

Merlin Entertainments Group Luxembourg S.à r.l

Managers' report and financial
statements

Registered number B108846

31 December 2007

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Managers' report

The managers present their managers' report and financial statements for the year ended 31 December 2007. The report and financial statements cover a trading period of 52 weeks ending on 29th December 2007.

Principal activities

The Group's principal activity is the operation of theme parks and visitor attractions in Europe, Asia and the USA. The Group's results are detailed on page 0 of the financial statements.

The Company's principal activity is that of a holding company.

Business review

On 21 May 2007, the Group acquired the entire share capital of Tasmania Holdings Limited, the holding company of The Tussauds Group, which operated a number of theme parks and attractions. These included Alton Towers, Thorpe Park, Chessington World of Adventures, Heide Park, the London Eye, Warwick Castle, and Madame Tussauds attractions in London, Amsterdam, New York, Las Vegas, Hong Kong and Shanghai.

In July 2007, shortly after the acquisition of the Tussauds Group, the Group undertook a disposal of certain of the acquired property, plant and equipment in a sale and leaseback transaction to reduce the Group's debt.

Further information is detailed in note 2.

Research and development

The Group does not engage in research and development activities.

Financial instruments

Information on financial instruments is detailed in note 22.

Proposed dividend

The managers do not recommend the payment of a dividend.

Market value of land and buildings

In the opinion of the managers, the market value of the land and buildings of the Group is not materially different from their net book value.

Subsequent events

On 22 May 2008, the Group acquired the business and assets of the London Aquarium from County Hall Aquarium Limited. Further information is provided in note 26.

Group's likely future development

The managers consider that the Group's existing operations will continue, attracting increasing market share and generating profits. Opportunities to acquire other existing businesses will be sought out and evaluated, and, where appropriate, the Group will continue to make such acquisitions and to increase its portfolio by opening new attractions. The Group will continue as a market leader in branded visitor attractions.

Managers' report *(continued)*

Managers and managers' interests

The managers who held office during the year were as follows:

Robert Friedman	(Appointed 05/07/05)	
John Sutherland	(Appointed 27/07/05)	
Soren Lindgaard	(Appointed 08/05/06)	(Resigned 30/03/07)
Darcy Corben	(Appointed 08/05/06)	(Resigned 29/01/08)
Knud Hjorth	(Appointed 30/03/07)	
Andrew Wright	(Appointed 10/07/07)	
Colin Armstrong	(Appointed 29/01/08)	

The managers who held office at the end of the year had the following interests in the company:

Company	Class of share or debenture	Interest at end of year	Interest at start of year or date of appointment
Darcy Corben Merlin Entertainments Group Luxembourg S.à r.l.	'B1' ordinary shares of €0.50 each	160	-
	'B2' ordinary shares of €0.50 each	160	-
	'B3' ordinary shares of €0.50 each	160	-
	'B4' ordinary shares of €0.50 each	160	-
	'B5' ordinary shares of €0.50 each	160	-
	'B' ordinary shares of €25 each	-	16

None of the other managers who held office at the end of the financial year had any disclosable interest in the shares of Group companies.

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

Certain managers benefited from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Managers' report *(continued)*

Employees

Regular informal meetings are held between management and employees in order to keep employees informed on current developments within the Group and to take account of their views in making decisions likely to affect their interests. Works councils operate at some sites. In addition a quarterly newsletter is produced.

Disclosure of information to auditors

The directors who held office at the date of approval of this managers' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware; and each manager has taken all the steps that he ought to have taken as a manager to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Auditors

Pursuant to a shareholders' resolution, the company is not obliged to reappoint its auditors annually and KPMG Audit S.à r.l. will therefore continue in office.

By order of the board

John Sutherland
Manager

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25 June 2008



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REPORT OF THE REVISEUR D'ENTREPRISES

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Merlin Entertainments Group Luxembourg S.à r.l., which comprise the consolidated balance sheet as at December 31, 2007 and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Managers' responsibility for the consolidated financial statements

The Board of Managers is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Responsibility of the Réviseur d'Entreprises

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted by the Institut des Réviseurs d'Entreprises. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Managers, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Merlin Entertainment Group Luxembourg S.à r.l. as of December 31, 2007, and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The consolidated management report, which is the responsibility of the Board of Managers, is consistent with the consolidated financial statements.

Luxembourg, 25 June 2008

KPMG Audit S.à r.l.
Réviseurs d'Entreprises

Thierry Ravasio

Consolidated income statement
For the year ended 31 December 2007

	Note	Year ended 31 December 2007			Year ended 31 December 2006
		Recurring €m	Non- recurring €m	Total €m	€m
Revenue	3	712.9	-	712.9	279.2
Cost of sales	4	(93.8)	-	(93.8)	(50.0)
Gross profit		619.1	-	619.1	229.2
Depreciation and amortisation	9,10	(66.2)	-	(66.2)	(24.3)
Staff expenses	5	(165.9)	(3.5)	(169.4)	(79.9)
Other operating expenses		(200.7)	(2.6)	(203.3)	(73.0)
Operating profit / (loss)		186.3	(6.1)	180.2	52.0
Financing income	7	19.7	-	19.7	4.0
Financing costs	7	(235.7)	-	(235.7)	(55.5)
Share of profit of joint ventures	11	0.2	-	0.2	0.3
(Loss) / profit before tax		(29.5)	(6.1)	(35.6)	0.8
Taxation	8	(21.2)	1.8	(19.4)	(6.1)
Loss for the year		(50.7)	(4.3)	(55.0)	(5.3)
Attributable to:					
Equity holders of the parent	21	(50.4)	(4.3)	(54.7)	(5.2)
Minority interest	21	(0.3)	-	(0.3)	(0.1)
Loss for the year		(50.7)	(4.3)	(55.0)	(5.3)

Details of non-recurring items are provided in note 6.

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of recognised income and expense

For the year ended 31 December 2007

		Year ended 31 December 2007 €m	Year ended 31 December 2006 €m
	Note		
Foreign exchange translation differences	21	3.2	(1.2)
Foreign currency translation differences relating to the net investment in foreign operations	7,21	(18.5)	-
Defined benefit plan actuarial gains and losses	20,21	0.3	-
Income and expense recognised directly in equity		(15.0)	(1.2)
Loss for the year		(55.0)	(5.3)
Total recognised income and expense	21	(70.0)	(6.5)
Total recognised income and expense for the year is attributable to:			
Equity holders of the parent	21	(69.7)	(6.4)
Minority interest	21	(0.3)	(0.1)
		(70.0)	(6.5)

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated balance sheet
at 31 December 2007

	Note	2007 €m	2006 €m (restated)
Non-current assets			
Property, plant and equipment	9	973.2	635.5
Intangible assets	10	1,154.2	477.3
Investments in joint ventures	11	1.5	2.5
Deferred tax assets	12	86.6	12.4
		2,215.5	1,127.7
Current assets			
Inventories	13	12.0	8.4
Trade and other receivables	14	58.8	12.5
Other financial assets		11.0	2.0
Tax receivable		8.0	3.3
Cash and cash equivalents	15	62.5	49.0
		152.3	75.2
Total assets		2,367.8	1,202.9
Current liabilities			
Bank overdraft	15	9.1	-
Interest-bearing loans and borrowings	16	10.6	304.6
Trade and other payables	18	140.8	57.8
Tax payable		-	1.1
		160.5	363.5
Non-current liabilities			
Interest-bearing loans and borrowings	16	1,960.2	752.0
Provisions	19	19.3	3.4
Employee benefits	20	4.0	2.9
Deferred tax liabilities	12	178.8	94.6
		2,162.3	852.9
Total liabilities		2,322.8	1,216.4
Net assets/(liabilities)		45.0	(13.5)
Issued capital and reserves attributable to equity holders of the parent	21	40.2	(19.0)
Minority interest	21	4.8	5.5
Total equity	21	45.0	(13.5)

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated cash flow statement
For the year to 31 December 2007

		Year ended 31 December 2007	Year ended 31 December 2006
		€m	€m
Cash flows from operating activities	Note		
Loss for the year		(55.0)	(5.3)
<i>Adjustments for:</i>			
Depreciation, amortisation and impairment charges		66.2	24.3
Amortisation of grants		(0.5)	-
(Gain) / Loss on sale of property, plant and equipment		(0.7)	0.1
Financing income		(19.7)	(4.0)
Financing costs		235.7	55.5
Share of profit of joint ventures		(0.2)	(0.3)
Taxation		19.4	6.1
		245.2	76.4
Working capital changes		1.5	2.9
Increase in provisions and other non-current liabilities		(1.0)	-
		245.7	79.3
Tax paid		(19.3)	(6.3)
Net cash from operating activities		226.4	73.0
Cash flows from investing activities			
Interest received		8.5	1.4
Acquisition of subsidiaries, net of cash acquired	2	(662.7)	(273.3)
Acquisition of property, plant and equipment		(99.5)	(45.4)
Disposal of property, plant and equipment		0.9	-
Disposal proceeds from sale and leaseback transaction		916.4	-
Loans repaid by joint ventures		0.3	0.2
Dividends received from joint ventures		0.7	-
Government grants refunded		(0.1)	-
		164.5	(317.1)
Net cash inflow / (outflow) from investing activities			
Cash flows from financing activities			
Proceeds from issue of share capital	21	-	0.3
Proceeds from bank loans		2,402.1	331.5
(Repayment of) / Proceeds from shareholder loans		(5.5)	178.1
Interest paid		(92.6)	(28.6)
Repayment of borrowings including debt taken on in business combinations		(2,681.7)	(219.0)
Dividends paid to minority interests		(5.6)	(0.2)
		(383.3)	262.1
Net cash from financing activities			
Net increase in cash and cash equivalents		7.6	18.0
Cash and cash equivalents at 1 January		49.0	31.1
Effect of exchange rate fluctuations		(3.2)	(0.1)
Cash and cash equivalents at 31 December	15	53.4	49.0

The accompanying notes form an integral part of these consolidated financial statements.

Notes

(forming part of the financial statements)

1 Accounting policies

Merlin Entertainments Group Luxembourg S.à r.l. (the "Company") is a company incorporated in Luxembourg.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and equity account the Group's interest in joint ventures.

