

**BLACKSTONE HOTEL ACQUISITIONS
COMPANY**

Report and Financial Statements

31 December 2002

**Deloitte & Touche
London**



BLACKSTONE HOTEL ACQUISITIONS COMPANY

REPORT AND FINANCIAL STATEMENTS 2002

CONTENTS

Page

Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	3
Independent auditors' report	4
Consolidated profit and loss account	5
Consolidated statement of total recognised gains and losses	6
Balance sheets	7
Consolidated cash flow statement	8
Reconciliation of movements in shareholders' funds	9
Notes to the accounts	10

BLACKSTONE HOTEL ACQUISITIONS COMPANY

REPORT AND FINANCIAL STATEMENTS 2002

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

JZ Kukral
TJ Barrack Jr.
JD Gray
JV Ceriale

SECRETARY

JD Gray

REGISTERED OFFICE

1 Savoy Hill
London
WC2R 0BP

BANKERS

Barclays Bank PLC
Retail and Leisure Team
4th Floor
50 Pall Mall
London
SW1Y 5AX

SOLICITORS

DLA
3 Noble Street
London
EC2V 7EE

AUDITORS

Deloitte & Touche
Chartered Accountants
London

BLACKSTONE HOTEL ACQUISITIONS COMPANY

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended 31 December 2002.

ACTIVITIES

The principal activity of the company is the ownership of hotels and restaurant companies ("the Group").

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The profit for the year before interest, tax and depreciation is £46.24 million (2001: £37.42 million). The consolidated profit and loss account is shown on page 5.

The directors expect that the present activity level will at least be sustained for the foreseeable future in the absence of unforeseen circumstances.

DIVIDENDS

In the year no dividend was paid (2001: £nil) and no dividend is proposed (2001: £nil).

DIRECTORS AND THEIR INTERESTS

The directors of the company at 31 December 2002, who have been directors for the whole year are listed below. The directors do not hold any interests in the shares of this or any other group company.

J V Ceriale	(United States)
J Z Kukral	(United States)
J D Gray	(United States)
T J Barrack Jr.	(United States)

EMPLOYEES

The Group's policy is to give full and fair consideration to the recruitment of disabled persons having regard to their particular aptitudes and abilities. Appropriate training will be arranged for disabled persons. The Group's personnel policies ensure that all its employees are made aware, on a regular basis, of the Group's policies, programmes and progress.

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board



J V Ceriale
Secretary

18 June 2003

BLACKSTONE HOTEL ACQUISITIONS COMPANY

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BLACKSTONE HOTEL ACQUISITIONS COMPANY

We have audited the financial statements of Blackstone Hotel Acquisitions Company for the year ended 31 December 2002 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheets, the cash flow statement, the reconciliation of movements in shareholders' funds and the related notes 1 to 29. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company and other members of the group is not disclosed.

We read the directors' report for the above year and consider the implications for our report if we become aware of any apparent misstatements.

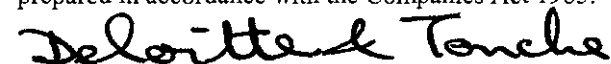
Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the company and the group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and of the group as at 31 December 2002 and of the loss of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche
Chartered Accountants and Registered Auditors
London

18 June 2003

BLACKSTONE HOTEL ACQUISITIONS COMPANY

CONSOLIDATED PROFIT AND LOSS ACCOUNT Year ended 31 December 2002

	Note	2002 £'000	2001 Restated* £'000
TURNOVER	2	117,276	114,326
Cost of sales		(70,745)	(76,876)
Gross profit		46,531	37,450
Administration expenses		(6,127)	(6,309)
OPERATING PROFIT	4	40,404	31,141
Loss on sale of tangible fixed assets		(294)	-
Interest receivable and similar income	5	192	391
Interest payable and similar charges	6	(46,130)	(44,281)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(5,828)	(12,749)
Tax credit on loss on ordinary activities	7	1,931	3,949
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION		(3,897)	(8,800)
Retained loss carried forward	19	(3,897)	(8,800)

All activities in the current and preceding years are derived from continuing operations.

*The consolidated profit and loss account for the year ended 31 December 2001 has been restated for the adoption of FRS 19 (note 29).

