LE MERIDIEN PICCADILLY LIMITED

Company Number SC 074783

Report and Accounts
Year ended 31st December, 2001

Le Meridien Piccadilly Limited

Annual Report & Accounts for the year ended 31 December 2001

Contents

Page:

Directors' report

The Directors present their Report and Accounts for the year ended 31 December 2001.

Principal activity

The Company operates a prestige hotel called "Le Méridien Piccadilly".

Trading results and dividends

The loss on ordinary activities over the year before taxation was £2,687,970 (Year ended 31 December 2000: profit of £3,822,579).

The Directors do not recommend the payment of a dividend (Year ended 31 December 2000: £Nil)

On 11 July 2001, Meridien Acquisition Company 1 Limited (formerly Grand Hotels (M) Acquisition Company 1 Limited) acquired the Meridien hotels business from Hospitality Holdings Limited, Forte (UK) Limited and Forte International BV, through the acquisition of certain subsidiaries of these companies, including Le Meridien Piccadilly Limited for £1,573 million.

Directors and directors' interests

The Directors who were appointed and held office during the year and up to date of signing these accounts were as follows:

	Appointed	Resigned
I.D. Ferguson	07/10/2002	
D.O. Maloney	07/10/2002	
L.M. Mackenzie	17/09/2001	
R.L. Mahoney	17/09/2001	31/01/2003
J.R. Elton	17/09/2001	07/10/2002
S.S. Fraser	19/06/2001	12/11/2001
B.C.H. Lambert	28/02/2001	12/11/2001
L.M. Mackenzie	28/02/2001	19/06/2001
A.E. Cau	28/02/2001	19/06/2001
D.A. Davenport	29/09/2000	28/02/2001
D. Mortimer	29/02/2000	28/02/2001
A.D. Martin	15/11/1999	19/06/2001

None of the directors who held office at the end of the financial year had an interest in the shares of the company and other group companies.

According to the register of director's interests, no rights to subscribe for shares in or debentures of group companies were granted to any of the directors or their immediate families, or exercised by them during the financial year.

Market value of land and buildings

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

Political and charitable contributions

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

Disabled employees

The Company's policy and practice is to encourage employment applications from all sections of the community *including disabled people and to support and assist retention through training, development and career progression.*

Creditors payment policy

The Company's policy and practice on the payment of creditors is to pay in accordance with the agreed supplier terms, provided that the relevant invoice is presented in a timely fashion and is complete. It is the Company's ongoing policy to settle the terms of payment with those suppliers when agreeing the terms of each transaction.

For the year ended 31 December 2001, the average creditor days were 39 (2000: 43 days).

Elective resolutions

The company has passed elective resolutions to dispense with the laying of the Annual Report and Accounts before the Company in General Meeting, the appointment of auditors annually and the holding of Annual General Meetings, pursuant to sections 252,386 and 366A respectively of the Companies Act 1985.

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 at the end of the financial year 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 have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors have 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.

By order of the Board

25 June 2003
Lisa Marie Mackenzie
Director

Registered office:
18 Royal Terrace
Edinburgh
EH7 5AQ

Independent auditors' report to the members of Le Meridien Piccadilly Limited

We have audited the Financial Statements on pages 7 to 20.

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 4, 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 company'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 that the Newgate Capital Limited group will continue in its existing form following what the board of directors of Newgate Capital Limited 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 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 on a going concern basis.

The preparing 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 at 31 December 2001 and on the results for the period 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 Le Meridien Piccadilly Limited (continued)

Opinion - disclaimer on view given by financial statements
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 as at 31 December 2001 and of the loss of the company 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 solely 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

25 June 2003
PO Box 695
8 Salisbury Square
London EC4Y 8BB

Profit and Loss Account for the year ended 31 December 2001

	Note	Year Ended 31 December 2001 £	As restated Year Ended 31 December 2000 £
Turnover	2	19,539,765	24,447,404
Cost of sales		(7,315,174)	(7,890,296)
Gross profit		12,224,591	16,557,108
Administrative expenses (including exceptional items of £1,375,000)	3	(15,260,231)	(13,515,452)
Other operating income	4	756,021	780,923
Operating (loss) / profit	3 - 7	(2,279,619)	3,822,579
Interest payable		(408,351)	-
Profit / (loss) on ordinary activities before tax		(2,687,970)	3,822,579
Tax on loss / profit on ordinary activities	8	944,202	(963,230)
(Loss) / Profit on ordinary activities after tax		(1,743,768)	2,859,349
Accumulated losses brought forward		(7,490,326)	(10,349,675)
Accumulated losses carried forward		(9,234,094)	(7,490,326)

All of the above results relate to continuing activities. Other than those recorded in the profit and loss account there were no other recognised gains and losses in either this or the previous period.

