

**BLACKSTONE HOTEL ACQUISITIONS COMPANY**  
(An unlimited company)

**Report and Financial Statements**

**For the year ended 31 December 1999**

**Deloitte & Touche**  
**Hill House**  
**1 Little New Street**  
**London EC4A 3TR**



**REPORT AND FINANCIAL STATEMENTS 1999**

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**REPORT AND FINANCIAL STATEMENTS 1999**

**OFFICERS AND PROFESSIONAL ADVISERS**

**DIRECTORS**

JZ Kukral  
TJ Barrack Jr  
JD Gray  
JV Cerialle

**SECRETARY**

JD Gray

**REGISTERED OFFICE**

1 Savoy Hill  
London  
WC2R 0BP

**AUDITORS**

Deloitte & Touche  
Hill House  
1 Little New Street  
London EC4A 3TR

## DIRECTORS' REPORT

### ACTIVITIES

The principal activity of the company is the ownership of hotels and restaurants.

### REVIEW OF DEVELOPMENTS

On 5 January 1999, the Group was restructured such that each hotel was owned by a separate subsidiary, as described in note 26.

The profit for the year before interest, tax and depreciation is £47.8 million. The profit and loss account is shown on page 5.

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

### DIVIDENDS

The directors do not recommend the payment of a dividend (1998: £nil).

### DIRECTORS AND THEIR INTERESTS

The directors of the company at 31 December 1999, who have been directors for the whole year unless otherwise stated, are listed below. The directors do not hold any interests in the shares of the company or its subsidiaries.

JV Cerialle  
JZ Kukral  
JD Gray  
TJ Barrack Jr

### EMPLOYEES

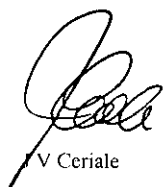
The Group's policy is to give full and fair consideration to the recruitment of disabled persons having regard to their particular aptitudes and abilities. Appropriate training will be arranged for disabled persons. The Group's personnel policies ensure that all its employees are made aware, on a regular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

### YEAR 2000

Following their initial review, the directors continue to be alert to the potential risks and uncertainties surrounding the year 2000 issue. As at the date of this report, the directors are not aware of any significant factors which have arisen, or that may arise, which will affect the activities of the business; however, the situation is still being monitored. Any future costs associated with this issue cannot be quantified but are not expected to be significant.



JV Cerialle

On behalf of the Board

12 May 2000

#### **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group 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 of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We have audited the financial statements on pages 5 to 18 which have been prepared under the accounting policies set out on pages 8 and 9.

**Respective responsibilities of directors and auditors**

As described on page 3 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion based on our audit, on those statements and to report our opinion to you.

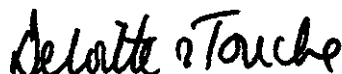
**Basis of opinion**

We conducted our audit in accordance with the 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 accounting estimates and judgements made by the directors in the preparation of the financial statements, and whether the accounting policies are appropriate to the company's and Group's circumstances, consistently applied and adequately disclosed.

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

**Opinion**

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the Group as at 31 December 1999 and of the profit 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

1 Little New Street  
London EC4A 3TR

12 May 2000

**BLACKSTONE HOTEL ACQUISITIONS COMPANY**  
(An unlimited company)

**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
Year ended 31 December 1999

	Note			Period 3 April 1998 to 31 December 1998		
		Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations
		1999 £'000	1999 £'000	1999 £'000	1998 £'000	1998 £'000
<b>TURNOVER</b>	2	120,578	1,717	122,295	70,231	991
Operating costs - recurring	4	(73,129)	(2,258)	(75,387)	(42,216)	(1,192)
- non-recurring	4	(1,444)	-	(1,444)	-	-
Gross profit		46,005	(541)	45,464	28,015	(201)
Depreciation	9	(6,400)	(12)	(6,412)	(2,703)	(64)
Administration expenses		(15)	-	(15)	(10)	-
<b>OPERATING PROFIT</b>		39,590	(553)	39,037	25,302	(265)
Profit on sale of discontinued operations	24			2,379		
Interest receivable				315		
Interest payable and similar charges	5			(42,311)		
<b>(LOSS) / PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>				(580)		
Tax credit / (charge) on (loss) / profit on ordinary activities	6			754		
<b>TRANSFER TO RESERVES</b>				174		
						1,966

All recognised gains or losses are included in the profit and loss account.