These financial statements were approved by the Board of Managers on 25th June 2008.

The Group financial statements have been prepared and approved by the managers in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRS's").

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements and have been applied consistently by all subsidiaries and joint ventures. Judgements made by the managers, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 29.

During the year the Company adopted IFRS 7 Financial Instruments: Disclosures. No other new standards have been adopted during the year. IFRS and interpretations with effective dates after 31 December 2007 relevant for the Group will be implemented in the financial year where the standards become effective. The Group has not early adopted the following new pronouncements that are not yet effective:

Amendment to IAS 23 "Borrowing Costs" (effective for annual reporting periods beginning on or after 1 January 2009). The amendment to IAS 23 requires capitalisation of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale.

The revised IFRS 3 "Business Combinations" (effective for annual reporting periods beginning on or after 1 January 2009), which contains new requirements for how business combinations are recorded in the financial statements.

The impact of these new standards on the Group's financial statements is currently being assessed.

The consolidated financial statements also adhere to the Luxembourg legal requirements and generally accepted accounting principles in Luxembourg except for IFRS 3 "Business combinations" and related amendments to other standards (IAS 36 revised "Impairment of assets", IAS 38 revised "Intangible assets" and IAS 39 "Financial instruments: Recognition and measurement").

In addition, the presentation of the consolidated balance sheet and income statement differs from Luxembourg legal requirements with respect to the distinction between current and non-current assets and liabilities as defined under IFRS. In the opinion of the Board of Managers, the presentation adopted more appropriately reflects the financial position of the Group.

A reconciliation of the net result and equity of the Group for the year ended 31 December 2007 to that which would have been reported under Luxembourg accounting principles is set out in note 21.

Measurement convention

The financial statements are prepared on the historical cost basis except for derivative financial instruments measured at their fair value.

Basis of consolidation

Currency

These financial statements are presented in Euros, which is the Group's functional currency. All financial information presented in Euros has been rounded to the nearest million, except where otherwise indicated.

Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Notes (continued)

1 Accounting policies (continued)

Basis of consolidation (continued)

Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's share of the total recognised income and expenses of joint ventures on an equity accounted basis, from the date that joint control commences until the date that joint control ceases.

Foreign currency

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement, except when deferred in equity as qualifying net investment hedges.

The results and financial position of all Group companies are translated into Euros as follows:

- i) assets and liabilities are translated at the closing rate at the date of the balance sheet;
- ii) income and expenses are translated at average exchange rates during the year;
- iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. The Group treats specific inter-company loan balances, which are not intended to be repaid in the foreseeable future, as part of its net investment. When a foreign entity is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Classification of financial instruments issued by the Group

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- (b) where the instrument will or may be settled in the Group's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Group's own equity instruments or is a derivative that will be settled by the Group's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are dividends and are recorded directly in equity.

Derivative financial instruments

Derivative financial instruments are recognised at fair value. Subsequent to initial recognition the gain or loss on remeasurement to fair value is recognised immediately in profit or loss. The Group does not apply hedge accounting in accordance with IAS 39.

The fair value of interest rate swaps is the estimated amount that the Group would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties. The fair value of forward exchange contracts is their quoted market price at the balance sheet date, being the present value of the quoted forward price.

Notes (continued)

1 Accounting policies (continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under finance leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. Lease payments are accounted for as described below. All other leases are accounted for as operating leases.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. Assets under construction are not depreciated until they come in to use, when they are transferred to buildings or plant and equipment as appropriate.

The estimated useful lives are as follows:

Freehold / long leasehold buildings	50 years
Leasehold buildings	20 – 50 years
Plant and equipment	5 – 30 years

On inception of a lease the estimated cost of decommissioning the leased asset is included within property, plant and equipment and depreciated over the lease term and a corresponding asset retirement provision set-up and released to the income statement over the lease term.

Intangible assets and goodwill

All business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries and joint ventures. In respect of business acquisitions, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of joint ventures, the carrying amount of goodwill is included in the carrying amount of the investment in the joint venture.

Negative goodwill arising on an acquisition is recognised in profit or loss.

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

Brands	30 years
Licences	Life of licence (from 5 to 15 years)
Other intangible assets	Relevant contractual period (up to 30 years)

Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified. Other receivables are stated at their amortised cost less impairment losses.

Notes (continued)

1 Accounting policies (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

Impairment

The carrying amounts of the Group's assets other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill, assets that have an indefinite useful life and intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units, then to reduce the carrying amount of other intangible assets and the carrying amount of the other assets in the unit on a pro rata basis. A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss.

Calculation of recoverable amount

The recoverable amount of the Group's investments is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Reversals of impairment

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

An impairment loss in respect of an investment in an equity instrument classified as available for sale is not reversed through profit or loss. If the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

An impairment loss in respect of goodwill is not reversed.

In respect of other assets, an impairment loss is reversed when there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Notes *(continued)*

1 Accounting policies *(continued)*

Interest-bearing borrowings

Interest-bearing borrowings are initially recognised at fair value, being the amount of the consideration received less the directly attributable transaction costs associated with the borrowing. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Borrowing costs

Borrowing costs that are incurred in the acquisition and construction of attractions are recognised as an expense in the period in which they are incurred.

Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred

Defined benefit schemes

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets. The calculation is performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses are recognised in the period they occur directly into equity through the statement of recognised income and expense.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

The Group measures provisions at the manager's best estimates of the expenditure required to settle the obligation at the balance sheet date. These estimates are made taking account of information available and different possible outcomes. Specific asset retirement provisions are established in respect of assets where necessary on inception and discounted back to present value. The discount on these provisions is then unwound through the Income Statement as part of financing costs.

Revenue

Revenue represents the amounts (excluding VAT and similar taxes) received from customers for tickets, retail, and food & beverage sales. Revenue from the sale of annual passes is deferred and then recognised over the period that the pass is valid. Ticket revenue is recognised at point of entry.

Cost of sales

Cost of sales represent variable expenses (excluding VAT and similar taxes) incurred from revenue generating activity. The expense of food & beverages and retail consumables are the principal expenses included under this category.

Government grants

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to operating profit over the estimated useful economic lives of the assets to which they relate.

Notes (continued)

1 Accounting policies (continued)

Expenses

Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Lease incentives received and predetermined non-contingent rent increases are recognised in the income statement as an integral part of the total lease expense over the lease term.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Financing costs and income

Financing costs comprise interest payable, finance charges on shares classified as liabilities and finance leases, interest receivable on funds invested, dividend income, applicable foreign exchange gains and losses and gains and losses on hedging instruments that are recognised in the income statement (see 'Interest-bearing borrowings' accounting policy).

Financing income comprises interest receivable.

Interest income and interest payable is recognised as it accrues, using the effective interest method. Dividend income is recognised in the income statement on the date the entity's right to receive payments is established.

Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries and joint ventures to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.

2 Acquisition and disposal of subsidiaries

2007

The Tussauds Group

On 21 May 2007, the Group acquired the entire share capital of Tasmania Holdings Limited, the holding company of The Tussauds Group, which operated a number of theme parks and attractions. These included Alton Towers, Thorpe Park, Chessington World of Adventures, Heide Park, the London Eye, Warwick Castle, and Madame Tussauds attractions in London, Amsterdam, New York, Las Vegas, Hong Kong and Shanghai.

The consideration paid for the share capital was €106.2 million of Preferred Equity Certificates in Merlin Entertainments Group Luxembourg S.à r.l. issued at par, and 67,612 'A1' ordinary shares, 67,612 'A2' ordinary shares, 67,612 'A3' ordinary shares, 67,612 'A4' ordinary shares and 67,612 'A5' ordinary shares in Merlin Entertainments Group Luxembourg S.à r.l.

The fair value of ordinary shares issued was €130.2 million, including a premium on issue of €128.7 million, net of issue costs of €1.3 million.

The fair value of these instruments was based on an agreed enterprise valuation for The Tussauds Group following detailed negotiations between the parties and a comparative valuation of the Merlin business.

Notes (continued)

2 Acquisition and disposal of subsidiaries (continued)

The acquisition had the following effect on the Group's assets and liabilities;

	The Tussauds Group		
	Acquiree's book values	Fair value adjustments	Acquisition amounts
	€m	€m	€m
Acquiree's net assets at the acquisition date:			
Property, plant and equipment	740.7	407.5	1,148.2
Brands	-	157.7	157.7
Other intangible assets	-	13.5	13.5
Deferred tax assets	56.4	-	56.4
Inventories	8.5	(0.7)	7.8
Trade and other receivables	40.1	0.5	40.6
Cash	57.3	-	57.3
External debt	(887.2)	-	(887.2)
Trade and other payables	(120.0)	(0.9)	(120.9)
Provisions and employee benefits	(7.8)	(10.2)	(18.0)
Deferred tax liabilities	(1.7)	(217.0)	(218.7)
Net identifiable assets and liabilities	(113.7)	350.4	236.7
Goodwill			719.7
Consideration			956.4
Analysis of consideration:			
Consideration to former owners - settlement of shareholder debt			706.0
Consideration to former owners - equity share capital and debt issued			236.4
Legal and other professional fees			14.0
			956.4
Analysis of net cash outflow:			
Cash acquired			(57.3)
Cash paid in respect of acquired shareholder debt			706.0
Legal and other professional fees			14.0
Net cash outflow			662.7

Goodwill has arisen on the acquisition as a result of the enlarged Group's portfolio including opportunities to deliver the Group's strategy of organic growth; improved purchasing and marketing leverage; the roll-out of chainable brands; and destination positioning through the building of hotels and second gate attractions at the Group's theme parks.

In the period to 31 December 2007 The Tussauds Group contributed €80.4 million to the consolidated operating profit of the Group. Had the acquisition occurred on 1 January 2007, the estimated Group revenue would have been €21.4 million and the estimated operating profit would have been €169.5 million.