There is no difference between the reported result for the period and that which would be reported under the historical cost convention.

The notes on pages 10 to 20 form part of these accounts.

Balance Sheet as at 31 December 2001

	Note		31 December 2001 £		As restated 31 December 2000 £
Fixed assets					
Tangible assets	9		65,861,246		15,744,469
Current assets					
Stocks	10	181,401		306,458	
Debtors	11	19,287,707		19,754,556	
Cash at bank and in hand		1,498,552		16,265	
		20,967,660		20,077,279	
Creditors: amounts falling due within one year	12	(36,269,031)		(32,358,897)	
Net current liabilities			(15,301,371)		(12,281,618)
Total assets less current liabilities			50,559,875		3,462,851
Provision for liabilities and charges	13		(1,733,000)		(1,764,000)
Net assets			48,826,875		1,698,851
Capital and reserves					
Called up share capital	14		9,189,177		9,189,177
Revaluation reserve	15		48,871,792		-
Profit and loss account	15		(9,234,094)		(7,490,326)
Shareholders' Funds					
Equity			39,646,875		(7,481,149)
Non Equity			9,180,000		9,180,000
Shareholders' funds	15		48,826,875		1,698,851

Approved by the Board on the 25th of June 2003 and signed on its behalf by

Lisa Marie Mackenzie
Director

The notes on pages 10 to 20 form part of these Accounts.

Statement of total recognised gains and losses
for the year ended 31 December 2001

	2001	2000 as restated
	£	£
(Loss)/profit for the financial year	(1,743,768)	2,859,349
Unrealised surplus on revaluation of properties	48,871,792	-
Total recognised gains and losses relating to the financial year	47,128,024	2,859,349
Prior year adjustments (as explained in note 1)	(1,764,000)	
Total gains and losses recognised since last financial statements	45,364,024	

1. Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Basis of Preparation

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 company is part of the group headed by Newgate Capital Limited which has indicated to the directors 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, however, the company is 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 Newgate Capital 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 until the close of business on 27 June 2003.

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 are of the opinion 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."

Whilst there can be no certainty in relation to these 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.

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.

1. Accounting policies (Continued)

Turnover

Turnover represents sales to outside customers at invoiced amount less value added tax.

Tangible fixed assets

The company has changed its accounting policy for fixed assets during the year from a policy of non-revaluation to one of revaluation of fixed assets. Although this represents a change in accounting policy, the comparative figures have not been restated as no valuations had been obtained at 31 December 2000 or during the year then ended.

Fixed Assets are stated at cost or subsequent revaluation less depreciation and any provision for impairment.

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

Leasehold improvements	- Equal annual instalments over the life of the lease
Plant and machinery	- 8% per annum
Furniture, fixtures and equipment	- 14% per annum
Office equipment	- 25% per annum

Stocks

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

1. Accounting policies (Continued)

Deferred taxation

The company has adopted FRS 19 'Deferred taxation' during the year and accordingly has changed its accounting policy for deferred tax from the partial provision method to the full provision method required by that standard. The effect of the change in accounting policy is to increase the tax credit for the year by £31,000 (2000: increase charge by £122,876). The comparative figures have been restated accordingly.

The charge for taxation takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax to the extent that it is probable that an actual liability will crystallise.

Foreign currency

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Leased assets

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

Pension costs

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contribution payable to the scheme in respect of the accounting period.

2. Turnover and result

The Company has a single class of business and operates in a single geographical region, the United Kingdom.

3. Administrative expenses

Included within administrative expenses is an exceptional bad debt expense of £1,375,000 (2000: nil).