The Group commenced trading on 26 May 1998 and the profit and loss account reflects activity from that date.

**BLACKSTONE HOTEL ACQUISITIONS COMPANY**  
(An unlimited company)

**BALANCE SHEET**  
**31 December 1999**

	Note	1999 Group £'000	1999 Company £'000	1998 Group £'000	1998 Company £'000
<b>FIXED ASSETS</b>					
Goodwill	8	(14,053)	-	(14,053)	-
Tangible fixed assets	9	597,809	-	591,410	-
Investment in subsidiary	10	-	584,542	-	568,349
		<u>583,756</u>	<u>584,542</u>	<u>577,357</u>	<u>568,349</u>
<b>CURRENT ASSETS</b>					
Stocks	11	3,650	-	3,204	-
Debtors	12	13,980	6,881	13,820	11,333
Investments		300	-	6,400	-
Cash at bank and in hand		2,031	100	4,911	96
		<u>19,961</u>	<u>6,981</u>	<u>28,335</u>	<u>11,429</u>
<b>CREDITORS: amounts falling due within one year</b>	13	<u>(34,360)</u>	<u>(13,851)</u>	<u>(37,112)</u>	<u>(14,726)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(14,399)</u>	<u>(6,870)</u>	<u>(8,777)</u>	<u>(3,297)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>569,357</u>	<u>577,672</u>	<u>568,580</u>	<u>565,052</u>
<b>CREDITORS: amounts falling due after more than one year</b>	15	(427,017)	(426,642)	(426,411)	(425,612)
<b>PROVISIONS FOR LIABILITIES AND CHARGES</b>	16	(200)	-	(203)	-
<b>NET ASSETS</b>		<u>142,140</u>	<u>151,030</u>	<u>141,966</u>	<u>139,440</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	17	140,000	140,000	140,000	140,000
Revaluation reserve	10	-	16,143	-	-
Profit and loss account		2,140	(5,113)	1,966	(560)
<b>Equity shareholders' funds</b>		<u>142,140</u>	<u>151,030</u>	<u>141,966</u>	<u>139,440</u>

These financial statements were approved by the Board of Directors on 12 May 2000.

Signed on behalf of the Board of Directors

  
J V Cerialle  
Director



**BLACKSTONE HOTEL ACQUISITIONS COMPANY**  
(An unlimited company)

**CONSOLIDATED CASH FLOW STATEMENT**  
Year ended 31 December 1999

	Note	1999 £'000	3 April 1998 to 31 December 1998 £'000
<b>Net cash inflow from operating activities</b>	21	46,100	22,438
<b>Returns on investments and servicing of finance</b>			
Interest received		315	211
Interest paid		(33,539)	(17,621)
Interest element of finance leases		(66)	(43)
<b>Net cash outflow from returns on investments and servicing of finance</b>		(33,290)	(17,453)
<b>Taxation</b>			
Taxation paid		(1,406)	(2,086)
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		(13,781)	(6,472)
Cash received on sale of fixed assets		331	-
<b>Net cash outflow from capital expenditure and financial investment</b>		(13,450)	(6,472)
<b>Acquisitions and disposals</b>			
Purchase of subsidiary undertaking		-	(536,349)
Net cash acquired with subsidiary		-	1,404
Net sale proceeds from Lancaster Hotel		-	2,024
Net sale cost of Laundry Business		(253)	-
		(253)	(532,921)
<b>Net cash outflow before financing</b>		(2,299)	(536,494)
<b>Financing</b>			
Issue of ordinary share capital		-	140,000
(Repayment) / advance from parent company		(1,386)	3,667
Bank and other loans		1,235	426,905
Repayment of loans		-	(28,925)
Capital element of finance lease repayment		(430)	(242)
<b>Net cash (outflow) / inflow from financing</b>		(581)	541,405
<b>(Decrease) / increase in cash</b>	23	(2,880)	4,911

**BLACKSTONE HOTEL ACQUISITIONS COMPANY**  
(An unlimited company)

**NOTES TO THE ACCOUNTS**  
Year ended 31 December 1999

**1. ACCOUNTING POLICIES**

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

**Basis of accounting**

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.

