Meridien Group Limited (formerly Forte Limited)

Directors' Report and Consolidated Financial Statements

Registered number 00076230

Year ended 30 September 2001

Contents

Directors' report

The directors present their annual report and the audited financial statements for the year ended 30 September 2001.

Principal activities

The principal activities of Meridien Group Limited and its subsidiaries ('the group') comprise the ownership and operation of hotels primarily in the UK.

Results and dividends

During the year the group had turnover of £76,202,000 (*2000: £561,607,000*) and generated a loss before taxation of £159,698,000 (*2000: profit of £567,367,000).* The group had net assets of £968,302,000 as at 30 September 2001 (*2000:£1,778,436,000*).

On 11 July 2001 the directors declared an interim dividend of £680,000,000 (*2000:£nil*).

Details of significant events since the balance sheet date are contained in note 27 of the consolidated financial statements.

Directors and directors' interests

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

P E Cardnell		(Resigned: 19 June 2001)
A Cau		(Resigned: 19 June 2001)
EFR Caux	(Appointed: 7 September 2001	Resigned: 21 November 2001)
JR Elton	(Appointed: 17 September 2001	Resigned: 7 October 2002)
ID Ferguson	(Appointed: 7 October 2002)	
SS Fraser	(Appointed: 19 June 2001	Resigned: 12 November 2001)
BCH Lambert	(Appointed: 19 June 2001	Resigned: 12 November 2001)
LM Mackenzie	(Appointed: 18 December 2000, Resigned 19 June 2001, Reappointed: 7 September 2001)	
RL Mahoney	(Appointed: 17 September 2001	Resigned: 31 January 2003)
DO Maloney	(Appointed: 7 October 2002)	
AD Martin		(Resigned: 19 June 2001)
MN Stretton		(Resigned: 19 June 2001)

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
JR Elton	**7,500**	-
RL Mahoney	**10,000**	-

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

Directors' report (continued)

Political and charitable contributions

The Company made no political or charitable contributions during the year.

Change of company name

On 20 November 2001 the name of the Company was changed from Forte Limited to Meridien Group Limited.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation

The group places considerable value on the involvement of its employees and has a policy of keeping them informed on matters affecting them as employees and on the various factors affecting the performance of the group. This is achieved through formal and informal meetings, certain company initiatives, the company magazine and a special edition for employees of the annual accounts. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

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

Director

166 High Holborn
London
WC1V 6TT

14 July 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 group 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; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group 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 Group and to prevent and detect fraud and other irregularities.

KPMG

KPMG Audit Plc

PO Box 695
8 Salisbury Square
London
EC4Y 8BB

Independent Auditors' report to the members of Meridien Group Limited (formerly Forte Limited)

We have audited the financial statements on pages 6 to 24.

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, except that the scope of our work was limited as explained below.

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 group's circumstances, consistently applied and adequately disclosed.

We planned 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. As referred to in note 1, the financial statements have been prepared on the going concern basis that assumes the Newgate Capital Limited group will continue in its existing form following what the Directors expect to be a successful renegotiation of its existing funding arrangements. However, the evidence available to us was limited because it is too early in the course of negotiations over the future financing of the Newgate Capital group for the implication for its future strategy to be clear. Consequently, we were unable to complete sufficient audit procedures to obtain adequate assurance regarding the Directors' assessment of the appropriateness of preparing the financial statements of this company and group on a going concern basis. The preparation of the financial statements on a basis other than as a going concern could have a significant effect on the assets and liabilities of the company and group at 30 September 2001 and on the loss for the year then ended.

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 Meridien Group Limited (formerly Forte Limited) (continued)

Opinion

Because of the possible effect of the limitation of evidence available to us, we are unable to form an opinion as to whether the financial statements give a true and fair view of the state of affairs of the company and group as at 30 September 2001 and of the loss of the group for the year then ended. In all other respects, in our opinion, the financial statements have been properly prepared in accordance with the Companies Act 1985.

