Meridien Hotels & Resorts London Limited (formerly Cumberland Hotel Limited)

Directors' report and financial statements

Registered number 4159477

For the year ended 30 June 2004

Contents

Directors' report

The Directors present their annual report and the audited financial statements for Meridien Hotels & Resorts London Limited, formerly Cumberland Hotel Limited ("the Company") for the year ended 30 June 2004.

Principal activity

The principal activity during the year was the operation of the Cumberland (Art & Tech) Hotel ("the Hotel").

During the year the Company agreed to transfer the lease of the Hotel to the owner (the Royal Bank of Scotland plc). 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 management services to the owner. On 30 April 2004 the management agreement ended and an agreement for specific services was entered into. This agreement concluded on 21 May 2004.

On 29 June 2004, as a result of a Group re-organisation, the Company acquired the beneficial ownership of a series of investments for £57.1m (€85.6m) which immediately control the following:

1. 99.92% of Sociedade Hoteleira Sao Lorenco SA, the Portuguese company which owns and operates the Sao Lorenzo Hotel in the Algarve;
2. 100% of Golf Invest (Guernsey) Limited, which owns the Sao Lorenzo Golf Course in the Algarve;
3. 99.6% of Lusotel Industria Hoteleira SA, the Portuguese company which owns and operates the Dona Filipa Hotel in the Algarve; and
4. 16.2% of the Sociedade Turistica de Penina SA, the Portuguese company which owns and operates the Le Meridien Penina Golf & Resort in the Algarve.

The acquisition was part of a series of transactions which it is anticipated will ultimately lead to the solvent recapitalisation of the Group as anticipated in Note 1(a). As part of these transactions, the Company recognised that a £242.4m loan to Meridien Hotels & Resorts Acquisition Ltd was not fully recoverable and it was sold to a fellow Group company for £57.1m (€85.6m) with the balance of £185.3m being written off.

Results and dividends

The loss before tax for the year was £169,450,000 *(2003: profit of £8,119,000)*. 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.

Directors' report *(continued)*

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 Hotels & Resorts London Limited from Cumberland Hotel Limited on 16 January 2004.

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,

14 April 2005

Iain Ferguson
Director

CityPoint
1 Ropemaker Street
London
EC2Y 9HT

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 Hotels & Resorts London Limited (formerly Cumberland 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

PO Box 695
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*	**1,149**	13,458
Cost of sales		**(820)**	(5,844)
Gross profit/(loss)		**329**	7,614
Administrative expenses		**(186,468)**	(15,349)
Operating loss		**(186,139)**	(7,735)
Loss on termination of a discontinued operation	*5*	**(3,542)**	-
Interest receivable and similar income	*6*	**20,276**	15,854
Interest payable and similar charges	*7*	**(45)**	-
Profit on ordinary activities before taxation	*3*	**(169,450)**	8,119
Tax on profit on ordinary activities	*8*	**4,351**	(2,486)
Retained profit for the year for equity shareholders		**(165,099)**	5,633

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

All operations are discontinued.

There is no difference between the loss and profit reported above and the historical cost profit/(loss)

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

Balance sheet
at 30 June 2004

	Note	2004 £'000	2003 £'000
Fixed assets			
Investments	9	**57,067**	-
		57,067	-
Current assets			
Stocks	10	-	43
Debtors	11	**488**	242,470
		488	242,513
Creditors: amounts falling due within one year	12	**(2,992)**	(22,851)
Net current assets		**(2,504)**	219,662
Total assets less current liabilities		**54,563**	219,662
Net assets		**54,563**	219,662
Capital and reserves			
Called up share capital	13	**1**	1
Share premium	14	**213,049**	213,049
Profit and loss account	14	**(158,487)**	6,612
Shareholders' funds - equity		**54,563**	219,662

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

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 Meridien Hotels & Resorts London 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 in subsidiary undertakings are stated at cost less provision, if appropriate, for any impairment.

(d) 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.

(e) 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.

Notes *(continued)*

(f) 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.

(g) Operating leases

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

(h) Retirement benefits

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.