**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, Plant, Machinery, Fixtures and Fittings. 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. Hotels are valued by external valuers on a regular basis.

**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 diminution in property value below historical cost, provision is made in the profit and loss account. The hotels are valued annually by an independent firm of external valuers. The valuation is disclosed in note 9.

No depreciation is charged on antiques as they are maintained in good condition and they are not expected to reduce in 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 excludes value added tax and sales between hotels and restaurants. All turnover is derived from UK operations

**Fixed asset investments**

Investments held as fixed assets are stated at cost less any provision for impairment in value.

**BLACKSTONE HOTEL ACQUISITIONS COMPANY**  
(An unlimited company)

**NOTES TO THE ACCOUNTS**

Year ended 31 December 1999

**1. ACCOUNTING POLICIES -continued**

**Interest**

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

**Goodwill**

Negative goodwill arising on the acquisition of The Savoy Plc will be amortised through the profit and loss account in line with depreciation applied to freehold and long leasehold properties, or when such properties are sold. As discussed above, depreciation is not currently charged on these properties and therefore the negative goodwill balance is not being amortised.

**Deferred taxation**

Provision is made for deferred taxation using the liability method on all material timing differences to the extent to which they are expected to reverse in the foreseeable future, calculated at the rate at which it is anticipated that tax will arise.

**Exchange rates**

Transactions in foreign currencies are converted at the market rates of exchange on the transactions.

**Stocks**

Stocks 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 is recognised on an accruals basis.

**Investments**

Current asset investments are held at the lower of cost and market value.

**BLACKSTONE HOTEL ACQUISITIONS COMPANY**  
(An unlimited company)

**NOTES TO THE ACCOUNTS**

Year ended 31 December 1999

**2. TURNOVER**

	<b>Period ended 31 December</b>	
	<b>1999</b>	<b>1998</b>
	<b>£'000</b>	<b>£'000</b>
Hotel, restaurant and ancillary business receipts	121,481	70,786
Theatre ticket sales and ancillary services	814	436
	<u>122,295</u>	<u>71,222</u>

**3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES**

	<b>Period ended 31 December</b>	
	<b>1999</b>	<b>1998</b>
	<b>No</b>	<b>No</b>
Average monthly number of persons employed		
Hotel and administration	1,642	1,816
	<u>1,642</u>	<u>1,816</u>

	<b>Period ended 31 December</b>	
	<b>1999</b>	<b>1998</b>
	<b>£'000</b>	<b>£'000</b>
Staff costs during the year		
Wages and salaries	29,944	16,747
Social security costs	2,419	1,383
Pension costs	736	430
	<u>33,099</u>	<u>18,560</u>

The redundancy payment of £660,000, referred to in note 4, is included within the above.

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

**BLACKSTONE HOTEL ACQUISITIONS COMPANY**  
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**NOTES TO THE ACCOUNTS**  
Year ended 31 December 1999

**4. OPERATING COSTS**

				Period ended 31 December 1998		
	Continuing operations	Discontinued operations	Total	Continuing operations	Discontinued operations	Total
	1999	1999	1999	1998	1998	1998
	£'000	£'000	£'000	£'000	£'000	£'000
Operating profit is stated after charging:						
Raw materials and consumables	17,158	144	17,302	10,883	90	10,973
Staff costs (note 3)	31,372	1,067	32,439	17,858	702	18,560
Repairs and maintenance	2,235	104	2,339	1,238	79	1,317
Other operating costs	22,136	853	22,989	11,929	253	12,182
Loss on disposal of fixed assets	64	-	64	-	-	-
Operating leases:						
Land and buildings	-	73	73	153	60	213
Other assets	-	17	17	102	8	110
Auditors' remuneration - audit	80	-	80	53	-	53
Auditors' remuneration - non-audit	84	-	84	-	-	-
	<u>73,129</u>	<u>2,258</u>	<u>75,387</u>	<u>42,216</u>	<u>1,192</u>	<u>43,408</u>
Non-recurring costs are made up of:						
Loss on disposal of assets held for resale	160	-	160	-	-	-
Legal fees incurred in litigation settlement	624	-	624	-	-	-
Redundancy payment to managing director	660	-	660	-	-	-
Non recurring operating costs	<u>1,444</u>	<u>-</u>	<u>1,444</u>	<u>-</u>	<u>-</u>	<u>-</u>

