Post Inns Limited

Directors' report and financial statements

Registered number 42775

For the year ended 30 June 2004

Contents

Directors' report

The Directors present their annual report and the audited financial statements for Post Inns Limited ("the Company") for the year ended 30 June 2004.

Principal activities

The Company does not trade and acts as an investment holding company.

Results and dividends

The loss before taxation for the year ended 30 June 2004 was £17,000 *(2003: profit £603,000).* The Directors do not propose the payment of a dividend to ordinary shareholders *(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)
Meridien Directors Limited	(appointed 28 May 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).*

Auditors

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

By order of the Board

Iain Ferguson
Director

CityPoint
1 Ropemaker Street
London
EC2Y 9HT

12 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 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 Post Inns Limited

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

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 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.

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 profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

12 April 2005

KPMG Audit Plc
Chartered Accountants
Registered Auditor

PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Profit and loss account
for the year ended 30 June 2004

	Note	**Year ended 30 June 2004 £'000**	Year ended 30 June 2003 £'000
Net operating (costs)/income		**(17)**	30
Other operating income	*3*	**-**	573
(Loss)/Profit on ordinary activities before taxation	*2*	**(17)**	603
Taxation on (loss)/Profit on ordinary activities	*5*	**177**	(181)
Profit on ordinary activities after taxation		**160**	422
Dividends non-equity	*9*	**(47)**	-
Retained profit for the year for equity shareholders		**113**	422

The notes on pages 6 to 10 form part of these financial statements.

The profit for the year arises from continuing activities.

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

There are no recognised gains or losses in the year, or in the previous year, other than the profit as reported above.

Balance sheet

at 30 June 2004

	Note	2004 £'000	2003 £'000
Fixed assets			
Investments	*6*	**1,293**	1,293
Current assets			
Debtors: amounts falling due within one year	*7*	**585**	576
Cash		**1**	27
		586	603
Creditors: amounts falling due within one year	*8*	**(338)**	(468)
Net current assets		**248**	135
Total assets less current liabilities		**1,541**	1,428
Net assets		**1,541**	1,428
Capital and reserves			
Called up share capital	*10*	**925**	925
Profit and loss account	*11*	**616**	503
Shareholders' funds – equity	*11*	**1,541**	1,428

The notes on pages 6 to 10 form part of these financial statements.

These financial statements were approved by the Board of Directors on 12 April 2005 and were signed on its behalf by:

Iain Ferguson
Director

Notes

(forming part of the financial statements)

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 Post Inns 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) Investments

Investments acquired with the intention that they will be held for the long term are stated at cost less provision, if appropriate, for any permanent diminution in value.

(d) Taxation

The charge for taxation is based on the (loss)/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.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

(e) Foreign exchange

Overseas net assets and UK loans denominated in foreign currencies are translated into sterling at period 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.

Notes *(continued)*

2 (Loss)/Profit on ordinary activities before taxation

(Loss)/profit on ordinary activities is stated after charging:

	Year ended 30 June 2004 £'000	Year ended 30 June 2003 £'000
(Loss)/gain on foreign currency translation	**(17)**	30

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

3 Other operating income

	Year ended 30 June 2004 £'000	Year ended 30 June 2003 £'000
Exceptional item: non-refundable deposit received in respect of aborted sale	**-**	573

The non-refundable deposit received related to the aborted sale of the Company's investment in Sociedade Turistica da Penina SA.

4 Staff costs and directors emoluments

The Company had no employees during the year. No Director of the Company received emoluments for services to the Company during the year ended 30 June 2004 *(2003: £ nil)*.

5 Taxation

	Year ended 30 June 2004 £'000	Year ended 30 June 2003 £'000
Group relief (receivable)/payable at 30%	**(5)**	181
Adjustments in respect of prior periods – Group relief	**(172)**	-
	(177)	181

Factors affecting tax charge for the year

The total current tax shown above is equal to the amount calculated by applying the standard UK corporation tax of 30% *(2003: 30%)* to the (loss)/profit before tax.

	Year ended 30 June 2004 £'000	Year ended 30 June 2003 £'000
(Loss)/Profit on ordinary activities before tax	**(17)**	603
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax (30%)	**(5)**	181
Adjustments in respect of prior periods – Group relief	**(172)**	-
	(177)	181

Notes *(continued)*

6 Investments in subsidiary undertakings

	2004	2003
	£'000	£'000
At beginning and end of year	**1,293**	1,293

The fixed asset investments mainly comprise investment in 14.78% of the issued share capital of Sociedade Turistica da Penina S.A., a company incorporated in Portugal. In total, 91.06% of the issued share capital of Sociedade Turistica da Penina S.A. is owned by the Company and its fellow Group undertakings.

7 Debtors

	2004	2003
	£'000	£'000
Amounts due from Group undertakings	**585**	576

8 Creditors: amounts falling due within one year

	2004	2003
	£'000	£'000
Group relief payable	**4**	181
Amounts owed to Group undertakings	**287**	287
Dividends payable	**47**	-
	338	468

9 Dividends

	Year ended	Year ended
	30 June 2004	30 June 2003
Non Equity:	**£'000**	£'000
On 6% Cumulative Preference Shares	**23**	-
On 6.5% Cumulative Second Preference Shares	**24**	-
	47	-

The above amounts relate to unaccrued dividends for the period 1 October 2000 to the balance sheet date.

Notes *(continued)*

10 Called up share capital

	2004 £'000	2003 £'000
Authorised		
Equity: 800,000 Ordinary shares of £1.00 each	**800**	800
100,000 6% Cumulative Preference shares of £1.00 each	**100**	100
100,000 6.5% Cumulative Second Preference shares of £1.00 each	**100**	100
	1,000	1,000
Allotted, called up and fully paid		
Equity: 725,000 Ordinary shares of £1.00 each	**725**	725
100,000 6% Cumulative Preference shares of £1.00 each	**100**	100
100,000 6.5% Cumulative Second Preference shares of £1.00 each	**100**	100
	925	925

The 6% preference shares confer a right to a fixed cumulative dividend at the rate of 6% per annum on the capital paid up thereon and the right in a winding up to repayment of capital in priority to the holders of both the second preference and ordinary shares.

The second preference shares confer the right to a fixed cumulative dividend at the rate of 6.5% per annum on capital paid up thereon out of profits remaining after paying the dividend on the 6% preference shares and the right in winding up to a repayment of capital and arrears of dividend (whether declared or not) up to the commencement of the winding up, in priority to the ordinary shares, but subject to the preference shares, but no further right to participate in profits or assets.

11 Reconciliation of movement in shareholders' funds

	Share capital £'000	Profit and loss account £'000	Total 2004 £'000	Total 2003 £'000
Profit for the financial year	**-**	**113**	**113**	422
At start of year	**925**	**503**	**1,428**	1,006
At end of year	**925**	**616**	**1,541**	1,428

12 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.

13 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 largest and smallest group in which the results of the Company are consolidated is that 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.

The immediate parent undertaking is Meridien Group Limited, incorporated in England.