In July 2007, shortly after the acquisition of The Tussauds Group, the Group undertook a disposal of certain of the acquired property, plant and equipment in a sale and leaseback transaction to reduce the Group's debt. These assets were disposed of by way of the sale of Charcoal Midco 2 Limited and its subsidiary undertakings for €16.4m. The Charcoal Midco 2 consolidated group consisted predominantly of property, plant and equipment and working capital with a carrying value of €16.4m (note 9) together with a deferred tax liability of €162.1m (note 12). The resulting profit arising from the restructuring relating to the disposal amounted to €162.1m. As noted in note 10, this profit is directly offset by a reduction of the goodwill, resulting in a net impact on operating profit of €nil.

Notes (continued)

2 Acquisition and disposal of subsidiaries (continued)

2006

Gardaland Theme Park and Aquatica Water Park

On 24 March 2006 the Group acquired the trade and assets of Aquatica water park near Milan for €2,784,000 satisfied in cash and €2,625,000 of deferred consideration payable dependent on business performance.

On 9 November 2006 the Group acquired the entire share capital of TPH S.p.A. TPH S.p.A. owned a majority shareholding in Gardaland S.p.A., which operates the Gardaland Theme Park including the 247 room Gardaland Resort Hotel adjacent to Lake Garda in Italy. Subsequently the Group acquired shares from the minority shareholders in Gardaland Spa, increasing its effective ownership to 97.8%. Total consideration of €328,388,000 in respect of these transactions was satisfied in cash.

Effect of acquisitions

During 2007 the Group completed the purchase price allocation exercise for Gardaland which finalised the provisional amounts reported in the 2006 accounts for the assets and liabilities acquired. These related to the values of property, plant and equipment acquired, and deferred tax balances.

	<u>Aquatica</u>	<u>Gardaland</u>		
	2006 assets acquired at fair value	2006 acquisition amounts	Revision to previously reported fair values	Revised fair values at acquisition
	€m	€m	€m	€m
Acquiree's net assets at the acquisition date:				
Property, plant and equipment	2.4	231.6	1.8	235.8
Intangible assets: Brands	-	62.6	-	62.6
Customer list	-	0.1	-	0.1
Licences	0.1	0.6	-	0.7
Deferred tax assets	-	0.1	-	0.1
Inventories	-	3.1	-	3.1
Trade and other receivables	-	11.3	-	11.3
Cash and cash equivalents	-	66.2	-	66.2
Trade and other payables	-	(227.2)	-	(227.2)
Provisions	-	(1.9)	-	(1.9)
Deferred tax liabilities	-	(64.3)	(8.4)	(72.7)
Less minority interest	-	(7.8)	(1.1)	(8.9)
Net identifiable assets and liabilities	2.5	74.4	(7.7)	69.2
Goodwill	2.9	263.1	7.7	273.7
Consideration	5.4	337.5	-	342.9
Cash acquired	-	(66.2)	-	(66.2)
Contingent consideration	(2.6)	-	-	(2.6)
Outstanding fees	-	(0.8)	-	(0.8)
Net cash outflow	2.8	270.5	-	273.3
Consideration analysis:				
Consideration to former owners	5.2	328.4	-	333.6
Legal and other professional fees	0.2	9.1	-	9.3
	5.4	337.5	-	342.9

Goodwill arose on the acquisition of Aquatica and Gardaland from the enhancement to the Group's portfolio by inclusion of the acquired business, the synergies from acquiring a strong regional management team and the strategic leverage that can be applied from exploiting the Group's skills in investment decisions and operational management.

Notes (continued)

2 Acquisition and disposal of subsidiaries (continued)

If these acquisitions had occurred on 1 January 2006, Group revenue for 2006 would have been €91.9 million and operating profit would have been €9.7 million.

The adjustments to goodwill comprise adjustments to the fair values attributed to Gardaland in the 2006 Merlin Entertainments Group Luxembourg S.à r.l report and financial statements. Subsequent to the initial accounting for this business combination, new information relating to the fair values attributed to property, plant and equipment and tax resulted in a €7.7 million decrease in the fair value of acquired net identifiable assets and liabilities. As permitted under IFRS 3 (Business Combinations), the decrease in the net identifiable assets and liabilities has been recognised within twelve months of the acquisition date as an adjustment to the opening goodwill arising on acquisition. Net assets and liabilities restated at acquisition date are €69.2 million, goodwill €73.7 million. There is no impact on the result reported in the consolidated income statement for the years ended 31 December 2006 or 31 December 2007.

3 Revenue

Revenue is comprised entirely of revenues receivable from the operation of family visitor attractions and theme parks.

4 Cost of sales

	Year ended 31 December 2007	Year ended 31 December 2006
	€m	€m
Change in inventories	4.2	0.2
Goods for resale purchased	89.6	49.8
	93.8	50.0

5 Staff numbers and costs

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

	Year ended 31 December 2007	Year ended 31 December 2006
Visitor Attractions	7,678	3,060
Management and administration	853	557
	8,531	3,617

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2007	Year ended 31 December 2006
	€m	€m
Wages and salaries	144.5	69.1
Social security costs	20.2	9.9
Other pension costs	4.7	0.9
	169.4	79.9

Notes (continued)

6 Non-recurring items

As a result of the acquisition of the Tussauds Group in 2007 and subsequent Corporate restructuring, a number of non-recurring items have been incurred across the Group. The total charge for the year end December 2007 amounted to €6.1 million (2006: nil). An analysis of these costs is shown below.

	Year ended 31 December 2007 €m	Year ended 31 December 2006 €m
Redundancy and related costs	3.5	-
Corporate reorganisation costs	1.4	-
Restructuring costs	1.2	-
	6.1	-

7 Financing income and costs

	Year ended 31 December 2007 €m	Year ended 31 December 2006 €m
Financing income:		
Interest income	8.7	2.1
Gain on remeasurement of financial derivatives at fair value	11.0	1.9
	19.7	4.0
Financing costs:		
Interest expense on financial liabilities measured at amortised cost	151.0	33.2
Interest expense on shareholder loans	43.5	22.2
Net foreign exchange loss	9.2	0.1
Loss on remeasurement of financial derivatives at fair value	31.7	-
Other interest charges	0.3	-
	235.7	55.5
The above financial income and expenses include the following in respect of assets (liabilities) not at fair value through profit or loss:		
Total interest income on financial assets	8.7	2.1
Total interest expense on financial liabilities	194.8	55.4
Recognised directly in equity:		
Foreign currency translation differences for foreign operations*	18.2	-
<i>Recognised in:</i>		
Translation reserve	18.2	-

* Foreign currency translation differences for foreign operations are stated before €0.3 million of attributable deferred tax.

Notes (continued)

8 Taxation

Recognised in the income statement

	Year ended 31 December 2007 €m	Year ended 31 December 2006 €m
Current tax expense		
Current year	8.7	(2.6)
Prior year	0.9	-
Total current income tax	<u>9.6</u>	<u>(2.6)</u>
Deferred tax expense		
Origination and reversal of temporary differences	9.8	8.7
Total tax expense in income statement	<u>19.4</u>	<u>6.1</u>

Reconciliation of effective tax rate

	2007	2007 €m	2006	2006 €m
(Loss) / profit before tax		<u>(35.6)</u>		<u>0.8</u>
Income tax using the domestic corporation tax rate	(29.6%)	(10.5)	30.1%	0.2
Non-deductible expenses	16.6%	5.9	37.7%	0.3
Effect of tax rates in foreign jurisdictions	3.7%	1.3	(165.9%)	(1.4)
Effect of changes in tax rate	(28.1%)	(10.0)	-	-
Unrecognised losses	88.8%	31.6	832.6%	7.0
Adjustments from prior years	3.1%	1.1	-	-
Total tax shown in income statement	<u>54.5%</u>	<u>19.4</u>	<u>734.5%</u>	<u>6.1</u>

Notes (continued)

9 Property, plant and equipment

	Land and buildings €m	Plant and equipment €m	Under construction €m	Total €m
Cost				
Balance at 1 January 2006	284.9	107.3	9.9	402.1
Acquisitions through business combinations	173.9	57.2	2.9	234.0
Additions	10.0	12.4	11.5	33.9
Disposals	(0.2)	(7.7)	(0.1)	(8.0)
Transfers	11.8	(0.8)	(11.0)	-
Effect of movements in foreign exchange	(9.8)	0.2	(0.1)	(9.7)
Balance at 31 December 2006	470.6	168.6	13.1	652.3
Fair value adjustments to prior acquisitions (note 2)	2.5	(3.6)	2.9	1.8
Balance at 31 December 2006 restated	473.1	165.0	16.0	654.1
Balance at 1 January 2007	473.1	165.0	16.0	654.1
Acquisitions through business combinations	879.0	234.3	34.9	1,148.2
Additions	15.5	53.4	29.9	98.8
Disposals	(786.0)	(37.5)	(0.1)	(823.6)
Transfers	25.1	18.5	(43.6)	-
Effect of movements in foreign exchange	(16.0)	(8.4)	(1.1)	(25.5)
Balance at 31 December 2007	590.7	425.3	36.0	1,052.0
Depreciation				
Balance at 1 January 2006	1.5	6.7	-	8.2
Depreciation for the year	10.6	11.2	-	21.8
Disposals	(0.5)	(7.6)	-	(8.1)
Transfers	0.2	(0.2)	-	-
Effect of movements in foreign exchange	(2.7)	(0.6)	-	(3.3)
Balance at 31 December 2006	9.1	9.5	-	18.6
Balance at 1 January 2007	9.1	9.5	-	18.6
Depreciation for the year - owned assets	14.3	27.0	-	41.3
Depreciation for the year - leased assets	1.8	5.3	-	7.1
Impairment	2.4	1.5	-	3.9
Disposals	(0.9)	(0.2)	-	(1.1)
Effect of movements in foreign exchange	(0.6)	9.6	-	9.0
Balance at 31 December 2007	26.1	52.7	-	78.8
Carrying amounts				
At 31 December 2006	464.0	155.5	16.0	635.5
At 1 January 2007	464.0	155.5	16.0	635.5
At 31 December 2007	564.6	372.6	36.0	973.2

The Group leases buildings under a number of finance lease agreements, some of which relate to the sale and leaseback transaction referred to in Note 2. The leased buildings secure lease obligations. At 31 December 2007 the net carrying amount of leased buildings was €55.2 million (2006: €23.8 million).

