Company Registration No. 3558968

BRE/SAVOY ACQUISITION COMPANY

(An unlimited company)

Report and Consolidated Financial Statements

31 December 2002

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COMPANIES HOUSE
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21/10/03

Deloitte & Touche LLP
London

BRE/SAVOY ACQUISITION COMPANY

REPORT AND FINANCIAL STATEMENTS 2002

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BRE/SAVOY ACQUISITION COMPANY

REPORT AND FINANCIAL STATEMENTS 2002

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

J Z Kukral
T J Barrack Jr.
J D Gray
J V Ceriale

SECRETARY

J D Gray

REGISTERED OFFICE

1 Savoy Hill
London
WC2R OBP

AUDITORS

Deloitte & Touche LLP
Chartered Accountants
London

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 group is the ownership of hotels and restaurants.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

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

On 30 June 2003 the group sold the Lygon Arms Hotel and it holding company, The Lygon Arms Hotel Limited, for consideration of ££16.8m.

The directors expect that the present activity level will at least be sustained for the foreseeable future.

DIVIDENDS

No dividend was paid in the year (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 the company or its subsidiaries.

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

On 1 August 2003, Deloitte & Touche, the Company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The Company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the Company's auditor will be proposed at the forthcoming Annual General Meeting.

J V Ceriale
On behalf of the Board
14th October 2003

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 of the group as at the end of the financial year and of the profit or loss of the group for that year. 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 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 the system of internal control, for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BRE/SAVOY ACQUISITION COMPANY

We have audited the financial statements of BRE/Savoy Acquisition Company for the year ended 31 December 2002 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the balance sheets, the reconciliation of movement in shareholders' funds, the consolidated cash flow statement and the related notes 1 to 27. 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 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 company'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 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 LLP

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
London

14 October 2003

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 disposal of tangible fixed assets		(294)	-
Interest receivable and similar income		192	391
Interest payable and similar charges	5	(46,130)	(44,281)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(5,828)	(12,749)
Tax credit on loss on ordinary activities	6	1,931	3,949
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION AND RETAINED LOSS FOR THE YEAR	18	(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 "Deferred Taxation" (note 24).

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	24	(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 24).

BALANCE SHEETS
31 December 2002

	Note	2002 Group £'000	2002 Company £'000	2001 restated* Group £'000	2001 restated* Company £'000
FIXED ASSETS					
Intangible assets – negative goodwill	8	(14,053)	-	(14,053)	-
Tangible assets	9	638,593	-	629,223	-
Investment in subsidiary	10	-	160,000	-	160,000
		624,540	160,000	615,170	160,000
CURRENT ASSETS					
Stocks	11	2,947	-	3,093	-
Debtors	12	11,546	2,379	10,369	2,808
Investments		300	-	300	-
Cash at bank and in hand		868	-	7,014	-
		15,661	2,379	20,776	2,808
CREDITORS: amounts falling due within one year	13	(47,659)	(2,379)	(42,105)	(2,808)
NET CURRENT LIABILITIES		(31,998)	-	(21,329)	-
TOTAL ASSETS LESS CURRENT LIABILITIES		592,542	160,000	593,841	160,000
CREDITORS: amounts falling due after more than one year	15	(440,085)	-	(435,556)	-
PROVISIONS FOR LIABILITIES AND CHARGES	16	(8,577)	-	(10,508)	-
		143,880	160,000	147,777	160,000
CAPITAL AND RESERVES					
Called up share capital	17	160,000	160,000	160,000	160,000
Profit and loss account	18	(16,120)	-	(12,223)	-
EQUITY SHAREHOLDERS' FUNDS		143,880	160,000	147,777	160,000

*The balance sheets at 31 December 2001 have been restated for the adoption of FRS 19 "Deferred Taxation" (note 24).

These financial statements were approved by the Board of Directors on 14 OCTOBER 2003.

Signed on behalf of the Board of Directors

JV Ceriale

Director

RECONCILIATION OF MOVEMENT 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
Net (reduction in)/addition to shareholders' funds	(3,897)	11,200
Opening shareholders' funds	147,777	136,577
Closing shareholders' funds	143,880	147,777

*The opening shareholders' funds at 1 January 2002 as previously reported amounted to £158,127,000 before the prior year adjustment of £(10,350,000) (note 24).