**5. INTEREST PAYABLE AND SIMILAR CHARGES**

	Period ended 31 December	
	1999	1998
	£'000	£'000
Bank loans and overdrafts	31,772	17,621
Amortisation of loan issue expenses	1,767	1,271
Other loans	8,706	4,572
Finance leases and hire purchase contracts	66	43
	<u>42,311</u>	<u>23,507</u>

**6. TAX CREDIT / CHARGE ON (LOSS) / PROFIT ON ORDINARY ACTIVITIES**

	Period ended 31 December	
	1999	1998
	£'000	£'000
United Kingdom corporation tax (credit) / charge on profits for year at 30.25% (31%)	-	1,459
Deferred tax credit	(2)	(96)
Prior year corporation tax (credit) / charge	(752)	-
	<u>(754)</u>	<u>1,363</u>

**7. LOSS FOR THE FINANCIAL YEAR**

The retained loss for the year dealt with in the accounts of the company was £4.6 million (1998: £0.6 million). As permitted by Section 230 of the Companies Act 1985, a profit and loss account is not presented for the company.

**BLACKSTONE HOTEL ACQUISITIONS COMPANY**  
(An unlimited company)

**NOTES TO THE ACCOUNTS**  
Year ended 31 December 1999

<b>8. GOODWILL</b>	<b>£'000</b>
<b>Cost</b>	
At 1 January 1999	(14,053)
At 31 December 1999	<u>(14,053)</u>
<b>Net book value</b>	
At 1 January 1999	(14,053)
At 31 December 1999	<u>(14,053)</u>

**9. 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 construction £'000	Fixtures, fittings, plant and machinery £'000	Total £'000
<b>Cost or valuation</b>						
At 1 January 1999	363,013	187,444	414	-	43,306	594,177
Additions	3,072	2,297	-	921	7,491	13,781
Disposals	(964)	-	-	-	(2,001)	(2,965)
<b>At 31 December 1999</b>	<u>365,121</u>	<u>189,741</u>	<u>414</u>	<u>921</u>	<u>48,796</u>	<u>604,993</u>
<b>Accumulated Depreciation</b>						
At 1 January 1999	-	-	66	-	2,701	2,767
Charge for the year	-	-	31	-	6,381	6,412
Disposals in the year	-	-	-	-	(1,995)	(1,995)
<b>At 31 December 1999</b>	<u>-</u>	<u>-</u>	<u>97</u>	<u>-</u>	<u>7,087</u>	<u>7,184</u>
<b>Net book value</b>						
<b>At 31 December 1999</b>	<u>365,121</u>	<u>189,741</u>	<u>317</u>	<u>921</u>	<u>41,709</u>	<u>597,809</u>
At 31 December 1998	<u>363,013</u>	<u>187,444</u>	<u>348</u>	<u>-</u>	<u>40,605</u>	<u>591,410</u>

The freehold and long leasehold hotel properties which the Group occupies were valued as at 31 December 1999 on the basis of existing use value as defined by the Appraisal and Valuation Manual published by the Royal Institute of Chartered Surveyors in the United Kingdom by HVS International, Chartered Surveyors, acting in the capacity of external valuers. One of the properties is primarily long leasehold and therefore the whole property has been classified as long leasehold.

In the opinion of HVS International the value of the hotels is £602.8 million (1998: £579 million). This valuation is in excess of their recorded book values.

Fixtures, fittings, plant and machinery includes assets held under finance leases with net book value of £693,000 (1998: £1,039,000). The depreciation charge for the period on these assets was £346,000 (1998: £258,000).

**BLACKSTONE HOTEL ACQUISITIONS COMPANY**  
(An unlimited company)

**NOTES TO THE ACCOUNTS**

Year ended 31 December 1999

**10 INVESTMENT IN SUBSIDIARIES**

Company  
£'000

At 1 January 1999	568,349
Revaluation in the year	16,143
New share capital in subsidiaries	50
<b>At 31 December 1999</b>	<b>584,542</b>

The investment in subsidiaries was revalued to their net asset values on the restructuring of the Group in January 1999.