BLACKSTONE HOTEL ACQUISITIONS COMPANY

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES Year ended 31 December 2002

	Note	2002 £'000	2001 Restated* £'000
Loss for the financial year		(3,897)	(8,800)
Total recognised gains and losses in the period		(3,897)	(8,800)
Prior period adjustment	29	(10,350)	
Total recognised gains and losses since last annual report and financial statements		(14,247)	

*The consolidated statement of total recognised gains and losses for the year ended 31 December 2001 has been restated for the adoption of FRS 19 (note 29).

BLACKSTONE HOTEL ACQUISITIONS COMPANY

BALANCE SHEETS

31 December 2002

		2002		2001 Restated*	
	Note	Group £'000	Company £'000	Group £'000	Company £'000
FIXED ASSETS					
Goodwill	9	(14,053)	-	(14,053)	-
Tangible fixed assets	10	638,593	-	629,223	-
Investments in subsidiaries	11	-	584,542	-	584,542
		<u>624,540</u>	<u>584,542</u>	<u>615,170</u>	<u>584,542</u>
CURRENT ASSETS					
Stocks	12	2,947	-	3,093	-
Debtors	13	11,546	7,485	10,369	34,371
Investments		300	-	300	-
Cash at bank and in hand		868	100	7,014	100
		<u>15,661</u>	<u>7,585</u>	<u>20,776</u>	<u>34,471</u>
CREDITORS: amounts falling due within one year	14	<u>(47,659)</u>	<u>(34,634)</u>	<u>(42,105)</u>	<u>(19,931)</u>
NET CURRENT (LIABILITIES)/ASSETS		<u>(31,998)</u>	<u>(27,049)</u>	<u>(21,329)</u>	<u>14,540</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		592,542	557,493	593,841	599,082
CREDITORS: amounts falling due after more than one year	16	(440,085)	(440,085)	(435,556)	(435,556)
PROVISIONS FOR LIABILITIES AND CHARGES	17	<u>(8,577)</u>	<u>-</u>	<u>(10,508)</u>	<u>-</u>
NET ASSETS		<u>143,880</u>	<u>117,408</u>	<u>147,777</u>	<u>163,526</u>
CAPITAL AND RESERVES					
Called up share capital	18	160,000	160,000	160,000	160,000
Revaluation reserve		-	16,143	-	16,143
Profit and loss account	19	<u>(16,120)</u>	<u>(58,735)</u>	<u>(12,223)</u>	<u>(12,617)</u>
TOTAL EQUITY SHAREHOLDERS' FUNDS		<u>143,880</u>	<u>117,408</u>	<u>147,777</u>	<u>163,526</u>

*The balance sheets at 31 December 2001 have been restated for the adoption of FRS 19 (note 29).

These financial statements were approved by the Board of Directors on 18 June 2003.

Signed on behalf of the Board of Directors



J V Ceriale
Director

BLACKSTONE HOTEL ACQUISITIONS COMPANY

CONSOLIDATED CASH FLOW STATEMENT Year ended 31 December 2002

	Note	2002 £'000	2001 £'000
Net cash inflow from operating activities	22	40,143	43,799
Returns on investments and servicing of finance			
Interest received		144	358
Interest paid		(42,250)	(40,936)
Income from investments		48	33
Net cash outflow from returns on investments and servicing of finance		<u>(42,058)</u>	<u>(40,545)</u>
Taxation			
Taxation repaid		-	2,221
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(17,541)	(24,999)
Cash received on sale of fixed assets		1,749	150
Net cash outflow from capital expenditure and financial investment		<u>(15,792)</u>	<u>(24,849)</u>
Net cash outflow before financing		<u>(17,707)</u>	<u>(19,374)</u>
Financing			
Issue of new share capital		-	20,000
Repayment of loans		(5,517)	(5,810)
New loans drawn down		6,086	-
Increase in long term borrowings		11,215	9,626
Capital element of finance lease repayment		(23)	(376)
Net cash inflow from financing		<u>11,761</u>	<u>23,440</u>
(Decrease)/increase in cash	24	<u>(5,946)</u>	<u>4,066</u>

BLACKSTONE HOTEL ACQUISITIONS COMPANY

RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Year ended 31 December 2002

	2002 £'000	2001 Restated* £'000
Loss for the financial year	(3,897)	(8,800)
Issue of additional share capital	-	20,000
	<hr/>	<hr/>
Net addition to shareholders' funds	(3,897)	11,200
	<hr/>	<hr/>
At 1 January (as restated)	147,774	136,574
	<hr/>	<hr/>
	143,880	147,774
	<hr/>	<hr/>

*The opening shareholders' funds at 1 January 2002 as previously reported amounted to £158,124,000 before the prior year adjustment of £(10,350,000) (see note 29).