4. Other operating income

	Year Ended 31 December 2001 £	Year Ended 31 December 2000 £
Rental income from land and buildings	2,252	7,339
Profit on exchange	10,526	15,161
Other	743,243	758,423
	756,021	780,923

5. Operating profit is stated after charging:

	Year Ended 31 December 2001 £	Year Ended 31 December 2000 £
Depreciation on owned assets	1,123,563	820,725
Auditors remuneration		
- audit services	33,200	17,000
- non audit services	6,225	11,385
Operating lease rentals;		
- property rent payable	6,231,813	6,067,915
- plant and machinery	156,593	126,910

6. Employees

The average weekly number of employees, including Directors, during the period was as follows:

	Year Ended 31 December 2001 Number	Year Ended 31 December 2000 Number
Office and management	21	26
Hotel operating staff	264	282
	285	308

Staff costs (including Directors) consist of:	£	£
Wages and salaries	4,248,780	4,411,382
Social security costs	332,950	385,010
Other pension costs	49,929	40,376
	4,631,659	4,836,768

7. Directors' emoluments

The Directors did not receive any emoluments in respect of their services to the company (2000:£Nil)

8. Taxation

	Year Ended 31 December 2001 £	Year Ended 31 December 2000 as restated £
UK corporation tax		
Current tax (credit)/charge on (loss)/profit for the year	(806,391)	1,146,774
Adjustments in respect of previous years	(106,811)	(306,420)
Total current tax	(913,202)	840,354
Deferred tax		
Origination/reversal of timing differences	(31,000)	122,876
Tax on profit on ordinary acitivities	(944,202)	963,230

Factors affecting the tax charge for the current period
The current tax credit for the period is higher (2000: charge lower) than the standard rate of corporation tax in the UK (30%, 2000: 30%). The difference is explained below.

	Year Ended 31 December 2001 £	Year Ended 31 December 2000 £
Current tax reconciliation		
(Loss)/profit on ordinary activities before tax	(2,687,970)	3,822,579
Current tax at 30% (2000: 30%)	(806,391)	1,146,774
Effects of:		
Adjustment to tax charge in respect of previous periods	(106,811)	(306,420)
Total current tax charge (see above)	(913,202)	840,354

9. Tangible fixed assets

	Long leasehold improve-ments £	Plant & machinery £	Furniture, fittings & equipment £	Total £
Cost or valuation				
As at 1 January 2001	11,838,962	3,104,465	4,556,028	19,499,455
Disposals	-	(20,222)	(234,390)	(254,612)
Revaluation	46,649,384	2,222,408	-	48,871,792
Additions	14,725	155,849	2,197,974	2,368,548
Reclassification	3,519,647	-	(3,519,647)	-
As at 31 December 2001	62,022,718	5,462,500	2,999,965	70,485,183
Depreciation				
As at 1 January 2001	1,627,719	831,725	1,295,542	3,754,986
Disposals	-	20,222	234,390	254,612
Charge for year	124,527	212,491	277,321	614,339
As at 31 December 2001	1,752,246	1,064,438	1,807,253	4,623,937
Net Book Value				
At 31 December 2001	60,270,472	4,398,062	1,192,712	65,861,246
At 1 January 2001	10,211,243	2,272,740	3,260,486	15,744,469

The company's fixed assets were revalued for the first time as at 31 December 2001. This represented a change in accounting policy, as described in note 1. The valuation was carried out on an existing use basis by external valuers Insignia Richard Ellis.

The carrying amounts that would have been included had fixed assets been included at historical cost less depreciation are as follows:

	Long Leasehold £	Plant & machinery £	Furniture, fittings & equipment £	Total £
Historical cost net book value				
At 31 December 2001	13,621,088	2,175,654	1,192,712	16,989,454
At 31 December 2000	10,211,243	2,272,740	3,260,486	15,744,469

10. Stocks

	31 December 2001 £	31 December 2000 £
Goods held for resale	90,432	103,128
Consumable items in store	90,969	203,330
	181,401	306,458

11. Debtors

	31 December 2001 £	31 December 2000 £
Trade debtors	2,024,601	3,437,547
Other debtors	464,875	70,831
Prepayments and accrued income	67,934	72,869
Corporation tax recoverable	556,988	-
Amounts owed by other group undertakings	16,173,309	16,173,309
	19,287,707	19,754,556

These amounts are all due within one year.