In respect of the limitation in scope of our work relating to the proposed refinancing, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

14 July 2003

Consolidated profit and loss account

for year ended 30 September 2001

	Note	2001 £000	£000	2000 £000	£000
Turnover	2				
Continuing operations		76,202		71,388	
Discontinued operations		-		490,219	
			76,202		561,607
Net operating costs	3		(84,540)		(507,256)
Operating (loss)/profit	3-6				
Continuing operations		(8,338)		11,886	
Discontinued operations		-		42,465	
			(8,338)		54,351
Share of operating (loss)/profit in associates			(1,775)		-
Total operating (loss)/profit			(10,113)		54,351
Exceptional items	4		(225,744)		485,147
Other interest receivable and similar income	7		104,905		135,952
Interest payable and similar charges	8		(28,746)		(108,083)
(Loss)/Profit on ordinary activities before taxation	2-6		(159,698)		567,367
Tax on (loss)/profit on ordinary activities	9		(38,903)		(37,748)
(Loss)/Profit for the financial year			(198,601)		529,619
Dividends on equity and non-equity shares			(680,000)		-
Retained (loss)/profit for the year			(878,601)		529,619

There are no material differences between the results for the year stated above and that on a historical cost basis.

The notes on pages 11 to 24 form part of the financial statements.

Consolidated balance sheet
at 30 September 2001

	Note	2001 £000	£000	2000 £000	£000
Fixed assets					
Tangible assets	*10*		**138,717**		69,362
Investments	*11*		**923**		392,793
			139,640		462,155
Current assets					
Stocks	*12*	**1,308**		1,408	
Debtors	*13*	**1,086,118**		2,112,576	
Cash at bank and in hand		**11,153**		12,868	
		1,098,579		2,126,852	
Creditors: amounts falling due within one year	*14*	**(268,086)**		(808,581)	
Net current assets			**830,493**		1,318,271
Debtors: amounts falling due after more than one year	*13*		**342**		232
Total assets less current liabilities			**970,475**		1,780,658
Creditors: amounts falling due after more than one year	*15*		**(1,703)**		(2,222)
Provisions for liabilities and charges	*16*		**(470)**		-
Net assets			**968,302**		1,778,436
Capital and reserves					
Called up share capital	*17*		**366,950**		366,950
Share premium account	*18*		**392,103**		392,103
Revaluation reserve	*18*		**68,434**		3,993
Other reserves	*18*		**50**		50
Profit and loss account	*18*		**140,765**		1,015,340
Shareholders' funds-equity			**968,302**		1,778,436

These financial statements were approved by the board of directors on 14 July and were signed on its behalf by:

Lisa Mackenzie
Director

The notes on pages 11 to 24 form part of these financial statements.

Company balance sheet

at 30 September 2001

	Note		2001 £'000		2000 £'000
Fixed assets					
Investments	*11*		**970,852**		1,420,124
Current assets					
Debtors	*13*	**663,147**		1,227,526	
Cash at bank and in hand		**-**		7,168	
		663,147		1,234,694	
Creditors: amounts falling due within one year	*14*	**(609,751)**		(1,286,511)	
Net current assets/(liabilities)			**53,396**		(51,817)
Total assets less current liabilities			**1,024,248**		1,368,307
Capital and reserves					
Called up share capital	*17*		**366,950**		366,950
Share premium account	*18*		**392,103**		392,103
Revaluation reserve	*18*		**283,400**		285,968
Profit and loss account	*18*		**(18,205)**		323,286
Shareholders' funds – equity			**1,024,248**		1,368,307

These financial statements were approved by the board of directors on 14 July 2003 and were signed on its behalf by:

Lisa Mackenzie
Director

The notes on pages 11 to 24 form part of these financial statements.