BLACKSTONE HOTEL ACQUISITIONS COMPANY

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

1. ACCOUNTING POLICIES

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

Basis of accounting and consolidation

These accounts have been prepared on the historical cost basis of accounting, modified to include the revaluation of certain assets, and in accordance with the Companies Act 1985 and applicable accounting standards in the UK.

The consolidated financial statements incorporate the financial statements of the company and its subsidiary undertakings for the year ended 31 December 2002. The principal accounting policies laid down for the preparation of the accounts have been reviewed and are appropriate to the Group.

Fixed assets

Expenditure on development of the Group's hotels and restaurants, including major replacement and improvement of assets, is disclosed as Land and Buildings or Fixtures, Fittings, Plant and Machinery. Land and Buildings includes the costs associated with structural improvements to freehold and long-term leasehold properties. The cost of replacement of glass and china and certain other loose equipment of hotels and restaurants is charged to revenue in the year in which it is incurred.

Depreciation

Having regard to the high level of expenditure on general maintenance, the long anticipated lives and high residual values of the Group's hotels and restaurants, the resultant amount of any further depreciation on carrying value is not considered to be material. No depreciation is therefore charged on freehold and long-term leasehold properties. Long leaseholds have a lease of more than 50 years remaining.

The appraisal of residual values for each property is based on prices prevailing at the time of the acquisition or subsequent valuation of the property in question. In the event of any impairment in property value below historical cost, provision for impairment is charged to the profit and loss account. The hotels are valued annually by an independent firm of external valuers to give the directors assistance in assessing whether there has been any impairment of the hotel assets.

No depreciation is charged on antiques as they are maintained in good condition and they are expected to have a high residual value.

Short-term leasehold properties are amortised over the period of the lease.

Depreciation of other tangible assets is provided on a straight line basis over the following useful lives:

Plant and machinery	-	between 1 and 25 years
Fixtures and fittings	-	between 5 and 15 years.

Turnover

Turnover represents income from hotel, restaurant and theatre operations and excludes value added tax. All turnover is derived from UK operations.

Investments

Investments held as fixed assets are stated at value less any provision for impairment in value. Current asset investments represent shares in an unlisted company and are held at the lower of cost and net realisable value.

Interest

Interest charges incurred in financing the restoration of the properties is not capitalised. All interest is charged against profits as it arises.

Goodwill

Negative goodwill arising on the acquisition of The Savoy Plc is amortised through the profit and loss account in line with depreciation or provision for impairment applied to freehold and long leasehold properties, or when such properties are sold.

BLACKSTONE HOTEL ACQUISITIONS COMPANY

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

1. ACCOUNTING POLICIES (continued)

Deferred taxation

Deferred taxation is provided in full on timing differences that result in an obligation to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax is not provided on timing differences arising from the revaluation of fixed assets where there is no binding commitment to dispose of these assets. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are discounted. The accounting policy for deferred taxation represents a change from that previously applied, the effects of which are set out in note 29.

Exchange rates

Transactions in foreign currencies are recorded at the market rates of exchange at the date of the transactions.

Stocks

Stocks consist of raw materials and consumables and are valued at the lower of cost and net realisable value.

Leasing

Assets acquired under finance leases are included under the relevant category of tangible fixed assets and depreciated accordingly. The capital element of future lease rentals payable is included as appropriate under creditors due within or after more than one year. The interest element of lease rentals is charged to the profit and loss account.

Rentals under operating leases are charged to the profit and loss account, as incurred, over the terms of the leases.

Pension and other post retirement benefits

Contributions to the Group's pension schemes are charged to the profit and loss account so as to spread the cost of pensions as a substantially level percentage of payroll costs over employees' working lives with the company. The costs of providing post retirement benefits are recognised on an accruals basis.