2 Turnover

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

3 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation is stated after charging:

	Year ended 30 June 2004 £'000	Year ended 30 June 2003 £'000
Rentals payable under operating leases – land and buildings	**918**	10,984

On 29 June 2004, the Company assigned a £242,439,474 balance receivable from Meridien Hotels and Resorts Acquisition Limited to Meridien Overseas I Limited (both Group companies). Meridien Overseas I Limited paid £57,066,667 for the debt and the Company wrote off the difference (£185,372,807) as a bad debt expense.

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

4 Staff costs

The Company controlled the Hotel for one month in the year. During that month, the average number of staff was 190 *(2003: 175)*, subsequently it was nil.

The aggregate payroll costs for the year were as follows:

	Year ended 30 June 2004 £'000	Year ended 30 June 2003 £'000
Wages and salaries	**262**	4,164
Social security costs	**25**	67
Pension costs	**3**	6
	290	4,237

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 of the Hotel, with effect from 30 July 2003. The losses on termination amounted to £3,542,000.

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	**20,276**	15,854

7 Interest payable and similar charges

	Year ended 30 June 2004 £'000	Year ended 30 June 2003 £'000
Bank interest payable	**45**	-

8 Taxation

	Year ended 30 June 2004 £'000	Year ended 30 June 2003 £'000
Current tax on income for the period	**-**	2,486
Adjustments in respect of previous periods – Group relief	**(4,351)**	-
	(4,351)	2,486

Factors affecting the current tax for the year

The difference between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax of 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	**(169,450)**	8,119
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax of 30%	**(50,835)**	2,436
Effects of:		
Expenses not deductible for tax purposes	**55,590**	50
Current year group relief not paid for	**(4,755)**	-
Adjustments in respect of previous periods – Group relief	**(4,351)**	-
	(4,351)	2,486

Notes *(continued)*

9 Investments in subsidiary undertakings

	2004 £'000	2003 £'000
At beginning of year	-	-
Additions	**57,067**	-
At end of year	**57,067**	-

On 29 June 2004, as a result of a Group re-organisation, the Company acquired for £57.1m (€85.6m) beneficial ownership of the following investments:

1. 99.92% of the beneficial interest in Sociedade Hoteleira Sao Lorenco SA, the Portuguese company which owns and operates the Sao Lorenzo Hotel in the Algarve;
2. 100% of the beneficial interest in Golf Invest (Guernsey) Limited, which owns the Sao Lorenzo Golf Course in the Algarve;
3. 99.6% of the beneficial interest in Lusotel Industria Hoteleira SA, the Portuguese company which owns and operates the Dona Filipa Hotel in the Algarve; and
4. 16.2% of the direct beneficial interest (and 11.8% indirectly) in the Sociedade Turistica de Penina SA, the Portuguese company which owns and operates the Le Meridien Penina Golf & Resort in the Algarve.

10 Stocks

	2004 £'000	2003 £'000
Goods held for resale	-	43

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

11 Debtors

	2004 £'000	2003 £'000
Trade debtors	-	1,340
Amounts due from Group undertakings	**488**	238,978
Other debtors	-	2,152
	488	242,470

All debtors are due within one year.

Notes *(continued)*

12 Creditors: amounts falling due within one year

	2004	2003
	£'000	£'000
Bank overdraft	-	2,283
Trade creditors	-	119
Amounts owed to Group undertakings	**2,992**	14,659
Group relief payable	-	4,351
Accruals and deferred income	-	1,439
	2,992	22,851

13 Called-up share capital

	2004	2003
	£	£
Allotted, called-up and fully paid		
Equity: 1,000 ordinary shares of £1 each	**1,000**	1,000
Allotted, called-up and fully paid		
Equity: 604 ordinary shares of £1 each	**604**	604

14 Reconciliation of movements in equity shareholders' funds

	Share Capital	**Share Premium**	**Profit and loss account**	**Total 2004**	Total 2003
	£'000	**£'000**	**£'000**	**£'000**	£'000
At beginning of year	**1**	**213,049**	**6,612**	**219,662**	214,029
Profit/(loss) for the year	-	-	**(165,099)**	**(165,099)**	5,633
At end of year	**1**	**213,049**	**(158,487)**	**54,563**	219,662

Notes *(continued)*

15 Contingent liabilities

The Directors have not been notified of any litigation that 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.

16 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 Los Manglares SL, a company incorporated in Spain.