Consolidated cash flow statement

For the year ended 30 September 2001

	Note	2001 £000	2000 £000
Net cash (outflow)/inflow from operating activities	22	**(30,999)**	13,912
Returns on investments and servicing of finance	23	495	(21,449)
Taxation		(63,433)	(27,472)
Capital expenditure and financial investment	23	(6,318)	(3,499)
Acquisitions and disposals	23	63,469	-
Net cash outflow before financing		**(36,786)**	(38,508)
Financing	23	52,912	249,056
Increase in cash in the year		**16,126**	210,548

Reconciliation of net cash flow to movement in net debt

For the year ended 30 September 2001

	Note	2001 £000	2000 £000
Increase in cash in the year	24	16,126	210,548
Change in net debt resulting from cash flows		52,912	249,056
Other	24	454,105	1,262,213
Decrease in net debt in the year		523,143	1,721,817
Net debt at the start of the year		746,113	2,467,930
Net debt at the end of the year	24	222,970	746,113

Statement of total recognised gains and losses
for the year ended 30 September 2001

	2001 £000	2000 £000
(Loss)/Profit for the financial year	**(198,601)**	529,619
Currency translation differences on foreign investments	**4,026**	14,616
Unrealised gain on disposal of investments	**-**	167,591
Total recognised gains and losses relating to the financial year	**(194,575)**	**711,826**

Reconciliation of movements in shareholders' funds
for the year ended 30 September 2001

Group	2001 £000	2000 £000
(Loss)/Profit for the financial year	**(198,601)**	529,619
Dividends	**(680,000)**	-
	(878,601)	529,619
Other recognised gains and losses relating to the year (net)	**4,026**	182,207
Revaluation reserve movements (net)	**64,441**	(168,235)
Net (reduction in)/addition to shareholders' funds	**(810,134)**	543,591
Opening shareholders' funds	**1,778,436**	1,234,845
Closing shareholders' funds	**968,302**	1,778,436

Company	2001 £000	2000 £000
Profit for the financial year	**338,509**	22,782
Dividends	**(680,000)**	-
Net (reduction in)/addition to shareholders' funds	**(341,491)**	22,782
Revaluation reserve movements (net)	**(2,568)**	-
Net (reduction in)/addition to shareholders' funds	**(344,059)**	22,782
Opening shareholders' funds	**1,368,307**	1,345,525
Closing shareholders' funds	**1,024,248**	1,368,307

Notes to the Consolidated 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 Group's financial statements except as noted below.

Basis of preparation

The financial statements have been prepared under the historical cost convention, modified by the revaluation of hotels in accordance with applicable United Kingdom Accounting Standards as adopted by the United Kingdom Accounting Standards Board.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 30 September 2001. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Under section 230(4) of the Companies Act 1985, the company is exempt from the requirement to present its own profit and loss account.

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention, modified by the revaluation of certain fixed assets.

The financial statements are prepared on a going concern basis, which the directors believe to be appropriate for the following reasons.

The group is part of the group headed by Newgate Capital Limited. The Board of directors of Meridien Intermediate Holding Company 1 Limited, a wholly owned subsidiary of Newgate Capital Limited, and whose directors are engaged in discussion with the lenders below, has indicated to the directors that, it is their current intention that, liabilities to group companies would not be called for payment such that debts to third parties could not be paid as they fell due. As a member of the group headed by Newgate Capital Limited, however, the company and group are party to certain borrowing agreements and depends on the continuance of group funding facilities for its own position as a going concern as the company may require further group finance. The directors of Meridien Intermediate Holding Company 1 Limited have summarised the present situation as follows:

> "The group breached the terms of certain of its borrowing facilities, under which a total of approximately £1 billion was drawn as at 30 June 2002, including a default on a £100 million repayment due on 13 January 2003 and breaches of financial covenants for period ended 31 March 2003. Of the £100 million loan repayment, £59 million was paid by the due date and £41 million was repaid in accordance with a revised repayment schedule.
>
> On 10 April 2003, the relevant lenders agreed to suspend their rights under the loan agreements arising from these breaches until 19 May 2003. Certain conditions were imposed upon the Directors including the completion of a revised business plan. All of these conditions have been complied with. These arrangements have been extended by mutual agreement between the respective parties.
>
> The Directors have prepared a revised business plan, which includes projected operating cashflow information for the period ending 30 June 2008 together with a recent valuation by external valuers of the group's owned hotel portfolio. On the basis of this information and the ongoing discussions with the group's lenders and stakeholders as to the amounts and terms of facilities that they expect to be able to provide to the group and the restructuring of the group's finances to match the business needs and forecasts, the Directors believe it is not unreasonable that the group will negotiate revised banking facilities, together with additional refinancing from the group's stakeholders, and operate within them during that period, and that this is sufficient grounds for issuing financial statements prepared on the going concern basis."