2. TURNOVER

	2002 £'000	2001 £'000
Hotel, restaurant and ancillary business receipts	116,710	113,355
Theatre ticket sales and ancillary services	566	971
	<u>117,276</u>	<u>114,326</u>

BLACKSTONE HOTEL ACQUISITIONS COMPANY

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	2002 No.	2001 No.
Employee numbers (excluding executive directors)		
Hotel and administration	1,502	1,664
	£'000	£'000
Staff costs during the year		
Wages and salaries	25,965	28,674
Social security costs	2,122	2,276
Pension costs	574	678
	28,661	31,628

The directors are remunerated by a company with a financial interest in the ultimate parent company.

No payment was made to Blackstone Real Estate Advisors L.P. in respect of consultancy services of J V Ceriale in the current year (2001: £578,762).

4. OPERATING PROFIT

	2002 £'000	2001 £'000
Operating profit is stated after charging:		
Loss on disposal of fixed assets	-	30
Depreciation	6,128	6,279
Discretionary executive bonus	502	238
Operating leases:		
Plant and machinery	278	130
Other assets	231	324
Auditors' remuneration - audit services	85	87
Auditors' remuneration - non-audit service	160	153

5. INTEREST RECEIVABLE AND SIMILAR INCOME

	2002 £'000	2001 £'000
Bank interest receivable	144	391
Dividends receivable	48	-
	192	391

6. INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £'000	2001 £'000
Bank loans and overdrafts	31,032	31,299
Amortisation of loan issue expenses	2,365	1,756
Other loans	12,730	11,215
Finance leases and hire purchase contracts	3	11
	46,130	44,281

BLACKSTONE HOTEL ACQUISITIONS COMPANY

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

7. TAX CREDIT ON LOSS ON ORDINARY ACTIVITIES

	2002 £'000	2001 Restated £'000
Current taxation		
UK Corporation tax for year at 30% (2001: 30%)	-	-
Adjustment in respect of prior years	-	2,076
	-	2,076
Deferred taxation		
Timing differences: origination and reversal	665	1,474
Deferred tax adjustment in respect of prior years	1,624	973
Decrease in discount on current year timing differences	15	(381)
Increase in discount on adjustment in respect of prior years	(373)	(193)
	1,931	1,873
	1,931	3,949

Adoption of FRS 19 has required a change in the method of accounting for deferred tax. As a result the comparative figure for the tax on profit on ordinary activities for the year ended 31 December 2001 has been restated from the previously reported result of £2,076,000 to £3,949,000. The impact of adopting FRS 19 on the 2002 results has been an increase to the tax credit of £1,899,000.

Factors affecting corporation tax charge for the current year

The corporation tax assessed for the year is lower than that resulting from applying the standard rate of corporation tax in the UK of 30% (2001: 30%).

The differences are explained below:

	2002 £'000	2001 Restated £'000
Loss on ordinary activities before tax	(5,828)	(12,749)
Tax at 30% thereon:	(1,748)	(3,825)
Effects of:		
Capital allowances in excess of qualifying depreciation	643	1,769
Other timing differences in respect of capital allowances	-	(343)
Loss on disposal of fixed assets	22	-
Other reconciling timing differences	-	48
Tax losses carried forward (no deferred tax provided)	-	1,563
Other reconciling timing differences (no deferred tax provided)	(84)	-
Non qualifying depreciation	655	-
Capitalised tax deductible expenses	(288)	-
Other permanent differences	800	788
Current tax charge for the period	-	-

BLACKSTONE HOTEL ACQUISITIONS COMPANY

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

7. TAX ON PROFIT ON ORDINARY ACTIVITIES (CONTINUED)

Factors that may affect the future tax charge

Deferred tax has not been provided on revaluations of fixed assets. This tax will only become payable if the assets are sold and rollover relief is not obtained. The estimated amount of tax that would become payable in these circumstances is £122,600,000.

Deferred tax has not been provided in respect of gains realised that have been rolled over into the acquisition cost of replacement assets. This tax will become payable if the replacement assets are sold and further rollover relief is not available. The estimated amount of tax that would become payable in these circumstances is £4,589,000.

A deferred tax asset has not been recognised in respect of carried forward tax losses as their utilisation in the near future is uncertain. The amount of the asset not recognised is £1,610,000.

8. LOSS FOR THE FINANCIAL YEAR

The retained loss for the year dealt with in the accounts of the company was £46.1 million (2001: £12.6 million loss). As permitted by Section 230 of the Companies Act 1985, a profit and loss account is not presented for the company.