**11 STOCKS**

Group  
1999  
£'000

Group  
1998  
£'000

Raw materials and consumables	3,650	3,204
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**12 DEBTORS**

Group  
1999  
£'000

Company  
1999  
£'000

Group  
1998  
£'000

Company  
1998  
£'000

Trade debtors	8,991	-	6,280	-
Amounts owed by parent company	-	-	5,988	6,038
Other debtors	4,049	-	516	-
Group relief payable	-	6,881	-	5,295
Prepayments and accrued income	940	-	1,036	-
	<b>13,980</b>	<b>6,881</b>	<b>13,820</b>	<b>11,333</b>

**13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

Group  
1999  
£'000

Company  
1999  
£'000

Group  
1998  
£'000

Company  
1998  
£'000

Bank loans and overdrafts (see note 14)	3,111	2,883	2,906	2,563
Obligations under finance leases	424	-	430	-
Trade creditors	14,458	8,706	12,447	8,496
Amounts owed to parent company	2,281	2,262	3,667	3,667
Corporation tax	3,223	-	5,657	-
Other taxes and social security	3,854	-	3,913	-
Other creditors	822	-	1,319	-
Accruals and deferred income	6,187	-	6,773	-
	<b>34,360</b>	<b>13,851</b>	<b>37,112</b>	<b>14,726</b>

**14 LOANS AND OVERDRAFTS**

Group  
1999  
£'000

Company  
1999  
£'000

Group  
1998  
£'000

Company  
1998  
£'000

Due within one year	3,111	2,883	2,906	2,563
Due between one and two years	3,336	3,336	2,963	2,963
Due between two and five years	423,306	423,306	362,649	362,649
Due after more than five years	-	-	60,000	60,000
	<b>429,753</b>	<b>429,525</b>	<b>428,518</b>	<b>428,175</b>

**BLACKSTONE HOTEL ACQUISITIONS COMPANY**  
(An unlimited company)

**NOTES TO THE ACCOUNTS**

Year ended 31 December 1999

**14 LOANS AND OVERDRAFTS - continued**

The company has a senior credit facility of £275 million which matures on 30 June 2003. Repayment of the loan will be 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 2003. 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 rates for the senior and junior credit facilities were fixed at 7.66 per cent and 10.54 per cent respectively.

The company entered into a credit agreement 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 the subject to a fixed and floating charge over the Group's assets.

**15 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR**

	Group 1999 £'000	Company 1999 £'000	Group 1998 £'000	Company 1998 £'000
Bank loans (see note 14)	362,150	362,150	365,612	365,612
Other loans with related entity (see note 14)	64,492	64,492	60,000	60,000
Obligations under finance leases (due within five years)	375	-	799	-
	<u>427,017</u>	<u>426,642</u>	<u>426,411</u>	<u>425,612</u>

**16 DEFERRED TAX**

The potential deferred tax liability is as follows:

	PROVIDED		UNPROVIDED	
	Group 1999 £'000	Group 1998 £'000	Group 1999 £'000	Group 1998 £'000
Capital allowances in advance of depreciation	200	203	12,482	12,576
Rolled over gains	-	-	4,803	3,015
Other timing differences	-	-	(307)	(2,331)
	<u>200</u>	<u>203</u>	<u>16,978</u>	<u>13,260</u>

The potential deferred tax liability which might arise in the event of the disposal of the group's properties at the amount at which they are carried in the balance sheet is not quantified as the directors do not consider it will reverse in the foreseeable future since disposal of the properties is not contemplated.

In addition, as disposal is not contemplated, no provision has been made for the tax that would arise if the company sold its shares in its subsidiaries for their revalued amount.



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**NOTES TO THE ACCOUNTS**

Year ended 31 December 1999

**17 CALLED UP SHARE CAPITAL**

	Group and Company 1999 £'000	Group and Company 1998 £'000
Authorised:		
250,000,000 ordinary shares of £1 each	250,000	250,000
Called up, allotted and fully paid:		
140,000,000 ordinary shares of £1 each	140,000	140,000

**18 PROFIT AND LOSS ACCOUNT**

	Group 1999 £'000	Company 1999 £'000	Group 1998 £'000	Company 1998 £'000
At 1 January 1999	1,966	(560)	-	-
Profit/(loss) for the year	174	(4,553)	1,966	(560)
<b>At 31 December 1999</b>	<b>2,140</b>	<b>(5,113)</b>	<b>1,966</b>	<b>(560)</b>

