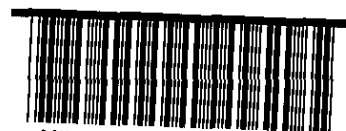


LE MERIDIEN PICCADILLY LIMITED

Company Number SC 074783

Report and Accounts
Year ended 31st December, 2002



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Contents

Page:

2	Directors' report
5	Report of the Auditors
7	Profit and loss account
8	Balance sheet
9	Statement of total recognised gains and losses
10	Notes to the Accounts

Directors' report

The Directors present their Report and Accounts for the year ended 31 December 2002.

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 £1,626,142 (Year ended 31 December 2001: £2,687,970).

The Directors do not recommend the payment of a dividend (Year ended 31 December 2001: £Nil)

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

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 Méridien 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	-
D.O. Maloney	6,000	6,000
R.L. 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.

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 valuation are not yet fully quantified but initial review indicates £13.9 million impairment to the value of the hotel.

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 2002, the average creditor days were 30 (2001: 39 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

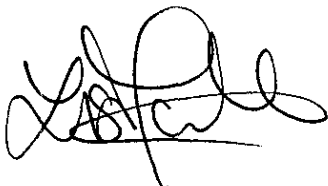
Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit or loss for that period. In preparing those financial statements, the directors are required 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



Lisa Marie Mackenzie
Director

19 December 2003

Registered office:
50 Lothian Road
Festival Square
Edinburgh
EH3 9WJ

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 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 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 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 at 31 December 2002 and on the results 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 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 2002 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 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

19 December 2003

KPMG Audit Plc
Chartered Accountants
Registered Auditor

PO Box 695
8 Salisbury Square
London EC4Y 8BB

Profit and Loss Account for the year ended 31 December 2002

	Note	Year Ended 31 December 2002 £	Year Ended 31 December 2001 £
Turnover	2	18,985,102	19,539,765
Cost of sales		(6,911,283)	(7,315,174)
Gross profit		12,073,819	12,224,591
Administrative expenses	3	(13,270,381)	(15,260,231)
Other operating income	4	411,769	756,021
Operating loss	2 - 7	(784,793)	(2,279,619)
Interest payable		(841,349)	(408,351)
Loss on ordinary activities before tax		(1,626,142)	(2,687,970)
Tax on loss on ordinary activities	8	398,364	944,202
Loss on ordinary activities after tax		(1,227,778)	(1,743,768)
Accumulated losses brought forward		(9,234,094)	(7,490,326)
Accumulated losses carried forward		(10,461,872)	(9,234,094)

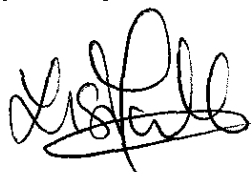
All of the above results relate to continuing activities.

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

Balance Sheet as at 31 December 2002

	Note	31 December 2002 £	31 December 2001 £
Fixed assets			
Tangible assets	9	64,461,046	65,861,246
Current assets			
Stocks	10	163,415	181,401
Debtors	11	15,169,400	19,287,707
Cash at bank and in hand		88,746	1,498,552
		15,421,561	20,967,660
Creditors: amounts falling due within one year	12	(30,676,510)	(36,269,031)
Net current liabilities		(15,254,949)	(15,301,371)
Total assets less current liabilities		49,206,097	50,559,875
Provision for liabilities and charges	13	(1,607,000)	(1,733,000)
Net assets		47,599,097	48,826,875
Capital and reserves			
Called up share capital	14	9,189,177	9,189,177
Revaluation reserve	15	48,871,792	48,871,792
Profit and loss account	15	(10,461,872)	(9,234,094)
Shareholders' Funds			
Equity		38,419,097	39,646,875
Non Equity		9,180,000	9,180,000
Shareholders' funds	15	47,599,097	48,826,875

Approved by the Board on the 15th of December 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 2002

	2002	2001
	£	£
Loss for the financial year	(1,227,778)	(1,743,768)
Unrealised surplus on revaluation of properties	-	48,871,792
Total recognised gains and losses relating to the financial year	(1,227,778)	47,128,024

Note of historical cost profits and losses
for the year ended 31 December 2002

	2002	2001
	£	£
Reported loss on ordinary activities before taxation	(1,626,142)	(2,687,970)
Difference between historical cost depreciation and the actual depreciation charge	797,163	-
Historical cost loss on ordinary activities before taxation	(828,979)	(2,687,970)
Historical cost loss retained for the year	(430,615)	(1,743,768)

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. 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, 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 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. 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.