Notes to the Consolidated Financial Statements (continued)

1 Statement of accounting policies (continued)

Whilst there can be no certainty in relation to the above matters, the directors of the company consider that, having regard to the above, it is appropriate to prepare the accounts on a going concern basis. The financial statements do not include any adjustments which would result from a failure to generate adequate funds from trading, should the group fail to negotiate revised banking facilities or otherwise to continue without calling in liabilities to other group companies.

Tangible fixed assets and depreciation

Land and buildings are stated at cost or subsequent valuation less depreciation and any provision for impairment. Other fixed assets are shown at cost less depreciation and any provision for impairment. Any impairment of such properties below historical cost is charged to the profit and loss account as appropriate.

Assets are depreciated to their residual values on a straight line basis over their estimated useful economic lives as follows:

Freehold land	-	No depreciation
Buildings – core	-	50 years or lease term if shorter
Building surface, finishes and services	-	25 years or lease term if shorter
Plant and machinery	-	10 to 25 years
Fixtures, furniture and equipment	-	3 to 15 years

Capital expenditure on major projects is recorded separately within fixed assets as assets under construction. Once the project is complete the balance is transferred to the appropriate fixed asset categories. Assets under construction are not depreciated.

Interest attributable to funds used to finance the construction or acquisition of new hotels or major extensions to existing hotels is capitalised and added to the cost of the hotel.

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.

In the Company's financial statements, investments in subsidiary undertakings are stated at cost.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction or, if hedged forward, at the rate of exchange under the related forward currency contract. Monetary assets and liabilities denominated in foreign currencies are translated into Sterling at closing exchange rates and the gains or losses on translation are included in the profit and loss account.

The assets and liabilities of overseas subsidiary undertakings and associated undertakings are translated into Sterling at closing exchange rates. Profit and loss accounts of such undertakings are consolidated at the average rates of exchange during the year. Gains and losses arising on these translations are taken to reserves, net of exchange differences arising on related foreign currency borrowings.

Leases

Assets acquired under finance leases are capitalised and the outstanding future lease obligations are shown in creditors. Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Notes to the Consolidated Financial Statements (continued)

1 Statement of accounting policies (continued)

Pension benefits

The Group provides pension benefits to certain employees through two funded defined contributions schemes. The assets of both schemes are held independently of the Group by trustees and insurance companies.

The amount charged to the profit and loss account for defined contribution schemes is the contributions payable in the year.

Stocks

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

Taxation

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

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.

2 Segmental information

The directors consider that the Group has one class of business being the ownership and operation of hotels. The table below sets out information in respect of this business for each of the Group's geographic areas of operation.

	2001 Turnover £000	**Attributable pre-tax profit £000**	2000 Turnover £000	Attributable pre-tax profit £000
By geographical market				
UK	**-**	**(214,919)**	490,219	528,086
Rest of Europe	**54,222**	**20,879**	49,694	20,189
Africa	**7,050**	**631**	6,785	719
North America	**14,930**	**32,919**	14,909	18,646
Other	**-**	**792**	-	(273)
	76,202	**(159,698)**	**561,607**	**567,367**

	Segmental operating assets 2001 £000	Segmental operating assets 2000 £000
By geographical market		
UK	**20,806**	882,958
Rest of Europe	**495,990**	476,488
Africa	**2,111**	26,211
North America	**422,435**	366,329
Other	**26,960**	26,450
	968,302	1,778,436

Notes to the Consolidated Financial Statements (continued)

3 Net operating costs

	2001 £000	2000 £000
Management fee income	799	830
Other income	3,589	15,151
	4,388	15,981
Cost of sales	(93)	(769)
Employee costs (see note 5)	(26,085)	(61,000)
Depreciation and other amounts written off tangible fixed assets	(2,905)	(12,251)
Rentals payable under operating leases – land and buildings	(1,447)	(1,346)
Rentals payable under operating leases – other	(41)	(45)
Other operating costs	(58,357)	(447,826)
Net operating costs	(84,540)	(507,256)

Remuneration to the auditors for audit services in subsidiaries for the year to 30 September 2001 was £63,000 (2000:£62,000). The cost for the Group audit and the Company audit was borne by the ultimate parent company. Fees paid to the auditors (and their associates) by the Group for services other than statutory services was £60,000 (2001: £14,000).