The Group leases plant and equipment under a number of finance lease agreements, which relate to the sale and leaseback transaction referred to in Note 2. The leased equipment secures lease obligations. At 31 December 2007 the net carrying amount of leased plant and machinery was €68.6 million (2006: nil).

Bank loans and overdrafts are secured by a fixed and floating charge over all the assets held by the Group. These loans are repayable over varying periods as detailed in note 16.

Notes (continued)

10 Intangible assets

	Goodwill	Brands	Other intangible assets	Total
	€m	€m	€m	€m
Cost				
Balance at 1 January 2006	106.9	30.5	2.5	139.9
Acquisitions through business combinations	266.0	62.6	0.8	329.4
Additions	-	-	2.8	2.8
Effect of movements in foreign exchange	0.3	0.3	-	0.6
Balance at 31 December 2006	373.2	93.4	6.1	472.7
Adjustments to provisional goodwill	7.7	-	-	7.7
Balance at 31 December 2006 restated	380.9	93.4	6.1	480.4
Balance at 1 January 2007	380.9	93.4	6.1	480.4
Acquisitions through business combinations	719.7	157.7	13.5	890.9
Additions	-	-	1.0	1.0
Disposals	-	(0.7)	(0.4)	(1.1)
Effect of movements in foreign exchange	(25.6)	(12.1)	(1.2)	(38.9)
Balance at 31 December 2007	1,075.0	238.3	19.0	1,332.3
Amortisation and impairment				
Balance at 1 January 2006	-	0.4	0.1	0.5
Amortisation for the year *	0.7	1.3	0.6	2.6
Balance at 31 December 2006	0.7	1.7	0.7	3.1
Balance at 1 January 2007	0.7	1.7	0.7	3.1
Disposals	-	(0.3)	(0.1)	(0.4)
Amortisation for the year	-	6.6	4.5	11.1
Impairment	2.8	-	-	2.8
Reduction arising from Group restructuring	162.1	-	-	162.1
Effect of movements in foreign exchange	-	(0.6)	-	(0.6)
Balance at 31 December 2007	165.6	7.4	5.1	178.1
Carrying amounts				
At 31 December 2006	380.2	91.7	5.4	477.3
At 1 January 2007	380.2	91.7	5.4	477.3
At 31 December 2007	909.4	230.9	13.9	1,154.2

Other intangible assets comprise software licences, sponsorship rights and other contract based intangible assets.

* As a result of previous acquisitions during 2005, certain deferred tax assets were not recognised as it was considered unlikely that they would be utilised in future periods. The performance of the acquired businesses was better than anticipated and losses were utilised in the year ended 31 December 2006. €0.7 million was recognised as an adjustment to goodwill.

Impairment reviews

Intangible assets were tested for impairment in accordance with the Group's accounting policy. As a result, goodwill totalling €2.8 million in respect of one of the Group's smaller attractions has been written off in the year, arising from a review of the market conditions unique to that specific location.

On acquisition of The Tussauds Group, for impairment purposes, the goodwill arising was attributed to the acquired group, representing, at that time, a separate CGU. Following the acquisition of The Tussauds Group, the Group was restructured into three Operating Groups, being Midway attractions, LEGOLAND Parks and Resort Theme Parks.

Notes (continued)

10 Intangible assets (continued)

Impairment reviews (continued)

Midway attractions provide predominantly indoor visits of shorter duration. LEGOLAND Parks are LEGOLAND branded theme parks. All other theme parks are categorised as Resort Theme Parks.

An initial step of this restructuring was the disposal of a group of businesses, the principal activity of which was the ownership of property, plant and equipment. As detailed in note 2, because of the accounting for the restructuring, the disposal of the assets within this sub-group generated a profit on disposal of €162.1m and, consequently, the post restructuring net assets of the Tussauds CGU immediately after the disposal of the businesses was greater than the fair value of the acquired Tussauds Group. Consequently a reduction in the carrying value of goodwill of €162.1m has been recognised. The net impact on operating profit of is €nil.

At the year end, for the purpose of impairment testing, goodwill has now been allocated to the Operating Groups which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes. Carrying amounts of goodwill by CGU are as follows;

	2007 €m	2006 €m restated
Midway attractions	571.4	57.7
LEGOLAND Parks	48.8	48.8
Resort Theme Parks	289.2	273.7
	909.4	380.2

The recoverable amounts used in the impairment tests are based on value in use calculations. These calculations use cash flow projections based on the 5 year business plan. Cash flows beyond the 5 year business plan are extrapolated using a 2.5% growth rate. The growth rate is consistent with estimated long term growth in GDP. A pre tax discount rate of 11% has been used in discounting the projected flows.

The calculation of value in use is most sensitive to the following key assumptions:

Visitor numbers and revenue

Projections are based on market analysis, including total available market, historic trends, competition and site development activity, both in terms of capital expenditure on rides and attractions and marketing activity.

Operating costs

Projections are based on historical data, adjusted for variations in visitor numbers and planned expansion of site activities and general market conditions.

Capital expenditure

Projections are based on the sites' long-term development plans, taking into account the capital investment necessary to maintain and sustain the performance of the assets of the attractions and parks as outlined above.

Management considers that no reasonably foreseeable change in any of the above key assumptions would significantly alter the outcome of the calculations.

11 Investments in subsidiaries and joint ventures

The Group has the following investments in subsidiaries and joint ventures:

Subsidiary undertaking	Country of Incorporation	Class of Share Held	Ownership 2007	Ownership 2006
Merlin Entertainments Group Luxembourg 2 S.à r.l	Luxembourg	Ordinary	100.0%	100.0%
Merlin Entertainments Group Luxembourg 3 S.à r.l	Luxembourg	Ordinary	100.0%	100.0%
Merlin Entertainments Group Luxembourg 4 S.à r.l	Luxembourg	Ordinary	100.0%	100.0%
Merlin Entertainments Group US Holdings Inc	USA	Ordinary	100.0%	100.0%
LEGOLAND California LLC	USA	Ordinary	100.0%	100.0%

Notes (continued)

11 Investments in subsidiaries and joint ventures (continued)

LEGOLAND Discovery Centre US Inc	USA	Ordinary	100.0%	-
Madame Tussauds Hollywood Inc	USA	Ordinary	100.0%	-
Madame Tussauds Las Vegas Inc	USA	Ordinary	100.0%	-
Madame Tussauds New York Inc	USA	Ordinary	100.0%	-
Madame Tussauds Washington Inc	USA	Ordinary	100.0%	-
Merlin Entertainments Group US Inc	USA	Ordinary	100.0%	-
The Tussauds Group LLC	USA	Ordinary	100.0%	-
Tussauds Harbour Gateway Inc	USA	Ordinary	100.0%	-
LEGOLAND ApS	Denmark	Ordinary	100.0%	100.0%
Merlin Entertainments Group Denmark Holdings ApS	Denmark	Ordinary	100.0%	100.0%
Merlin Entertainments Group Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
LEGOLAND Deutschland Freizeitpark GmbH	Germany	Ordinary	100.0%	100.0%
LEGOLAND Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
LEGOLAND Discovery Centre Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
SEA LIFE Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
SEA LIFE Konstanz GmbH	Germany	Ordinary	100.0%	100.0%
Dungeon Deutschland GmbH	Germany	Ordinary	100.0%	100.0%
LLD Grundstücks GmbH & Co. KG	Germany	Ordinary	100.0%	100.0%
LLD Grundstücksverwaltungs GmbH	Germany	Ordinary	100.0%	100.0%
LLD Share Beteiligungs GmbH	Germany	Ordinary	100.0%	100.0%
LLD Share GmbH & Co. KG	Germany	Ordinary	100.0%	100.0%
Heide-Park Soltau GmbH	Germany	Ordinary	100.0%	-
Madame Tussauds Deutschland GmbH	Germany	Ordinary	100.0%	-
Tussauds Deutschland GmbH	Germany	Ordinary	100.0%	-
Tussauds Heide Metropole GmbH	Germany	Ordinary	100.0%	-
Charcoal Newco 1 Limited	UK	Ordinary	100.0%	-
Charcoal CLG 1 Limited (company limited by guarantee)	UK	-	100.0%	-
Charcoal Newco 1a Limited	UK	Ordinary	100.0%	-
Charcoal Newco 2 Limited	UK	Ordinary	100.0%	-
Wizard EquityCo Limited	UK	Ordinary	100.0%	100.0%
Wizard AcquisitionCo Limited	UK	Ordinary	100.0%	100.0%
Wizard BondCo Limited	UK	Ordinary	100.0%	100.0%
Wizard NewCo Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group International Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group Holdings Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group Limited	UK	Ordinary	100.0%	100.0%
LEGOLAND Windsor Park Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group Operations Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group Finance Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Finance Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Group Employee Benefit Trustees Limited	UK	Ordinary	100.0%	100.0%
The Seal Sanctuary Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments Developments Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments (SEA LIFE) Limited	UK	Ordinary	100.0%	100.0%
Merlin Entertainments (Dungeons) Limited	UK	Ordinary	100.0%	100.0%
Merlin Attractions Management Limited	UK	Ordinary	100.0%	100.0%
London Dungeon Limited	UK	Ordinary	100.0%	100.0%
SEA LIFE Centres Limited	UK	Ordinary	100.0%	100.0%
Merlin US Holdings Limited	UK	Ordinary	100.0%	-
LEGOLAND US Holdings Limited	UK	Ordinary	100.0%	-

Notes (continued)