**19 RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS**

	Group £'000	Group £'000
Profit for the financial year	174	1,966
Share capital issued	-	140,000
Net addition to shareholders' funds	174	141,966
At 31 December 1998	141,966	-
<b>At 31 December 1999</b>	<b>142,140</b>	<b>141,966</b>

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**NOTES TO THE ACCOUNTS**

Year ended 31 December 1999

**20 FINANCIAL COMMITMENTS**

	Group 1999 £'000	Group 1998 £'000
Capital commitments:		
Contracted but not provided in the accounts	70	232
Operating lease commitments:		
Land and buildings		
- within one year	22	32
- in two to five years	66	111
- in more than five years	221	219
	309	362
Other assets expiring:		
- within one year	23	237
- in two to five years	184	85
	207	322
Annual commitments under non-cancellable leases	516	684

**21 RECONCILIATION OF OPERATING PROFIT TO  
OPERATING CASH FLOWS**

	Continuing operations £'000	Discontinued operations £'000	Group 1999 Total £'000	Group 1998 £'000
Operating profit	39,590	(553)	39,037	25,037
Depreciation charges	6,400	12	6,412	2,767
Loss on disposal of fixed assets	64	-	64	-
(Increase) / decrease in stock	(494)	48	(446)	410
Decrease in debtors	9,360	3	9,363	608
Decrease in creditors	(8,294)	(36)	(8,330)	(6,384)
Net cash inflow from operating activities	46,626	(526)	46,100	22,438

Included in the decrease in debtors is £6.1 million proceeds received from the sale of current asset investments

**22 ANALYSIS OF NET DEBT**

	As at 1 January 1999 £'000	Cash flow £'000	As at 31 December 1999 £'000
Cash at bank in hand	4,911	(2,880)	2,031
Debt due after one year	(425,612)	(1,030)	(426,642)
Debt due within one year	(2,906)	(205)	(3,111)
Finance leases	(1,229)	430	(799)
Total	(424,836)	(3,685)	(428,521)

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**NOTES TO THE ACCOUNTS**

Year ended 31 December 1999

**23 RECONCILIATION OF MOVEMENT IN NET CASH  
FLOW TO MOVEMENT IN NET DEBT**

	Group 1999 £'000	Group 1998 £'000
(Decrease) / increase in cash in the year	(2,880)	4,911
Cash outflow / (inflow) from increase in debt and lease financing	962	(397,738)
Loan and finance leases acquired	-	(30,738)
Amortisation of loan issue expenses	(1,767)	(1,271)
Movement in net debt	(3,685)	(424,836)
Net debt at 1 January 1999	(424,836)	-
Net debt at 31 December 1999	(428,521)	(424,836)

**24 SALE OF BUSINESS DURING THE YEAR**

On 24 December 1999 the Group disposed of Savoy Laundry.

The profit on disposal has been calculated as follows:

	Savoy Laundry £'000
Net assets disposed of:	1,321
Profit on disposal	2,379
Proceeds on disposal	3,700
To be satisfied by:	
Cash	3,700

**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 1 April 1998. 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 7% per annum, salary increases would average at 5% per annum for senior staff and 4.5% for other staff, and present and future pensions would increase at a rate of 3% per annum.

At the date of the latest actuarial valuation, the market value of the assets of the schemes was £22.9 million and the actuarial value of the assets was sufficient to cover 111% of the benefits which have accrued to members, after allowing for expected future increases in earnings.

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**NOTES TO THE ACCOUNTS**

Year ended 31 December 1999

**26 RESTRUCTURING OF THE GROUP**

On 5 January 1999, the Group was restructured so that each hotel is now owned by a separate subsidiary. The Group now has a shareholding in the following principal companies:

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 Connaught Hotel	100%
The Connaught Hotel Ltd	Great Britain	Owens Berkeley 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%

**27 RELATED PARTY DISCLOSURE**

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 1999, the company's ultimate parent company and controlling party is BRE/Savoy Acquisitions Company (an unlimited company) registered in England and Wales. This is the smallest and largest group in which the company is a member and for which group accounts are prepared. Copies of its statutory accounts will be available from its registered office 1 Savoy Hill, London WC2R 0BP.