4 Exceptional items

	2001 £000	2000 £000
(Loss)/Gain on disposal of fixed asset investments	(247,261)	485,147
Gain on disposal of trade investments	21,517	-
	(225,744)	485,147

Loss on disposal of fixed asset investments during the year relates to the disposal of investments in Selkirk House (FP) Ltd, Funpark Caterers Ltd, Grosvenor Theatrical Productions Ltd as detailed in note 11. The gain on disposal of fixed asset investments in the previous period relates to the disposal of investments in Moto Hospitality Limited and The Victoria & Albert Hotel Company Limited.

Gain on disposal of trade investments relates to the disposal of various other investments during the year.

Notes to the Consolidated Financial Statements (continued)

5 Remuneration of directors

None of the directors of Meridien Group Limited received any emoluments or other benefits during the year ended 30 September 2001.

6 Staff numbers and costs

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	2001	2000
	Number of employees	
UK	-	4,857
Rest of Europe	**1,101**	1,103
Africa	**286**	258
Asia	**4**	-
North America	**330**	330
	1,721	6,548

The aggregate payroll costs of these persons were as follows:

	2001 £000	2000 £000
Wages and salaries	**20,545**	53,263
Social security costs	**4,285**	6,369
Other pension costs	**814**	965
Other costs	**441**	403
	26,085	61,000

7 Interest receivable and similar income

	2001 £000	2000 £000
Interest receivable from other group companies	**104,182**	135,824
Other interest receivable	**723**	128
	104,905	135,952

8 Interest payable and similar charges

	2001 £000	2000 £000
On bank loans and overdrafts	**228**	21,577
On loans from other group companies	**28,518**	86,506
	28,746	108,083

Notes to the Consolidated Financial Statements (continued)

9 Taxation

Analysis of charge in period

	2001 £000	2000 £000
UK corporation tax		
Current tax on income for the period	**25,243**	24,582
Foreign tax		
Current tax on income for the period	**13,660**	13,166
Total current tax	**38,903**	37,748

10 Tangible fixed assets

Group	Freehold Land & Buildings £'000	Plant and machinery £'000	Fixtures and fittings £'000	Assets under construction £'000	Total £'000
Cost or valuation					
At beginning of year	41,669	20,346	24,774	2,353	89,142
Additions	1,241	1,132	2,475	1,602	6,450
Disposals		(137)	(155)	-	(292)
Write-off	-	(109)	(252)	-	(361)
Reclassifications	1,293	480	1,337	(3,110)	-
Revaluations	65,812	-	-		65,812
At end of year	110,015	21,712	28,179	845	160,751
Depreciation					
At beginning of year	-	5,866	13,898	16	19,780
Charge for year	-	1,038	1,867	-	2,905
Write-off	-	(109)	(252)	-	(361)
Disposals	-	(137)	(153)	-	(290)
At end of year	-	6,658	15,360	16	22,034
Net book value					
At 30 September 2001	**110,015**	**15,054**	**12,819**	**829**	**138,717**
At 30 September 2000	41,669	14,480	10,876	2,337	69,362

Notes to the Consolidated Financial Statements (continued)

10 Tangible fixed assets (continued)

It is the Group's policy to revalue its properties on a rotational cycle on the basis of independent professional advice.

Company

No tangible fixed assets were held by the Company during the year.