In addition the group breached the terms of separate secured borrowing facilities, under which a total of approximately £0.5 billion was drawn as at 30 June 2002. Following this the relevant lender placed the group companies which own and operate the Grosvenor House and Waldorf hotels into administrative receivership on 30 July 2003. The group has also breached the terms of leases under which it operates a further nine hotels which are owned by this lender. The group continues to operate all these hotels under short term agreements with the lender concerned.

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."

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.

1. Accounting policies (continued)

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.

Turnover

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

Tangible fixed assets

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 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.

Deferred taxation is recognised without discounting in respect of all timing differences which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS19.

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 £284,000 (2001: £1,375,000).

4. Other operating income

	Year Ended 31 December 2002 £	Year Ended 31 December 2001 £
Rental income from land and buildings	-	2,252
Profit on exchange	13,723	10,526
Other	398,046	743,243
	<hr/> 411,769 <hr/>	<hr/> 756,021 <hr/>

Annual Report & Accounts for the year ended 31 December 2002

5. Operating profit is stated after charging:

	Year Ended 31 December 2002 £	Year Ended 31 December 2001 £
Depreciation on owned assets	2,078,059	1,123,563
Auditors remuneration		
- audit services	15,300	33,200
- non audit services	5,500	6,225
Operating lease rentals;		
- property rent payable	4,194,628	6,231,813
- plant and machinery	155,369	156,593
	<hr/>	<hr/>

6. Employees

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

	Year Ended 31 December 2002 Number	Year Ended 31 December 2001 Number
Office and management	20	21
Hotel operating staff	245	264
	<hr/>	<hr/>
	265	285
	<hr/>	<hr/>

Staff costs consist of:	£	£
Wages and salaries	3,778,877	4,248,780
Social security costs	356,299	332,950
Other pension costs	51,406	49,929
	<hr/>	<hr/>
	4,186,582	4,631,659
	<hr/>	<hr/>

7. Directors' emoluments

The Directors did not receive any emoluments in respect of their services to the company (2001:£Nil).

Annual Report & Accounts for the year ended 31 December 2002**8. Taxation**

	Year Ended 31 December 2002	Year Ended 31 December 2001
	£	£
UK corporation tax		
Current tax credit on loss for the year	(272,364)	(806,391)
Adjustments in respect of previous years	-	(106,811)
	<hr/>	<hr/>
Total current tax	(272,364)	(913,202)
Deferred tax		
Origination/reversal of timing differences	(126,000)	(31,000)
	<hr/>	<hr/>
Tax on profit on ordinary activities	(398,364)	(944,202)
	<hr/> <hr/>	<hr/> <hr/>

Factors affecting the tax charge for the current period

The current tax credit for the period is higher (2001: charge higher) than the standard rate of corporation tax in the UK 30%, (2001: 30%). The difference is explained below.

	Year Ended 31 December 2002	Year Ended 31 December 2001
	£	£
Current tax reconciliation		
(Loss)/profit on ordinary activities before tax	(1,626,142)	(2,687,970)
	<hr/>	<hr/>
Current tax at 30% (2001: 30%)	(487,843)	(806,391)
Effects of:		
Adjustment to tax charge in respect of previous periods	-	(106,811)
Depreciation in excess of capital allowances	200,479	-
Expenses not deductible for tax purposes	15,000	-
	<hr/>	<hr/>
Total current tax charge (see above)	(272,364)	(913,202)
	<hr/> <hr/>	<hr/> <hr/>

9. Tangible fixed assets

	Long leasehold improve- ments £	Plant & machinery £	Furniture, fittings & equipment £	Total £
<i>Cost or valuation</i>				
As at 1 January 2002	62,022,718	5,462,500	2,999,965	70,485,183
Disposals	-	(57,972)	(100,738)	(158,710)
Additions	-	423,256	254,603	677,859
As at 31 December 2002	62,022,718	5,827,784	3,153,830	71,004,332
<i>Depreciation</i>				
As at 1 January 2002	1,752,246	1,064,438	1,807,253	4,623,937
Disposals	-	(57,972)	(100,738)	(158,710)
Charge for year	744,081	437,000	896,978	2,078,059
As at 31 December 2002	2,496,327	1,443,466	2,603,493	6,543,286
<i>Net Book Value</i>				
At 31 December 2002	59,526,391	4,384,318	550,337	64,461,046
At 1 January 2002	60,270,472	4,398,062	1,192,712	65,861,246