9. GOODWILL

	Group £'000
Negative goodwill	
At 1 January 2002 and 31 December 2002	(14,053)
Net book value	
At 1 January 2002 and 31 December 2002	(14,053)

BLACKSTONE HOTEL ACQUISITIONS COMPANY

NOTES TO THE ACCOUNTS Year ended 31 December 2002

10. TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Long leasehold land and buildings £'000	Short leasehold land and buildings £'000	Assets under the course of con- struction £'000	Fixtures, fittings, plant and machinery £'000	Group Total £'000
Cost						
At 1 January 2002	373,670	191,463	414	19,445	62,614	647,606
Reclassification	6,362	-	-	(12,122)	5,760	-
Additions	2,043	196	-	11,080	4,222	17,541
Disposals	-	(2,023)	-	-	(191)	(2,214)
At 31 December 2002	<u>382,075</u>	<u>189,636</u>	<u>414</u>	<u>18,403</u>	<u>72,405</u>	<u>662,933</u>
Accumulated depreciation						
At 1 January 2002	-	-	159	-	18,224	18,383
Charge for the year	-	-	30	-	6,098	6,128
Disposals	-	-	(53)	-	(118)	(171)
At 31 December 2002	<u>-</u>	<u>-</u>	<u>136</u>	<u>-</u>	<u>24,204</u>	<u>24,340</u>
Net book value						
At 31 December 2002	<u>382,075</u>	<u>189,636</u>	<u>278</u>	<u>18,403</u>	<u>48,201</u>	<u>638,593</u>
At 31 December 2001	<u>373,670</u>	<u>191,463</u>	<u>255</u>	<u>19,445</u>	<u>44,390</u>	<u>629,223</u>

All of the hotels in the group were valued by external professional valuers. The directors have considered these valuations in performing the annual impairment review of the hotel assets.

Fixtures, fittings, plant and machinery includes assets held under finance leases with net book value of £nil (2001: £117,793). The depreciation charge for the year on these assets was £nil (2001: £117,793).

11. INVESTMENTS IN SUBSIDIARIES

	Company £'000
At 1 January 2002 and 31 December 2002	<u>584,542</u>

The investments in subsidiaries were revalued to their net asset values on the restructuring of the Group in January 1999. A list of subsidiary investments is included in note 26. The historical cost of the investment in subsidiaries is £568,399,000.

12. STOCKS

	Group	
	2002 £'000	2001 £'000
Raw materials and consumables	<u>2,947</u>	<u>3,093</u>

BLACKSTONE HOTEL ACQUISITIONS COMPANY

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

13. DEBTORS

	2002		2001	
	Group £'000	Company £'000	Group £'000	Company £'000
Trade debtors	7,536	-	8,386	-
Other debtors	1,890	129	146	-
Amounts owed by other group companies	-	7,331	-	34,371
Prepayments and accrued income	2,120	25	1,837	-
	<u>11,546</u>	<u>7,485</u>	<u>10,369</u>	<u>34,371</u>

14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002		2001	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank loans and overdrafts (see note 15)	15,020	15,020	5,600	5,400
Obligations under finance leases	-	-	23	-
Trade creditors	7,051	-	10,349	-
Amounts owed to group undertakings	2,379	6,716	2,808	2,728
Income tax	-	-	145	145
Other taxes and social security	3,631	-	3,930	-
Other creditors	13,658	12,730	11,869	11,216
Accruals and deferred income	5,920	168	7,381	442
	<u>47,659</u>	<u>34,634</u>	<u>42,105</u>	<u>19,931</u>

15. BANK AND OTHER LOANS

	2002		2001	
	Group £'000	Company £'000	Group £'000	Company £'000
Due within one year	15,020	15,020	5,400	5,400
Due between one and two years (note 16)	440,085	440,085	435,556	435,556
	<u>455,105</u>	<u>455,105</u>	<u>440,956</u>	<u>440,956</u>

In line with FRS 4 "Capital Instruments" loan acquisition costs of £3,855,000 (2001: £3,557,000) have been offset against the bank loan. This amount is being amortised over the remaining life of the loan.

The company has a senior credit facility of £275 million which matures on 30 June 2004. Repayment of the loan is made in quarterly instalments. The interest rate is LIBOR plus 1.125 per cent. The company has a junior credit facility of £100.6 million which matures on 30 June 2004. Repayment of the loan will be made in full on maturity. The interest rate is LIBOR plus 4 per cent.