11 Fixed asset investments

	Interests in associated undertakings (including joint ventures)	Other investments other than loans	Loans	Total
	£000	£000	£000	£000
Group				
Cost				
At beginning of year	-	25,501	367,292	392,793
Additions	1,305	-	-	1,305
Share of net assets	(1,775)	-	-	(1,775)
Disposals/Repayments	-	(24,578)	(367,292)	(391,870)
Reclassification to other provisions	470	-	-	470
At end of year	-	923	-	923

The associate undertakings comprise of a shareholding in each of Andbook Online Limited and Andbook Systems Limited. Andbook Online Limited is an online hotel reservation company and Andbook Systems Limited is currently non-trading.

Each of the associate undertakings has issued class A, class B and class C ordinary shares. The Group owns all of the class A ordinary shares of each associate undertaking which represents 33.3% of the total issued share capital of each associate undertaking.

There were no amounts owing to or from the associate undertakings as at 30 September 2001.

	Share in group undertaking	Other investments other than loans	Loans	Total
	£000	£000	£000	£000
Company				
Cost				
At beginning of year	1,033,725	19,110	367,289	1,420,124
Disposals/Repayments	(63,796)	(18,187)	(367,289)	(449,272)
At end of year	969,929	923	-	970,852

Notes to the Consolidated Financial Statements (continued)

11 Fixed asset investments (continued)

The undertakings set out below are those in which the Group's interest is more than 20% and which, in the opinion of the directors, significantly affected the Group's results and net assets during the year.

	Country of incorporation	Principal activity	Class and percentage of shares held
Subsidiary undertakings:			
Meridien Holdings Ltd	England	Intermediate holding company	100% ordinary shares
Meridien Finance NV (*)	Netherlands	Intermediate holding company	100% ordinary shares
Forte Morocco SARL (*)	Morocco	Hotel ownership and operation	100% ordinary shares
Meridien Hotels (UK) Ltd (*)	England	Intermediate holding company	100% ordinary shares
Meridien King Edward Ltd (*)	Canada	Hotel ownership and operation	100% ordinary shares
Lusotel Industria Hoteleira SARL (*)	Portugal	Hotel ownership and operation	100% ordinary shares
Apollo Hotel BV (*)	Netherlands	Hotel ownership and operation	100% ordinary shares
Grand Hotel Finanzierungs AG (*)	Switzerland	Intermediate holding company	100% ordinary shares
Excelsior Hotel Gallia (Milan) SpA (*)	Italy	Hotel ownership and operation	100% ordinary shares
Meridien International Ltd (*)	England	Intermediate holding company	100% ordinary shares
Sociedade Turistica de Penina SARL (*)	Portugal	Hotel ownership and operation	100% ordinary shares
Hotel Ritz Madrid SA (*)	Spain	Hotel ownership and operation	99% ordinary shares
Meridien Hoteles Espana SL (*)	Spain	Hotel ownership and operation	100% ordinary shares

(*) indirectly held

During the year, the subsidiaries of the group disposed of the following companies:

Selkirk House (FP) Ltd
Funpark Caterers Ltd
Grosvenor Theatrical Productions Ltd

This resulted in a loss on disposal of £247,261,000 which has been included in the results of the period.

Notes to the Consolidated Financial Statements (continued)

12 Stocks

	Group 2001 £000	Group 2000 £000
Raw materials and consumables	**285**	200
Finished goods and goods for resale	**1,023**	1,208
	1,308	1,408

Company

The Company did not hold any stock during the year.

13 Debtors

	Group 2001 £000	Company 2001 £000	Group 2000 £000	Company 2000 £000
Trade debtors	**4,897**	-	5,592	-
Amounts owed by fellow group undertakings	**1,018,345**	**648,295**	2,077,455	1,199,960
Prepayments and accrued income	**47,019**	-	948	-
Other debtors	**15,857**	**14,852**	28,581	27,566
	1,086,118	**663,147**	2,112,576	1,227,526

Due after more than one year	Group 2001 £000	Company 2001 £000	Group 2000 £000	Company 2000 £000
Prepayments and accrued income	**23**	-	-	-
Other debtors	**319**	-	232	-
	342	-	232	-