12. Creditors: amounts falling due within one year

	31 December 2001 £	31 December 2000 £
Trade creditors	2,274,492	378,073
Amounts owed to other group undertakings	30,434,685	29,473,082
Corporation Tax	-	146,341
Other taxation and social security	476,726	121,392
Other creditors	1,426,708	1,189,834
Accruals and deferred income	1,656,420	1,050,175
	36,269,031	32,358,897

13. Provisions for liabilities and charges

	Deferred taxation £
At beginning of year (restated)	1,764,000
Charge/(credit) to the profit and loss for the year	(31,000)
At end of year	1,733,000

The elements of deferred taxation are as follows:

	31 December 2001 £	31 December 2000 as restated £
Difference between accumulated depreciation and amortisation and capital allowances	1,733,000	1,764,000

14. Called up share capital

	31 December 2001 £	31 December 2000 £
820,000 ordinary shares of £1 each	820,000	820,000
9,180,000 deferred shares of £1 each	9,180,000	9,180,000
	10,000,000	10,000,000
Issued, allotted and fully paid		
9,177 ordinary shares of £1 each	9,177	9,177
9,180,000 deferred shares of £1 each	9,180,000	9,180,000
	9,189,177	9,189,177

The rights to dividends and voting in general meetings are held only by Ordinary shareholders. On a winding up, Ordinary shareholders take preference over Deferred shareholders.

15. Reconciliation of movements in Shareholders' funds

	Share capital £	Revaluation Reserve £	Profit and loss reserve £	Total 2001 £	As restated Total 2000 £
As restated at 31 December 2000	9,189,177	-	(7,490,326)	1,698,851	(1,160,498)
Unrealised surplus on revaluation	-	48,871,792	-	48,871,792	-
Retained loss for the year	-	-	(1,743,768)	(1,743,768)	2,859,349
As at 31 December 2001	9,189,177	48,871,792	(9,234,094)	48,826,875	1,698,851
Equity				39,646,875	(7,481,149)
Non Equity				9,180,000	9,180,000
				48,826,875	1,698,851

Shareholders funds were originally £480,626 at the beginning of 2000, before prior year adjustment of £1,641,124.

16. Pensions

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £50,000 (year ended Dec 2000 : £40,000). £Nil contributions were payable to the fund at the period end (2000 : £Nil).

17. Commitments under operating leases

As at 31 December 2001, the Company had annual commitments under non-cancellable operating leases expiring as set out below:

	31 December 2001		31 December 2000	
	Land and buildings	**Plant & Machinery**	**Land and buildings**	**Plant & Machinery**
Operating leases which expire:				
Within one year	-	30,409	-	30,138
In two to five years	-	100,025	-	96,772
After five years	6,276,712	-	5,974,700	-
	6,276,712	130,434	5,974,700	126,910

18. 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.

19. Related party transactions

As the company is a wholly owned subsidiary of Newgate Capital Limited, the company has taken advantage of the exemption contained in the Financial Reporting Standard No. 8 and has therefore not disclosed transactions or balances with entities which form part of the group, headed by Newgate Capital Limited.

The directors confirm that there were no related party transactions other than those disclosed in these accounts.

20. Ultimate parent and controlling company and parent undertaking of smallest and largest group of which the company is a member.

The company's ultimate parent company is Newgate Capital Limited, incorporated in England, and registered in England and Wales

The only group in which the results of the company are consolidated is that headed by Newgate Capital Limited, the consolidated accounts of which are available to the public and may be obtained from 166 High Holborn, London WC1V 6TT.

As at 31 December 2001, the Nomura group of companies, of which Nomura International Plc is the principal UK subsidiary, had the ability to excercise a controlling influence over the company through its holding of warrants to subscribe for ordinary shares in Meridien Holding Company plc, an intermediate parent company.

On 27 March 2002, the interest of Nomura International plc in the warrants was contributed to Terra Firma Capital Partners I, an English Limited Partnership, acting through its general partner Terra Firma Capital Partners (GP) Limited, a company registered in Guernsey.

The immediate holding and controlling company is Meridien Holdings UK Limited, a company incorporated in England, and registered in England and Wales.