Concurrently with the signing of these agreements, the company entered into an agreement to hedge its interest rate exposure in respect of an initial notional principal amount of £375.6 million, for a period ending on 30 June 2003. The interest rate for the senior and junior credit facilities were fixed at 7.66 per cent and 10.54 per cent respectively.

During 2001 an additional loan facility of £20 million was made available to the company. At 31 December 2002 £9 million of this facility has been drawn down.

BLACKSTONE HOTEL ACQUISITIONS COMPANY

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

15. BANK AND OTHER LOANS (continued)

The company entered into a credit agreement in 1998 with BRE/Satellite LP, a limited partnership which owns the Group's ultimate parent company, for £60 million. The loan matures on 31 December 2004 and bears interest at 13.5 per cent. Repayment of the loan will be made in full on maturity.

The bank loans are secured by a fixed and floating charge over the Group's assets.

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2002		2001	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank loans	346,045	346,045	346,731	346,731
Other loans with related entity	94,040	94,040	88,825	88,825
	<u>440,085</u>	<u>440,085</u>	<u>435,556</u>	<u>435,556</u>

17. PROVISIONS FOR LIABILITIES AND CHARGES

		2002
Movement in deferred tax provision – Group		£'000
Provision at 1 January 2002		
As previously reported		(158)
Prior year adjustment (see note 29)		(10,350)
		<hr/>
As Restated		(10,508)
Credit to the profit and loss account		1,931
		<hr/>
At 31 December 2002		<u>(8,577)</u>

		2001
	2002	Restated
Analysis of deferred tax balance – Group	£'000	£'000
Capital allowances in excess of depreciation	(11,092)	(13,311)
Short term timing differences	118	51
	<hr/>	<hr/>
	(10,974)	(13,260)
Discount on timing differences	2,397	2,752
	<hr/>	<hr/>
	(8,577)	(10,508)

BLACKSTONE HOTEL ACQUISITIONS COMPANY

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

18. CALLED UP SHARE CAPITAL

	Group and company	
	2002	2001
	£'000	£'000
Authorised:		
250,000,000 ordinary shares of £1 each	250,000	250,000
Called up, allotted and fully paid		
160,000,000 ordinary shares of £1 each	160,000	160,000

During 2001 the company issued 20,000,000 ordinary shares to its immediate parent company, BRE/Savoy Acquisition Company, at par value.

19. PROFIT AND LOSS ACCOUNT

	2002		2001 Restated*	
	Group £'000	Company £'000	Group £'000	Company £'000
At 1 January	(12,223)	(12,617)	(3,423)	1
Loss for the year	(3,897)	(46,118)	(8,800)	(12,618)
At 31 December	(16,120)	(58,735)	(12,223)	(12,617)

*The profit and loss account for the year ended 31 December 2001 has been restated for the adoption of FRS 19 (note 29).

20. CAPITAL COMMITMENTS

	Group	
	2002	2001
	£'000	£'000
Capital commitments (land and buildings):		
Contracted but not provided in the accounts	2,750	9,300

BLACKSTONE HOTEL ACQUISITIONS COMPANY

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

21. OPERATING LEASE COMMITMENTS

At 31 December 2002 the group was committed to making the following payments during the next year in respect of operating leases:

	2002 £'000	2001 £'000
Expiring (land and buildings):		
- within one year	37	38
- in two to five years	-	65
- in more than five years	295	221
	<u>332</u>	<u>324</u>
Expiring (other assets):		
- within one year	2	21
- in two to five years	129	109
- in more than five years	69	4
	<u>200</u>	<u>134</u>
Annual commitments under non-cancellable leases	<u>532</u>	<u>458</u>

22. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH INFLOW

	Group 2002 £'000	2001 £'000
Operating profit	40,404	31,141
Depreciation charges	6,128	6,279
Loss on disposal of fixed assets	-	30
Decrease in stock	146	627
(Increase)/decrease in debtors	(1,177)	1,284
(Decrease)/increase in creditors	(5,358)	4,438
Net cash inflow from operating activities	<u>40,143</u>	<u>43,799</u>

