(Loss)/profit for the year	-	-	(31,065)
At end of year	24,698	142	(5,081)

15 Reconciliation of movements in equity shareholders' funds

	2004 £'000	2003 £'000
(Loss)/profit for the financial year	(31,065)	2,027
Issue of share capital	-	25
Premium on issue of share capital	-	24,698
Net movement in equity shareholders' funds	(31,065)	26,750
Opening equity shareholders' funds	50,869	24,119
Closing equity shareholders' funds	19,804	50,869

16 Contingent liabilities

The Directors have not been notified of any litigation which they consider will result in a material liability to the Company, either individually or in aggregate.

By way of an agreement dated 11 July 2001, the Company has provided cross guarantees in respect of certain parent undertaking bank facilities. The bank loans are secured by fixed and floating charges over the assets of the Company, and its fellow subsidiaries.

17 Ultimate parent company and parent undertaking of larger group of which the Company is a member

The Directors regard Terra Firma Capital Partners Holdings Limited, a company incorporated in Guernsey, as the ultimate controlling party and ultimate parent entity.

The only group in which the results of the Company are consolidated is that Group headed by Newgate Capital Limited. The consolidated accounts of this Group are available to the public and may be obtained from Le Meridien Hotels & Resorts, CityPoint, 1 Ropemaker Street, London EC2Y 9HT

As a result of the 29 June 2004 restructuring, the Directors regard the immediate parent undertaking to be Meridien Hoteles Espana SL, a company incorporated in Spain.