11 Investments in subsidiaries and joint ventures (continued)

DMWSL266 Limited	UK	Ordinary	100.0%	-
Tussauds (NBD) Limited	UK	Ordinary	100.0%	-
Tussauds Hotels South Limited	UK	Ordinary	100.0%	-
London Eye Holdings Limited	UK	Ordinary	100.0%	-
The London Eye Company Limited	UK	Ordinary	100.0%	-
The Millennium Wheel Company Limited	UK	Ordinary	100.0%	-
Madame Tussauds Touring Exhibition Limited	UK	Ordinary	100.0%	-
Tussauds Group (UK) Pension Plan Trustee Limited	UK	Ordinary	100.0%	-
Charcoal Midco 1 Limited	UK	Ordinary	100.0%	-
Thorpe Park Operations Limited	UK	Ordinary	100.0%	-
Alton Towers Resort Operations Limited	UK	Ordinary	100.0%	-
Alton Towers Limited	UK	Ordinary	100.0%	-
Tussauds Attractions Operations Limited	UK	Ordinary	100.0%	-
Charcoal Holdco Limited	UK	Ordinary	100.0%	-
Charcoal CLG 2 Limited (company limited by guarantee)	UK	-	100.0%	-
Chessington World of Adventures Operations Limited	UK	Ordinary	100.0%	-
CWA PropCo Limited	UK	Ordinary	100.0%	-
Chessington Zoo Limited	UK	Ordinary	100.0%	-
Chessington World of Adventures Limited	UK	Ordinary	100.0%	-
The London Planetarium Company Limited	UK	Ordinary	100.0%	-
Madame Tussaud's Limited	UK	Ordinary	100.0%	-
Warwick Castle Limited	UK	Ordinary	100.0%	-
Warwick Castle Park Limited	UK	Ordinary	100.0%	-
Tussauds Holdings Limited	UK	Ordinary	100.0%	-
Tussauds Limited	UK	Ordinary	100.0%	-
The Tussauds Group Limited	UK	Ordinary	100.0%	-
Tussauds Attractions Limited	UK	Ordinary	100.0%	-
Tussauds Finance Limited	UK	Ordinary	100.0%	-
Tussauds Hotels Limited	UK	Ordinary	100.0%	-
Tussauds Intermediate Holdings Limited	UK	Ordinary	100.0%	-
Tussauds Theme Parks Limited	UK	Ordinary	100.0%	-
Merlin Entertainments Group Italy S.r.l.	Italy	Ordinary	100.0%	100.0%
Merlin Entertainments Group Italy 2 S.r.l.	Italy	Ordinary	100.0%	100.0%
Gardaland S.r.l. (formerly Theme Parks Holdings S.r.l.)	Italy	Ordinary	97.8%	97.8%
Incoming Gardaland S.r.l.	Italy	Ordinary	97.8%	97.8%
Ronchi del Garda S.p.A. *	Italy	Ordinary	44.7%	44.7%
Ronchi S.p.A.	Italy	Ordinary	88.5%	88.5%
Merlin Water Parks S.r.l.	Italy	Ordinary	100.0%	100.0%
SEA LIFE Italia S.r.l.	Italy	Ordinary	100.0%	100.0%
SEA LIFE Centre Nederland B.V.	Netherlands	Ordinary	100.0%	100.0%
SEA LIFE Centre Scheveningen B.V.	Netherlands	Ordinary	60.0%	60.0%
Amsterdam Dungeon B.V.	Netherlands	Ordinary	100.0%	100.0%
Madame Tussauds Amsterdam B.V.	Netherlands	Ordinary	100.0%	-
SLCS SEA LIFE Centre Spain S.A.	Spain	Ordinary	100.0%	100.0%
SEA LIFE Centre Bray Limited	Ireland	Ordinary	100.0%	100.0%
SEA LIFE France S.à r.l	France	Ordinary	100.0%	100.0%
SEA LIFE Centre Belgium N.V.	Belgium	Ordinary	100.0%	100.0%
Dirk Frimout Centrum N.V.	Belgium	Ordinary	**57.8%	57.8%
Madame Tussauds Exhibition (Shanghai) Company Limited	China	Ordinary	100.0%	-

Notes (continued)

11 Investments in subsidiaries and joint ventures (continued)

Joint Ventures	Country of Incorporation	Class of Share Held	Ownership 2007	Ownership 2006
SEA LIFE Helsinki Oy	Finland	Ordinary	50.0%	50.0%
Pirate Adventure Golf Limited	UK	Ordinary	50.0%	50.0%
SEA LIFE Centre (Blackpool) Limited	UK	Ordinary	***50.0%	50.0%

* Merlin Entertainments Group Luxembourg S.à r.l has control over this entity via control of the immediate parent entity and the control that the immediate parent entity has over the subsidiary entity.

** Increased to 100% in February 2008. These accounts are based on a 57.8% ownership.

*** Increased to 100% in May 2008. These accounts are based on a 50.0% ownership.

Summary financial information on joint ventures is as follows, based on 100% of their results;

	Non-current assets	Current assets	Current liabilities	Non-current liabilities	Income	Expenses
2006	€m	€m	€m	€m	€m	€m
Pirate Adventure Golf Limited	0.3	-	-	0.2	0.3	0.2
Sea Life Centre (Blackpool) Limited	1.4	2.2	0.7	0.1	2.6	2.2
Sea Life Helsinki Oy	2.1	0.4	1.1	1.2	2.3	2.3
	3.8	2.6	1.8	1.5	5.2	4.7

	Non-current assets	Current assets	Current liabilities	Non-current liabilities	Income	Expenses
2007	€m	€m	€m	€m	€m	€m
Pirate Adventure Golf Limited	0.2	-	-	0.1	0.2	0.2
Sea Life Centre (Blackpool) Limited	1.1	0.9	0.6	0.1	2.5	2.4
Sea Life Helsinki Oy	1.9	0.4	1.0	0.9	2.5	2.3
	3.2	1.3	1.6	1.1	5.2	4.9

Reconciliation of investment in joint ventures:

	Share of joint venture net assets at 31 December 2006	Share of net profit / (loss) 2007	Less dividend distributions received 2007	Share of joint venture net assets at 31 December 2007	Loans to joint ventures at 31 December 2007	Effect of movements in foreign exchange 2007	Total investment in joint ventures at 31 December 2007
	€m	€m	€m	€m	€m	€m	€m
Pirate Adventure Golf Limited	-	-	-	-	-	-	-
Sea Life Centre (Blackpool) Limited	1.3	0.1	(0.7)	0.7	-	(0.1)	0.6
Sea Life Helsinki Oy	0.1	0.1	-	0.2	0.7	-	0.9
	1.4	0.2	(0.7)	0.9	0.7	(0.1)	1.5

Total investment in joint ventures at 31 December 2006 of €2.5 million includes share of joint venture net assets of €1.4 million and loans to joint ventures of €1.1 million.

Notes (continued)

12 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2007 €m	2006 €m	2007 €m	2006 €m restated	2007 €m	2006 €m restated
Property, plant and equipment	21.9	12.4	(83.6)	(60.6)	(61.7)	(48.2)
Other short term temporary differences	6.0	-	(0.6)	-	5.4	-
Intangible assets	25.5	-	(94.6)	(34.0)	(69.1)	(34.0)
Tax value of loss carry-forwards	33.2	-	-	-	33.2	-
Net tax assets / (liabilities)	86.6	12.4	(178.8)	(94.6)	(92.2)	(82.2)

The Group has unrecognised deferred tax asset balances of €6,180,000 (2006: €2,114,000), of which €4,718,000 relates to accelerated capital allowances (2006: €2,114,000).

Movement in deferred tax during the year

	1 January 2006 €m	Acquisitions through business combinations €m	Recognised in income €m	31 December 2006 €m	Revision to previously reported fair values €m	31 December 2006 restated €m
Property, plant and equipment	10.6	(50.5)	0.1	(39.8)	(8.4)	(48.2)
Intangible assets	(12.5)	(13.7)	(7.8)	(34.0)	-	(34.0)
Tax value of loss carry-forwards	1.0	-	(1.0)	-	-	-
Net tax assets / (liabilities)	(0.9)	(64.2)	(8.7)	(73.8)	(8.4)	(82.2)

	1 January 2007 €m	Acquisitions through business combinations €m	Disposals €m	Recognised in income €m	31 December 2007 €m
Property, plant and equipment	(48.2)	(165.4)	162.1	(10.2)	(61.7)
Other short term temporary differences	-	3.7	-	1.7	5.4
Intangible assets	(34.0)	(43.0)	-	7.9	(69.1)
Tax value of loss carry-forwards	-	42.4	-	(9.2)	33.2
Net tax assets / (liabilities)	(82.2)	(162.3)	162.1	(9.8)	(92.2)

13 Inventories

	2007 €m	2006 €m
Balance at 1 January	8.4	5.5
Acquisitions through business combinations	7.8	3.1
Change in inventories (per note 3)	(4.2)	(0.2)
Balance at 31 December	12.0	8.4

Included under cost of sales are changes in inventories of €4.2 million (2006: €0.2 million).

Notes (continued)

14 Trade and other receivables

	2007	2006
	€m	€m
Trade receivables	14.5	3.1
Amounts owed by joint ventures	-	0.3
Other receivables	9.8	3.4
Prepayments and accrued income	34.5	5.7
	58.8	12.5

The managers do not consider that the risk attached to late trade receivables is material, as the operation of the family visitor attractions and theme parks is essentially cash based in nature.

15 Cash and cash equivalents/ bank overdrafts

	2007	2006
	€m	€m
Cash and cash equivalents	62.5	49.0
Bank overdrafts used for cash management purposes	(9.1)	-
	53.4	49.0

Cash and cash equivalents per cash flow statement

16 Interest-bearing loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. For more information about the Group's exposure to interest rate and foreign currency risk, see note 22 below.

	2007	2006
	€m	€m
<i>Current liabilities</i>		
Secured bank loans	4.3	301.6
Interest payable	2.7	0.1
Finance leases	3.6	2.9
	10.6	304.6
<i>Non-current liabilities</i>		
Secured bank loans	1,273.1	308.8
Shareholder loans	575.0	430.9
Finance leases	112.1	12.3
	1,960.2	752.0

Notes (continued)

16 Interest-bearing loans and borrowings (continued)

Terms and debt repayment schedule

The terms and conditions of outstanding loans were as follows:

	Currency	Nominal interest rate	Year of maturity	2007		2006	
				Face value €m	Carrying amount €m	Face value €m	Carrying amount €m
Secured bank loan	GBP	8.28%	2012	643.3	620.0	98.8	94.7
Secured bank loan	EUR	7.03%	2012	542.5	522.9	468.5	449.3
Secured bank loan	USD	7.11%	2012	139.5	134.5	69.2	66.4
Finance lease liabilities	GBP	5.74%	2042	71.3	71.3	-	-
Finance lease liabilities	EUR	9.11%	2042	44.4	44.4	15.2	15.2
A PEC's	EUR	9.00%	2035	231.6	231.6	217.6	217.6
B PEC's	EUR	7.65%	2035	35.7	35.7	33.2	33.2
C PEC's	EUR	9.00%	2036-37	238.4	238.4	132.4	132.4
D PEC's	EUR	7.65%	2036-37	52.9	52.9	32.7	32.7
Italian shareholder debt	EUR	7.68%	2009	16.4	16.4	15.0	15.0
Total interest-bearing loans				2,016.0	1,968.1	1,082.6	1,056.5

Bank loans and overdrafts are secured by a fixed and floating charge over all the assets held by the Group. These loans are repayable in March 2012.