The company's fixed assets were revalued for the first time as at 31 December 2001. 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 £
<i>Historical cost net book value</i>				
At 31 December 2002	12,496,377	2,339,703	550,335	15,386,415
At 31 December 2001	13,621,088	2,175,654	1,192,712	16,989,454

10. Stocks

	31 December 2002	31 December 2001
	£	£
Goods held for resale	64,546	90,432
Consumable items in store	98,869	90,969
	<hr/>	<hr/>
	163,415	181,401
	<hr/>	<hr/>

11. Debtors

	31 December 2002	31 December 2001
	£	£
Trade debtors	2,279,384	2,024,601
Other debtors	109,023	464,875
Prepayments and accrued income	472,931	67,934
Corporation tax recoverable	829,352	556,988
Amounts owed by other group undertakings	11,478,710	16,173,309
	<hr/>	<hr/>
	15,169,400	19,287,707
	<hr/>	<hr/>

These amounts are all due within one year.

12. Creditors: amounts falling due within one year

	31 December 2002	31 December 2001
	£	£
Trade creditors	298,387	2,274,492
Amounts owed to other group undertakings	27,385,005	30,434,685
Other taxation and social security	585,975	476,726
Other creditors	853,345	1,426,708
Accruals and deferred income	1,553,798	1,656,420
	<hr/>	<hr/>
	30,676,510	36,269,031
	<hr/>	<hr/>

13. Provisions for liabilities and charges

	Deferred taxation £
At beginning of year	1,733,000
Credit to the profit and loss for the year	(126,000)
	<hr/>
At end of year	1,607,000
	<hr/>

The elements of deferred taxation are as follows:

	31 December 2002	31 December 2001
	£	£
Difference between accumulated depreciation and amortisation and capital allowances	1,607,000	1,733,000
	<hr/>	<hr/>

14. Called up share capital

	31 December 2002	31 December 2001
	£	£
Authorised		
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
	<hr/>	<hr/>
	10,000,000	10,000,000
	<hr/>	<hr/>
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
	<hr/>	<hr/>
	9,189,177	9,189,177
	<hr/>	<hr/>

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 2002 £	Total 2001 £
As at 31 December 2001	9,189,177	48,871,792	(9,234,094)	48,826,875	1,698,851
Unrealised surplus on revaluation	-	-	-	-	48,871,792
Retained loss for the year	-	-	(1,227,778)	(1,227,778)	(1,743,768)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 December 2002	9,189,177	48,871,792	(10,461,872)	47,599,097	48,826,875
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Equity				38,419,097	39,646,875
Non Equity				9,180,000	9,180,000
				<hr/>	<hr/>
				47,599,097	48,826,875
				<hr/>	<hr/>

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 £51,406 (year ended Dec 2001 : £50,000). £Nil contributions were payable to the fund at the period end (2001 : £Nil).

17. Commitments under operating leases

As at 31 December 2002, the Company had annual commitments under non-cancellable operating leases expiring as set out below:

	31 December 2002		31 December 2001	
	Land and buildings	Plant & Machinery	Land and buildings	Plant & Machinery
Operating leases which expire:				
Within one year	-	33,001	-	30,409
In two to five years	-	89,904	-	100,025
After five years	4,194,628	-	6,276,712	-
	<hr/>	<hr/>	<hr/>	<hr/>
	4,194,628	122,905	6,276,712	130,434
	<hr/>	<hr/>	<hr/>	<hr/>

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

The immediate parent undertaking is Meridien Holdings UK Limited, a company 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 2002, Terra Firma Capital Partners I, an English Limited Partnership, acting through its general partner Terra Firma Investments (GP) Limited, a company registered in Guernsey, had the ability to exercise a controlling influence over the company through the holding of warrants to subscribe for shares in certain subsidiaries of Newgate Capital Limited.