23. ANALYSIS OF NET DEBT

	As at 1 January 2002 £'000	Cash flow £'000	Non cash movements £'000	As at 31 December 2002 £'000
Cash at bank and in hand	7,014	(6,146)	-	868
Overdrafts	(200)	200	-	-
	<u>6,814</u>	<u>(5,946)</u>	<u>-</u>	<u>868</u>
Debt due after one year	(435,556)	(2,164)	(2,365)	(440,085)
Debt due within one year	(5,400)	(9,620)	-	(15,020)
Finance leases	(23)	23	-	-
Total	<u>(434,165)</u>	<u>(17,707)</u>	<u>(2,365)</u>	<u>(454,237)</u>

BLACKSTONE HOTEL ACQUISITIONS COMPANY

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

24. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Group 2002 £'000	Group 2001 £'000
(Decrease)/increase in cash in the year	(5,946)	4,066
Cash inflow from increase in debt and lease financing	(11,761)	(3,440)
Amortisation of loan issue expenses	(2,365)	(1,756)
Movement in net debt	(20,072)	(1,130)
Net debt at 1 January	(434,165)	(433,035)
Net debt at 31 December	(454,237)	(434,165)

25. PENSIONS AND SIMILAR OBLIGATIONS

The subsidiaries of the Group operate one pension scheme. The scheme has three sections - staff and senior staff which are defined benefit schemes and directors which is a money purchase scheme. The staff scheme is open to all staff if they meet the eligibility criteria. The Group actively encourages staff to join the scheme as it believes that it is an important element of the remuneration package.

The pension cost relating to the schemes is assessed in accordance with the advice of an independent qualified actuary using the attained age method. The latest actuarial valuation of those schemes was at 31 March 2000. The assumptions that have the most significant effect on the valuation are those relating to the rate of return on investments and the rates of increase in pension and salaries. It was assumed that the investment return rate would be 5.75% per annum, salary increases would average at 4.75% per annum for senior staff and 4.25% for other staff, and present and future pensions would increase at a rate of 2.75% per annum.

At the date of the latest actuarial valuation, the market value of the assets of the schemes was £35.7million and the actuarial value of the assets was sufficient to cover 106% of the benefits which have accrued to members, after allowing for expected future increases in earnings.

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 31 March 2000 updated to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 December 2002. Scheme assets are stated at their market value at 31 December 2002.

The financial assumptions used to calculate scheme liabilities under FRS 17 are:

Valuation method	Projected Unit 2002	Projected Unit 2001
Rate of salary increase (Staff/Senior Staff)	3.00%/3.50%	3.50%/4.00%
Rate of increase in pensions in payment	2.25%	2.50%
Rate of increase in deferred pensions	2.25%	2.50%
Discount rate	5.50%	6.00%
Inflation assumption	2.25%	2.50%

BLACKSTONE HOTEL ACQUISITIONS COMPANY

NOTES TO THE ACCOUNTS Year ended 31 December 2002

25. PENSIONS AND SIMILAR OBLIGATIONS (continued)

The fair value of the assets in the scheme and the expected rate of return are shown below.

	Long term expected rate of return	Value at 31 December 2002	Long term expected rate of return	Value at 31 December 2001
Equities and property	8.00%	17,473	7.50%	23,787
Gilts	4.50%	3,180	5.00%	1,402
Other	5.00%	2,809	5.50%	3,751
Total market value of assets		23,462		28,940
Present value of scheme liabilities		(36,507)		(31,992)
Deficit in the scheme		(13,045)		(3,052)
Related deferred tax asset		3,914		916
Net pension liability		(9,131)		(2,136)

The group has not recognised any liability in respect of this.

The figures shown above exclude benefits provided within the scheme on a defined contribution basis and benefits for pensioners which have been secured with an insurance company as in both cases, the assets held precisely match the corresponding liability.

The Group has agreed with the Trustees to pay contributions at the rate of 7.5% of pensionable salaries. This will be reviewed following the results of the actuarial valuation of the Scheme due as at 31 March 2003.