Shareholder loans are as follows:

The 'A' Preferred Equity Certificates ('PECs') are issued in multiples of €1. These certificates are unsecured and carry interest at 9% (annual compound). Interest is payable only on redemption and is included within the PECs balance until such time. These notes are to be redeemed 30 years after the date of issue. 'A' PECs may be redeemed by the company at any time upon giving 30 days notice.

The 'B' PECs are issued in multiples of €1. These certificates are unsecured and carry interest at 7.65% (annual compound). Interest is payable only on redemption and is included within the PECs balance until such time. These notes are to be redeemed 30 years after the date of issue. 'B' PECs may be redeemed by the company at any time upon giving 30 days notice.

The 'C' PECs which were issued on 9 November 2006 are in multiples of €1. These certificates are unsecured and carry interest at 9% (annual compound). Interest is payable only on redemption and is included within the PECs balance until such time. These notes are to be redeemed 30 years after the date of issue. 'C' PECs may be redeemed by the company at any time upon giving 30 days notice.

The 'C1' PECs which were issued on 21 May 2007 are in multiples of €1. These certificates are unsecured and carry interest at 9% (annual compound). Interest is payable only on redemption and is included within the PECs balance until such time. These notes are to be redeemed 30 years after the date of issue. 'C1' PECs may be redeemed by the company at any time upon giving 30 days notice.

The 'D' PECs which were issued on 9 November 2006 are in multiples of €1. These certificates are unsecured and carry interest at 7.65% (annual compound). Interest is payable only on redemption and is included within the PECs balance until such time. These notes are to be redeemed 30 years after the date of issue. 'D' PECs may be redeemed by the company at any time upon giving 30 days notice.

The 'D1' PECs which were issued on 21 May 2007 are in multiples of €1. These certificates are unsecured and carry interest at 7.65% (annual compound). Interest is payable only on redemption and is included within the PECs balance until such time. These notes are to be redeemed 30 years after the date of issue. 'D1' PECs may be redeemed by the company at any time upon giving 30 days notice.

The Italian shareholder debt €16,377,000 (2006: €15,000,000) is in the form of equity share capital. Under an agreement entered into with the owners of these shares, the Group has the option, three years after the date of issue of the shares, to purchase them at nominal value plus accrued interest calculated thereon at a rate of Euribor plus 3%.

Notes (continued)

17 Obligations under leases

As part of a financing transaction subsequent to the acquisition of The Tussauds Group, as noted in note 2, the Group entered into an arms length sale and leaseback transaction. This transaction was undertaken at fair value and no gains or losses were recognised in the financial statements.

The transaction was effected by way of a number of sale and leaseback agreements for the operational property, plant and equipment at a number of individual visitor attractions. Each of these lease agreements run for a period of 35 years and allows for annual rent increases based on the United Kingdom RPI. The Group has the option, but is not contractually required, to extend each of the lease agreements individually for 2 further terms of 35 years, subject to an adjustment to market rates at that time. As outlined in note 29, the classification of the leases as either operating or finance in nature was considered on an asset by asset basis.

In addition, the Group also enters into operating leases for a number of its operating premises. These leases are typically of a duration of between 10 and 60 years, with rent increases generally determined based on local market practice. As noted in the accounting policies, the key contractual terms in relation to each lease are considered when calculating the rental charge over the lease term.

The tables below set out the total lease obligations for the group:

Operating leases

The minimum rentals payable as lessee under non-cancellable operating leases are as follows:

	2007	2006
	€m	€m
Less than one year	51.0	2.4
Between one and five years	198.0	9.4
More than five years	1,394.8	74.8
	1,643.8	86.6

Finance leases

Future minimum lease payments as lessee under finance leases are as follows:

	Future		Present		Present	
	minimum		value of		value of	
	lease		minimum		minimum	
	payments		lease		lease	
	2007	Interest	payments	payments	Interest	payments
	€m	€m	€m	€m	€m	€m
Less than one year	9.1	5.5	3.6	3.5	0.6	2.9
Between one and five years	35.4	21.3	14.1	10.6	0.7	9.9
More than five years	244.9	146.9	98.0	2.6	0.2	2.4
	289.4	173.7	115.7	16.7	1.5	15.2

18 Trade and other payables

	2007	2006
	€m	€m
Trade payables	37.7	21.0
Accruals and deferred income	55.3	27.4
Dividend payable to minority interest	3.9	-
Other taxation and social security	-	0.7
Other creditors	14.1	8.7
Other financial liabilities	29.8	-
	140.8	57.8

Other financial liabilities represent interest rate swaps (Note 22).

Notes (continued)

19 Non-current provisions

	Asset retirement provision	Onerous contracts	Litigation	Other	Total
	€m	€m	€m	€m	€m
Balance at 1 January 2007	1.2	-	1.9	0.3	3.4
Business combinations	9.4	5.9	-	-	15.3
Provisions made during the year	0.8	2.1	0.1	0.3	3.3
Released during the year	-	(1.3)	(0.3)	(0.2)	(1.8)
Unwinding of discount	0.3	-	-	-	0.3
Effect of movement in foreign exchange	(0.7)	(0.5)	-	-	(1.2)
Balance at 31 December 2007	11.0	6.2	1.7	0.4	19.3

Asset retirement provisions

Certain attractions have entered into leases on their sites, and these provisions relate to the anticipated costs of removing assets from and restoring the sites concerned at the end of the lease term.

Onerous contracts

The provision relates to an onerous construction contract, which is expected to complete in 2009.

Litigation

Gardaland holds provisions for legal fees arising from taxation, insurance and other legal issues.

Other

Other provisions relate to potential restructuring costs and the estimated total cost arising from open insurance claims.

20 Employee benefits

Pension Plans

The Group operates two defined benefit plans – a closed scheme for certain former employees of The Tussauds Group and a closed scheme for certain employees of Gardaland.

The net pension liabilities at 31 December are as follows:

	2007	2006
	€m	€m
The Tussauds Group Pension Plan	1.6	-
Gardaland	2.4	2.9
	4.0	2.9

The Tussauds Group Pension Plan

Responsibility for The Tussauds Group defined benefit plan was assumed on acquisition of The Tussauds Group of companies and details of this pension plan are noted below.

The assets and liabilities of the plan at 31 December are:

	2007	2006
	€m	€m
Present value of funded defined benefit obligations	(16.1)	-
Fair value of scheme assets	14.5	-
Net pension liability	(1.6)	-

The pension plans have not directly invested in any of the Group's own financial instruments or in properties or other assets used by the Group.

31 December 2007

Notes (continued)

20 Employee benefits (continued)

Movements in present value of defined benefit obligation

	2007	2006
	€m	€m
Pension scheme assumed on acquisition of The Tussauds Group	17.8	
Current service cost	(0.1)	-
Interest cost	0.5	-
Benefits paid	(0.1)	-
Contributions by members	0.3	-
Actuarial (gains)/losses	(1.0)	-
Exchange adjustments	(1.3)	-
At 31 December 2007	16.1	-

Movements in present value of plan assets

	2007	2006
	€m	€m
Pension scheme assumed on acquisition of The Tussauds Group	15.1	-
Expected return on plan assets	0.6	-
Contributions by employer	0.5	-
Contributions by members	0.3	-
Benefits paid	(0.1)	-
Actuarial gains/(losses)	(0.8)	-
Exchange adjustments	(1.1)	-
At 31 December 2007	14.5	-

The (income)/expense is recognised in the following line items in the income statement

	2007	2006
	€m	€m
Administrative expenses	(0.1)	-
Finance income	(0.6)	-
Finance expense	0.5	-
Total	(0.2)	-

Actuarial gains and losses recognised directly in equity in the statement of recognised income and expense

	2007	2006
	€m	€m
Recognised in the year	(0.2)	-
Cumulative amount at 31 December 2007	(0.2)	-

Notes (continued)

20 Employee benefits (continued)

The fair value of the plan assets and the return on those assets were as follows:

	2007	2006
	Fair Value	Fair Value
	€m	€m
Equities	10.0	-
Corporate bonds and cash	1.9	-
Property	2.6	-
	14.5	-
Actual return on plan assets	(0.2)	-

Actuarial assumptions

Principal actuarial assumptions (expressed as weighted averages) at the year end were:

	2007	2006
	%	%
Discount rate	5.60%	-
Expected rate of return on plan assets	6.68%	-
Future salary increases	3.60%	-
Rate of price inflation	3.30%	-

To develop the expected long-term rate of return on assets assumption, the Group considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of the 6.68% assumption.

Assumptions regarding future mortality are based on published statistics and mortality tables.

The assumption considered to be the most significant is the discount rate adopted. If the discount rate were to change by 0.1% then it is predicted that the deficit in the scheme would change by €0.6m.

Gardaland

Disclosures relating to the Gardaland defined benefit plan are noted below. Due to changes in Italian law, the scheme is now closed to new employees and closed to the accrual of future service entitlement.