14 Creditors: amounts falling due within one year

	Group 2001 £000	Company 2001 £000	Group 2000 £000	Company 2000 £000
Bank loans and overdrafts	-	-	17,841	17,627
Trade creditors	**2,521**	-	2,396	-
Corporation tax	**14,922**	-	39,452	-
Amounts due to fellow group undertakings	**234,123**	**609,751**	741,140	1,268,552
Taxation and social security	**549**	-	570	-
Other creditors	**4,013**	-	2,997	-
Accruals and deferred income	**11,958**	-	4,185	332
	268,086	**609,751**	808,581	1,286,511

Notes to the Consolidated Financial Statements (continued)

15 Creditors: amounts falling due after more than one year

	Group 2001 £000	Company 2001 £000	Group 2000 £000	Company 2000 £000
Other creditors	1,703	-	2,222	-
	1,703	-	2,222	-

16 *Provisions for liabilities and charges*

Group	Other provisions 2001 £000	Other provisions 2000 £000
At beginning of year	-	-
Reclassification from fixed asset investments	470	-
At end of year	470	-

17 Called up share capital

	2001 £000	2000 £000
Authorised		
1,732,000,000 Ordinary shares of 25p each	433,000	433,000
Issue, allotted and fully paid		
1,467,799,121 Ordinary shares of 25p each	366,950	366,950

18 Share premium and reserves

Group	Share premium account £000	Revaluation reserve £000	Other reserves £000	Profit and loss account £000
At beginning of year	392,103	3,993	50	1,015,340
Retained loss for the year	-	-	-	(878,601)
Other recognised gains and losses	-	-	-	4,026
Revaluations of fixed assets	-	80,306	-	-
Disposals	-	(15,865)	-	-
At end of year	**392,103**	**68,434**	**50**	**140,765**

Notes to the Consolidated Financial Statements (continued)

18 Share premium and reserves *(continued)*

Company	Share premium account £000	Revaluation reserve £000	Profit and loss account £000
At beginning of year	392,103	285,968	323,286
Retained loss for the year	-	-	(341,491)
Disposals	-	(2,568)	-
At end of year	**392,103**	**283,400**	**(18,205)**

19 Contingent liabilities

From time to time the Group is involved in various claims and lawsuits incidental to the ordinary course of its business, including claims for damages, negligence and commercial disputes and disputes from former employees. The Group is not currently party to any legal proceedings other than ordinary litigation incidental to the conduct of its business. On the basis of currently available information, the Directors consider that the cost to the Group of an unfavourable outcome, arising from any such ordinary litigation is unlikely to have a material adverse effect on the financial position of the Group in the foreseeable future.

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.

20 Commitments

The Group had annual commitments under non-cancellable operating leases as follows:

	2001 Land and Buildings £000	2001 Other £000
Operating leases which expire:		
In the second to fifth years inclusive	-	41
Over five years	1,447	-
	1,447	41

The Company does not have any lease commitments as at 30 September 2001.

21 Pension scheme

The Group operates two defined contribution pension schemes. The pension cost for the year represents contributions payable by the Group to the schemes and amounted to £796,000 (*2000: £759,000*).

Notes to the Consolidated Financial Statements (continued)

22 Reconciliation of operating profit to operating cash flows

	2001 £'000	2000 £'000
Operating (loss)/profit	**(10,113)**	54,351
Depreciation charge	**2,905**	12,251
Profit on disposal of fixed assets	**(129)**	(4)
Decrease in stocks	**100**	14,454
(Increase)/decrease in debtors	**(32,654)**	5,045
Increase/(decrease) in creditors	**8,892**	(72,185)
Net cash (outflow)/inflow from operating activities	**(30,999)**	13,912

23 Analysis of cash flows

	2001 £'000	2001 £'000	2000 £'000	2000 £'000
Returns on investment and servicing of finance				
Interest received	723		128	
Interest paid	(228)		(21,577)	
		495		(21,449)
Capital expenditure and financial investment				
Sale of tangible fixed assets	132		623	
Purchase of tangible fixed assets	(6,450)		(4,122)	
		(6,318)		(3,499)
Acquisitions and disposals				
Purchase of associate	(1,305)		-	
Sale of business	64,774		-	
		63,469		-
Financing				
Net movement in borrowings		52,912		249,056