Had the group adopted FRS 17 early, reserves at 31 December 2002 would have been stated as follows:

	31 December 2002 £'000	31 December 2001 Restated £'000
Net assets		
Net assets excluding pension deficit	143,880	147,777
Pension deficit	(9,131)	(2,136)
Net assets including pension deficit	134,749	145,641
Reserves		
Profit and loss reserve excluding pension deficit	(16,120)	(12,223)
Pension deficit	(9,131)	(2,136)
Profit and loss reserve including pension deficit	(25,251)	(14,359)

BLACKSTONE HOTEL ACQUISITIONS COMPANY

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

25. PENSIONS AND SIMILAR OBLIGATIONS (continued)

The effect of including the net pension deficit in the results would be as follows:

	2002 £'000
Analysis of the amount charged to operating profit	
Current service cost	574
Analysis of the amount credited to other finance income	
Expected return on pension scheme assets	1,908
Interest on pension scheme liabilities	(1,913)
Net return	(5)
	2002 £'000
Analysis of amount recognised in the statement of total recognised gains and losses (STRGL)	
Actual return less expected return on pension scheme assets	(7,138)
Experience gains and losses arising on liabilities	104
Loss due to changes in assumptions underlying the present value of scheme liabilities	(2,908)
Actuarial loss recognised in the STRGL	(9,942)
	2002 £'000
Movement in deficit during the year	
Deficit at the beginning of the year	(3,052)
Movement in year:	
Current service cost	(574)
Contributions	527
Other financial income	(5)
Actuarial loss	(9,941)
Deficit at the end of the year	(13,045)

BLACKSTONE HOTEL ACQUISITIONS COMPANY

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

25. PENSIONS AND SIMILAR OBLIGATIONS (continued)

	2002
History of experience gains and losses	
Difference between the expected and actual return on scheme assets	
Amount (£'000)	(7,138)
Percentage of scheme assets	30.40%
Experience gains and losses on scheme liabilities	
Amount (£'000)	104
Percentage of scheme liabilities	0.30%
Total amount recognised in statement of total recognised gains and losses	
Amount (£'000)	(9,942)
Percentage of the present value of the scheme liabilities	27.20%

26. SUBSIDIARY UNDERTAKINGS

Subsidiary undertaking	Country of incorporation and operation	Activity	Shareholding
Claridge's Hotel Ltd	Great Britain	Owens Claridge's Hotel	100% (indirect)
Claridge's Hotel Holdings Ltd	Great Britain	Owens Claridge's Hotel Ltd	100%
The Berkeley Hotel Ltd	Great Britain	Owens Berkeley Hotel	100%
The Connaught Hotel Ltd	Great Britain	Owens Connaught Hotel	100%
The Lygon Arms Hotel Ltd	Great Britain	Owens Lygon Arms Hotel	100%
The Savoy Theatre Ltd	Great Britain	Owens Savoy Theatre	100% (indirect)
The Savoy Theatre Holdings Ltd	Great Britain	Owens The Savoy Theatre Ltd	100%
The Savoy Management Services Ltd	Great Britain	Management Services	100%
The Savoy Hotel Ltd	Great Britain	Owens Savoy Hotel	100%

The above list includes the principle subsidiary undertakings. A full list of subsidiary undertakings will be attached to the next annual return.

BLACKSTONE HOTEL ACQUISITIONS COMPANY

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

27. RELATED PARTY TRANSACTIONS

The Group is exempt under the provisions of paragraph 3, Financial Reporting Standard 8 "Related Party Disclosures" from disclosing details of transactions with Group related parties.

28. ULTIMATE PARENT COMPANY

At 31 December 2002, the company's immediate and ultimate parent company is BRE/Savoy Acquisition Company, an unlimited company incorporated in Great Britain and registered in England and Wales.

The BRE/Savoy Acquisition Company group is the largest group in which the results of the company are consolidated. Copies of these statutory accounts are available from its registered office, 1 Savoy Hill, London, WC2R 0BP.

The company's ultimate controlling party is BRE Satellite L.P.

29. PRIOR YEAR ADJUSTMENT

The adoption of FRS 19 has required changes in the method of accounting for deferred tax assets and liabilities. Following this change in accounting policy, the comparatives have been restated as follows:

	Deferred tax liability/ (asset) £'000	Profit and loss account reserve £'000	Share- holders' funds £'000
At 1 January 2002 as previously reported	158	(1,873)	158,127
Impact of adoption of FRS 19 at 1 January 2001	12,203	(12,203)	(12,203)
Impact of adoption of FRS 19 on profit and loss account in year ended 31 December 2001	(1,853)	1,853	1,853
Impact of adoption of FRS 19 at 1 January 2001	10,350	(10,350)	(10,350)
At 1 January 2002 restated	10,508	(12,223)	147,777