The assets and liabilities of the plan at 31 December are:

	2007	2006
	€m	€m
Present value of funded defined benefit obligations	(2.4)	(2.9)
Net pension liability	(2.4)	(2.9)

Notes (continued)

20 Employee benefits (continued)

Movements in present value of defined benefit obligation

	2007	2006
	€m	€m
At 1 January 2007	2.9	-
Current service cost	(0.2)	-
Interest cost	0.1	-
Actuarial (gains)/losses	(0.1)	-
Contributions by employer	(0.3)	-
Pension scheme assumed on acquisition of Gardaland	-	2.9
At 31 December 2007	<u>2.4</u>	<u>2.9</u>

(Income)/expense recognised in the income statement

	2007	2006
	€m	€m
Current service cost	(0.2)	-
Interest on defined benefit pension plan obligation	0.1	-
Total	<u>(0.1)</u>	<u>-</u>

The (income)/expense is recognised in the following line items in the income statement

	2007	2006
	€m	€m
Administrative expenses	(0.2)	-
Finance expense	0.1	-
Total	<u>(0.1)</u>	<u>-</u>

Actuarial gains and losses recognised directly in equity in the statement of recognised income and expense

	2007	2006
	€m	€m
Cumulative amount at 1 January 2007	-	-
Recognised in the year	(0.1)	-
Cumulative amount at 31 December 2007	<u>(0.1)</u>	<u>-</u>

Principal actuarial assumptions (expressed as weighted averages) at the year end were as follows:

	2007	2006
	%	%
Discount rate	4.24%	-
Rate of price inflation	2.00%	-

Assumptions regarding the future mortality are based on published statistics and mortality tables.

Defined contribution plans

The Group operates a number of defined contribution pension plans.

Obligations for contributions to defined contribution pension plans are recognised as an operating expense in the income statement as incurred. The total expense relating to those plans in the current year was €5.0 million (2006: €0.9 million).

Notes (continued)

21 Capital and reserves

Reconciliation of movement in capital and reserves

	Share capital	Share premium	Trans- lation reserve	Retained earnings	Total parent equity	Minority interest	Total equity
	€m	€m	€m	€m	€m	€m	€m
Balance at 1 January 2006	0.4	-	1.1	(14.4)	(12.9)	1.8	(11.1)
Shares issued	0.3	-	-	-	0.3	-	0.3
Business combinations	-	-	-	-	-	7.8	7.8
Dividends to minority interest	-	-	-	-	-	(5.1)	(5.1)
Total recognised income and expense	-	-	(1.2)	(5.2)	(6.4)	(0.1)	(6.5)
Balance at 31 December 2006	0.7	-	(0.1)	(19.6)	(19.0)	4.4	(14.6)
Fair value adjustments to prior acquisitions (note 2)	-	-	-	-	-	1.1	1.1
Balance at 31 December 2006 restated	0.7	-	(0.1)	(19.6)	(19.0)	5.5	(13.5)
Balance at 1 January 2007	0.7	-	(0.1)	(19.6)	(19.0)	5.5	(13.5)
Shares issued	-	-	-	-	-	-	-
Business combinations	0.2	128.7	-	-	128.9	-	128.9
Dividends to minority interest	-	-	-	-	-	(0.4)	(0.4)
Total recognised income and expense	-	-	(15.3)	(54.4)	(69.7)	(0.3)	(70.0)
Balance at 31 December 2007	0.9	128.7	(15.4)	(74.0)	40.2	4.8	45.0

On 26 April 2007, the share capital of Merlin Entertainments Group Luxembourg S.à r.l. was reorganised, with each €25 nominal value 'A' ordinary share being divided into 10 'A1' ordinary shares with a nominal value of €0.50 each, 10 'A2' ordinary shares with a nominal value of €0.50 each, 10 'A3' ordinary shares with a nominal value of €0.50 each, 10 'A4' ordinary shares with a nominal value of €0.50 each and 10 'A5' ordinary shares with a nominal value of €0.50 each. In addition each €25 nominal value 'B' ordinary share was divided into 10 'B1' ordinary shares with a nominal value of €0.50 each, 10 'B2' ordinary shares with a nominal value of €0.50 each, 10 'B3' ordinary shares with a nominal value of €0.50 each, 10 'B4' ordinary shares with a nominal value of €0.50 each and 10 'B5' ordinary shares with a nominal value of €0.50 each.

Reconciliation with Luxembourg generally accepted accounting principles ("GAAP")

The reconciliation of equity and net loss as reported by the Group for the year ended 31 December 2007 with Luxembourg accounting principles is as follows:

	2007 €m	2006 €m
Total parent equity under IFRS as at 31 December	40.2	(19.0)
Application of IFRS 3	(207.1)	(42.7)
Total parent equity under Luxembourg GAAP as at 31 December	(166.9)	(61.7)

Notes (continued)

21 Capital and reserves (continued)

Reconciliation with Luxembourg generally accepted accounting principles ("GAAP") (continued)

	Year ended 31 December 2007 €m	Year ended 31 December 2006 €m
Net loss under IFRS as at 31 December	(54.7)	(5.2)
Foreign exchange loss on foreign instruments	(18.5)	-
Application of IFRS 3	(164.4)	(33.9)
Net loss under Luxembourg GAAP as at 31 December	(237.6)	(39.1)

IFRS 3 requires the separate recognition of intangible assets previously subsumed in goodwill. Furthermore, goodwill arising from acquisitions are no longer amortised but subject to an annual impairment test.

Under Luxembourg GAAP, intangible assets such as brands, franchise agreements, customer contracts are not separately recognized but considered as goodwill. Furthermore, the Group elected to amortise goodwill arising on acquisitions on a straight-line basis over 5 years.

IAS 39 allows foreign exchange losses on net investment to be recognised in equity as translation differences. Under Luxembourg GAAP, foreign exchange losses on net investment are recognised in the income statement.

Share capital

	Ordinary shares	
	2007	2006
On issue at 1 January – fully paid	28,400	15,328
Issued in the year	7,646	13,072
Shares withdrawn	(36,046)	-
On issue prior to subdivision	-	28,400
New shares issued at €0.50	1,802,310	-
On issue at 31 December – fully paid	1,802,310	28,400
	2007	2006
	€m	€m
<i>Authorised</i>		
'A' Ordinary shares of €0.50 (2006: €25.00) each	0.8	0.6
'B' Ordinary shares of €0.50 (2006: €25.00) each	0.1	0.1
	0.9	0.7
<i>Allotted, called up and fully paid</i>		
'A' Ordinary shares of €0.50 (2006: €25.00) each	0.8	0.6
'B' Ordinary shares of €0.50 (2006: €25.00) each	0.1	0.1
	0.9	0.7

Each of the classes of shares is to be treated as normal Ordinary Shares and have the same voting rights and rights to dividends save as set out below.

Each share is entitled to one vote at ordinary and extraordinary general meetings.

Shares are freely transferable among Shareholders. They may only be transferred to new shareholders subject to the approval of other shareholders given in general meeting, at a majority of three quarters of share capital, subject to that in the event of the death of a shareholder, such approval is not required to transfer his or her shares to either parents, descendants, or the surviving spouse of the shareholder. Transfers of shares by employees do not require the approval of shareholders in general meeting but do require the prior written consent of Blackstone Capital Partners.

In the event that an employee ceases to be an employee or director of the Group, the Board shall be entitled to serve notice on the departing employee and any family members or trusts that he/she has transferred shares to, requiring them to transfer shares they hold to such persons as specified by the Board. These transfers shall be at market value, except in respect of 'B' ordinary shares. In the case of B ordinary shares, the transfer will be at a value calculated in accordance with the articles, which depending on the circumstances of the cessation of employment, will range from the lower of cost or market value (if below cost), to market value.

Notes (continued)

21 Capital and reserves (continued)

Share capital (continued)

Shares participate equally in dividends. In the event of a liquidation, majority sale or listing, 'B' Ordinary shares will be repurchased by the company at a value to be determined in accordance with the articles, based on the performance of the company since its incorporation.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

22 Financial instruments

Interest rate risk

The Group enters into swap and cap arrangements which, while not meeting the requirements for hedge accounting, have the effect of providing a partial hedge effect against increased interest rates with the ability to benefit from reductions in rates in operation.

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	Carrying amount	
	2007	2006
	€m	€m
Fixed rate instruments		
Financial assets	11.0	2.0
Financial liabilities	(588.4)	(415.9)
	<u>(577.4)</u>	<u>(413.9)</u>
Variable rate instruments		
Financial assets	62.5	49.0
Financial liabilities	(1,418.6)	(640.6)
	<u>(1,356.1)</u>	<u>(591.6)</u>

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not materially affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

An increase of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2006.

	Equity		Profit or (loss)	
	2007	2006	2007	2006
	€m	€m	€m	€m
Variable rate instruments	(13.3)	(2.8)	(13.3)	(2.8)
Interest rate swap	12.7	-	12.7	-
Cash flow sensitivity (net)	<u>(0.6)</u>	<u>(2.8)</u>	<u>(0.6)</u>	<u>(2.8)</u>

A decrease of 100 basis points would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Notes (continued)

22 Financial instruments (continued)

Liquidity risk

Under the current borrowing arrangements the Group has access to both working capital facilities and capital expenditure facilities in addition to existing borrowings. These facilities are considered sufficient to meet the financing requirements of the Group.

The following are the contractual maturities of financial liabilities, including interest payments and excluding the impact of netting agreements, based on the managers' expectations of likely settlement dates:

2006	Carrying amount €m	Total €m	0 to <1 years €m	1 to <2 years €m	2 to <5 years €m	5 years and over €m
Non-derivative financial liabilities						
Secured bank loans	610.4	(873.7)	(109.2)	(142.0)	(263.9)	(358.6)
Finance lease liabilities	15.2	(16.7)	(3.5)	(3.0)	(7.6)	(2.6)
Shares classified as debt	430.9	(652.8)	-	-	(18.9)	(633.9)
Bank overdrafts	-	-	-	-	-	-
Trade and other payables*	21.0	(21.0)	(21.0)	-	-	-
Derivative financial liabilities						
Interest rate swaps used for hedging	1.9	(0.9)	(0.9)	-	-	-
	1,079.4	(1,565.1)	(134.6)	(145.0)	(290.4)	(995.1)
2007						
Non-derivative financial liabilities						
Secured bank loans	1,277.4	(1,938.3)	(107.3)	(251.4)	(1,579.6)	-
Finance lease liabilities	115.7	(289.4)	(9.1)	(8.8)	(26.6)	(244.9)
Shares classified as debt	575.0	(870.2)	-	(18.9)	-	(851.3)
Bank overdrafts	9.1	(9.1)	(9.1)	-	-	-
Trade and other payables*	37.7	(37.7)	(37.7)	-	-	-
Derivative financial liabilities						
Interest rate swaps used for hedging	18.8	(102.7)	(6.7)	(6.7)	(20.1)	(69.2)
	2,033.7	(3,247.4)	(169.9)	(285.8)	(1,626.3)	(1,165.4)

* Excludes derivatives shown separately

Foreign currency risk

The most significant portion of the Group's revenues and costs for the year ended December 2007 are denominated in Euros, which is the currency management uses to review financial information. In non-euro operations, revenues and costs are primarily in local currency, reducing currency movement risk only to the operating profit level. Long term finance is denominated in Euros, US dollars, or UK pounds in a ratio intended to match the funds requirements and cash generation capabilities of the Group's operations in each of these currencies.