Notes to the Consolidated Financial Statements (continued)

24 Analysis of net debt

	At beginning of year £000	Cash flow £000	Disposals £000	Other non-cash movements £000	At end of year £000
Cash at bank and in hand	12,868	16,126	-	(17,841)	11,153
Bank overdraft	(17,841)	-	-	17,841	-
Debt due within one year	(741,140)	52,912	4,291	449,814	(234,123)
	(758,981)	52,912	4,291	467,655	(234,123)
Total net debt	**(746,113)**	**69,038**	**4,291**	**449,814**	**(222,970)**

25 Significant non-cash transactions

On 2 April 2001, the Group declared a dividend of £680,000,000 which was settled through intercompany accounts.

On 15 June 2000, the Group disposed of Moto Hospitality Limited and Victoria and Albert Hotel Limited for total non-cash consideration of £720,000,000.

26 Related party disclosures

Meridien Group Limited has taken advantage of the exemption under Financial Reporting Standard 8: Related Party Disclosures ("FRS 8") which enables it to exclude disclosure of transactions with its subsidiary undertakings.

During the year ended 30 September 2001, the group had the following related party transactions and balances:

	2001 £'000	2000 £'000
Parent undertakings:		
Interest receivable	693	-
Debtors	88,703	-
Creditors	2,661	-
Fellow subsidiary undertakings:		
Interest receivable	125,089	135,824
Interest payable	28,518	86,506
Debtors	929,642	2,077,455
Creditors	231,462	741,140

The parent undertaking that the group transacted with during the year was Meridien Acquisition Company I Limited.

The fellow subsidiary undertakings that the group transacted with during the year were Meridien SA, Meridien Hotels Inc., Meridien Hotels Limited, Meridien Hotels Reservations Inc., Meridien Bermuda Limited, Meridien Hotels GmbH, Société d'Exploitation du Méridien Barcelone SA, Meridien Hotels (Deutschland) GmbH, Meridien Hotels Ireland Ltd, Meridien Hotel Holdings Ireland Ltd, and Le Meridien Hotels & Resorts Limited.

Notes to the Consolidated Financial Statements (continued)

27 Post balance sheet events

On 25 April 2003, the Group completed the sale of the Hotel Ritz Madrid SA, for which gross proceeds amounted to £81 million. The Group made a loss on disposal of £4.7 million. The proceeds of sale have been used to pay down debt owed by parent undertakings.

As at 30 June 2002, an impairment charge was made against the fixed assets of the Sociedade Turistica de Penina SARL of £1,311,000.

On 9 January 2003, the Group entered into a sale and leaseback transaction with its owned Barcelona hotel. The sale proceeds were €87 million (£56.0 million), the net book value was €80.8 million (£52.0 million) and the loss on disposal was €6.0 million (£4.0 million). The nature of this transaction gives rise to it being classified as an operating lease. The term of the lease is 40 years with a minimum rental of €5.2m (£3.2m) per annum. The tax liability on the sale of the property is £5.8m and is payable in January 2004.

During April 2003 the Group commissioned Insignia Richard Ellis and ATIS Weatheralls to perform a valuation on its hotel portfolio. The results of the review are not as yet fully quantified although there is an expectation that current market indicates a general fall in value of hotels.

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

Meridien Group Limited is the ultimate parent company of the Group and is the largest company for which consolidated financial statements are prepared.

At 30 September 2001, the Nomura group of companies, of which Nomura International Plc is the principal UK subsidiary had the ability to exercise a controlling influence over the Group through the Nomura group's holding of warrants to subscribe for ordinary shares in certain subsidiaries of Meridien Group Limited.

On 27 March 2002, NIP's interest in the outstanding warrants and loan notes were contributed to Terra Firma Capital Partners I, an English Limited Partnership, acting through its general partner Terra Firma Investments (GP) Limited, a company registered in Guernsey.