Notes (continued)

22 Financial instruments (continued)

Foreign currency risk (continued)

The Group's exposure to foreign currency risk was as follows:

	2007				2006			
	Sterling €m	Euro €m	US Dollar €m	Other €m	Sterling €m	Euro €m	US Dollar €m	Other €m
Cash and cash equivalents	22.8	19.8	6.6	4.2	17.9	20.7	2.6	7.8
Trade receivables	10.5	1.9	1.2	0.9	0.6	1.1	1.0	0.4
Secured bank loans	(620.1)	(514.7)	(134.4)	(8.2)	(67.6)	(393.1)	(69.2)	(80.5)
Trade payables	(18.7)	(13.8)	(2.9)	(2.3)	(6.1)	(12.6)	(1.2)	(1.1)
Balance sheet exposure	(605.5)	(506.8)	(129.5)	(5.4)	(55.2)	(383.9)	(66.8)	(73.4)

Included in secured bank loans are amounts that represent net investment hedging instruments of €278.1 million in Euro denominated loans and €94.5 million in Sterling denominated loans.

The following significant exchange rates applied during the year:

	Average rate		Reporting date mid-spot rate	
	2007	2006	2007	2006
Sterling	1.472	1.465	1.354	1.484
US Dollar	0.731	0.793	0.679	0.758

A 10 percent strengthening of the euro against the following currencies at 31 December would have increased/(decreased) equity and profit or loss by the amounts shown below. The analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

	Equity		Profit or (loss)	
	2007 €m	2006 €m	2007 €m	2006 €m
Sterling	3.6	(0.6)	3.6	(0.6)
US Dollar	(0.6)	(0.4)	(0.6)	(0.4)

A 10 percent weakening of the euro against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not require collateral in respect of financial assets.

Investments are allowed only in liquid securities and only with counterparties that have a credit rating equal to or better than the Group. Transactions involving derivatives are with counterparties with whom the Group has a signed netting agreement and who have sound credit ratings. Management does not expect any counterparty to fail to meet its obligations.

At the reporting date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset, including derivatives in the balance sheet.

Notes (continued)

22 Financial instruments (continued)

Fair values

Fair values versus carrying amounts

The fair values of financial assets and liabilities, together with the carrying amounts shown in the balance sheet, are as follows:

	2007		2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Trade and other receivables	58.8	58.8	12.5	12.5
Cash and cash equivalents	62.5	62.5	49.0	49.0
Interest rate swaps used for hedging				
Assets	11.0	11.0	2.0	2.0
Liabilities	(29.8)	(29.8)	-	-
Secured bank loans	(1,277.4)	(1,230.8)	(610.4)	(610.4)
Shareholder loans	(575.0)	(575.0)	(430.9)	(430.9)
Finance lease liabilities	(115.7)	(115.7)	(15.2)	(15.2)
Trade and other payables	(37.7)	(37.7)	(21.0)	(21.0)
Bank overdraft	(9.1)	(9.1)	-	-
	(1,912.4)	(1,865.8)	(1,014.0)	(1,014.0)

Basis for determining fair values

Derivatives

Interest rate swaps are valued by reference to the mid point of the yield curve prevailing from the reporting date to the contracted expiry date. The valuation is the net present value of the difference between the projected cash flows at the contracted rate and the valuation rate.

Non-derivative financial liabilities

The fair value is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

23 Capital commitments

At the year end the Group has a number of outstanding capital commitments amounting to €14.6 million (2006: €3.1 million). These commitments are expected to be settled in the following financial year.

24 Related parties

Identity of related parties

The Group has a related party relationship with its subsidiaries (see note 11), shareholders, key management personnel and joint ventures.

Transactions with shareholders

During the year the Group incurred fees from Blackstone Capital Partners, its ultimate controlling party, of €17,878,000 (2006: €5,570,500), fees from LEGO, a shareholder, of €307,000 (2006: €245,000), fees from Kirkbi A/S, a shareholder, of €307,000 (2006: €nil) and fees from Dubai International Capital ('DIC'), a shareholder, of €371,000 (2006: €nil).

Notes (continued)

24 Related parties (continued)

Transactions with shareholders (continued)

At 31 December 2007 the balance outstanding to Blackstone Capital Partners was €12,000 (2006: €nil), to LEGO was €161,000 (2006: €nil), to Kirkbi A/S was €161,000 (2006: €nil) and to DIC was €371,000 (2006: €nil).

In addition, subsidiaries purchased goods from LEGO in the amount of €19,517,000 (2006: €20,644,000). At the year end subsidiaries owed LEGO €1,015,000 (2006: €528,000).

Details of shareholder loans are included in note 16.

Transactions with key management personnel

Key management of the Group and their immediate relatives control 2.13% (2006: 2.7%) of the voting shares of the Company. They also held PECs with a nominal value of €1,476,000 (2006: €3,486,000).

Other related party transactions

The compensation of the key managers is as follows:

	2007	2006
	€m	€m
Key management emoluments including social security costs	1.1	0.6
Contributions to money purchase pension schemes	0.2	0.1
	1.3	0.7

Transactions with joint ventures

During the year the Group entered into arms length transactions with the following joint ventures:

	Sales to related party 2006 €m	Purchases from related party 2006 €m	Amounts owed by related party from trading 2006 €m	Amounts owed to related party from trading 2006 €m	Amounts owed by related party non trading 2006 €m
Pirate Adventure Golf Limited	0.1	-	-	-	0.1
Sea Life Centre (Blackpool) Limited	0.2	-	0.3	-	-
Sea Life Helsinki Oy	-	0.1	-	-	1.0
	0.3	0.1	0.3	-	1.1

	Sales to related party 2007 €m	Purchases from related party 2007 €m	Amounts owed by related party from trading 2007 €m	Amounts owed to related party from trading 2007 €m	Amounts owed by related party non trading 2007 €m
Pirate Adventure Golf Limited	0.1	-	-	-	-
Sea Life Centre (Blackpool) Limited	0.2	-	-	-	-
Sea Life Helsinki Oy	-	0.1	-	-	0.7
	0.3	0.1	-	-	0.7

Notes (continued)

25 Ultimate parent company and parent company of larger group

The Company is a subsidiary undertaking of Blackstone Capital Partners which is the ultimate parent company incorporated in the Cayman Islands. The ultimate controlling party is Blackstone Capital Partners.

The largest Group in which the results of the Company are consolidated is that headed by Merlin Entertainments Group Luxembourg S.à r.l., incorporated in Luxembourg. No other Group financial statements include the results of the Company.

26 Subsequent events

On 22 May 2008, the Group acquired the business and assets of the London Aquarium from County Hall Aquarium. The consideration paid and total commitments entered into amounted to €1.7m including the assumption of finance lease commitments of €2.9m. The finance lease commitments terminate in December 2022.

27 Contingent liabilities

The Group has contingent liabilities arising from local planning obligations and other obligations. The total liability under these obligations could amount up to €1.3 million (2006: nil).

28 Determination of fair values

Intangible assets

Brands

Brands have been valued based on discounted future cash flows, using the relief from royalty method. The managers consider it consistent with industry practice to place a finite life on useful economic life. For brands this has been estimated at 30 years. This estimate is based on the premise that the brand will span at least one generation. It is anticipated that children currently visiting theme parks and visitor attractions will, based on their positive experience, revisit with their own children.

Goodwill

Goodwill has been calculated as the difference between the cost of acquisition and the fair value of the net identifiable assets acquired. Note 10 contains information about the assumptions and their risk factors relating to goodwill impairment.

Acquired property, plant and equipment

In respect of property, plant and equipment acquired in business combinations, given the specialised nature of the assets, fair values are calculated on depreciated replacement cost basis. The key estimates underpinning the calculations are:

- i. Replacement cost. Industry specific indices were used to restate original historic cost.
- ii. Depreciation. The key determinants are the total, and remaining, economic useful life and the residual value of each asset. The total estimated lives applied are consistent with those set out in note 1. Residual values were based on industry specific indices.

29 Judgements and estimates

Classification of assets sold under sale and leaseback agreements

During the year, as noted in note 2, the group undertook a sale and leaseback transaction involving the property, plant and equipment of certain acquired operating units. In order to determine the appropriate leaseback treatment, as either an operating or finance lease, each individual asset was considered on an asset by asset basis. The key elements of these calculations were the expected remaining economic life and fair value of each asset and the allocation of the lease rental charge. Fair values have been calculated on a basis consistent with that set out above for property, plant and equipment. The gross lease rental charge for each operating unit has been allocated to underlying individual assets according to their relative fair values.

Notes *(continued)*

29 Judgements and estimates *(continued)*

Financial instruments – effective interest rate calculations

The Group holds certain financial instruments, the terms of which allow for repayment over the 5 year term of the agreement. To facilitate the calculation of an effective interest rate which reflects the expected cash flows, the Group has estimated that the borrowings will be repaid on the second anniversary of the origination of the instruments. The calculation includes all transaction costs directly attributable to the acquisition of the financial instrument, which are amortised over the same period.

Provisions

The Group measures provisions at the managers' best estimates of the expenditure required to settle the obligation at the balance sheet date. These estimates are made taking account of information available and different possible outcomes. Specific asset retirement provisions are established in respect of assets where necessary on inception and discounted back to present value. The discount on these provisions is then unwound through the Income Statement as part of financing costs.