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2002

	Note	2002 £'000	2001 £'000
Net cash inflow from operating activities	20	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		(42,058)	(40,545)
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 tangible fixed assets		1,749	150
Net cash outflow from capital expenditure and financial investment		(15,792)	(24,849)
Net cash outflow before financing		(17,707)	(19,374)
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 borrowing		11,215	9,626
Capital element of finance lease repayments		(23)	(376)
Net cash inflow from financing		11,761	23,440
(Decrease)/increase in cash	21	(5,946)	4,066

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 cost 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.

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

1. **ACCOUNTING POLICIES (continued)**

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.

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 24.

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**

	Turnover		Profit/(loss) before taxation		Net assets	
	2002 £'000	2001 £'000	2002 £'000	2001 £'000	2002 £'000	2001 £'000
Hotel, restaurant and ancillary services	116,710	113,355	(5,851)	(12,887)	139,328	143,257
Theatre ticket sales and ancillary services	566	971	23	138	4,552	4,520
	117,276	114,326	(5,828)	(12,749)	143,880	147,777

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Average number of persons employed	**2002 No.**	**2001 No.**
Hotel and administration	1,502	1,664

	2002 £'000	**2001 £'000**
Staff costs during the period		
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 company.

No payment was made to Blackstone Real Estate Advisors L.P. in respect of consultancy services of JV Ceriale in the current year (2001: £578,000).

4. OPERATING PROFIT

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

Auditors' remuneration of £5,250 (2001: £4,500) for the audit of the company, was borne by another group company.

5. INTEREST PAYABLE AND SIMILAR CHARGES

	Group	
	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

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

6. 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
Tax credit	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 £2,096,000 to £3,949,000. The impact of adopting FRS 19 on the 2002 results has been an increase to the tax credit of £1,911,000.

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	-	-

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

6. TAX ON LOSS 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.

7. RESULT FOR THE FINANCIAL YEAR

The company did not trade during the year ended 31 December 2002 and therefore made neither profit nor loss (2001: £nil). As permitted by Section 230 of the Companies Act 1985, a profit and loss account is not presented for the company.

8. INTANGIBLE ASSETS – NEGATIVE GOODWILL

	£'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)

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

9. TANGIBLE FIXED ASSETS

Group:	Freehold land and buildings £'000	Long leasehold land and buildings £'000	Short leasehold land and buildings £'000	Assets under the course of contruction £'000	Fixtures, fittings, plant and machinery £'000	Total £'000
Cost or valuation						
At 1 January 2002	373,670	191,463	414	19,445	62,614	647,606
Transfers	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	382,075	189,636	414	18,403	72,405	662,933
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	-	-	136	-	24,204	24,340
Net book value						
At 31 December 2002	382,075	189,636	278	18,403	48,201	638,593
At 31 December 2001	373,670	191,463	255	19,445	44,390	629,223

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

Fixtures, fittings, plant and machinery includes assets held under finance leases with net book value of £nil (2001: £117,000). The depreciation charge for the period on these assets was £nil (2001: £117,000).

The company does not own any tangible fixed assets.

10. INVESTMENT IN SUBSIDIARIES

The investment represents the company's holding of 100% of the share capital of Blackstone Hotel Acquisitions Company, an unlimited company incorporated in Great Britain and registered in England and Wales. The company has a shareholding in the following principal companies:

Subsidiary undertaking	Country of incorporation and operation	Activity	Shareholding
Blackstone Hotel Acquisitions Company	Great Britain	Intermediate Holding Company	100% (direct)
Claridge's Hotel Ltd	Great Britain	Owns Claridge's Hotel	100% (indirect)
Claridge's Hotel Holdings Ltd	Great Britain	Owns Claridge's Hotel Ltd	100% (indirect)
The Berkeley Hotel Ltd	Great Britain	Owns Berkeley Hotel	100% (indirect)
The Connaught Hotel Ltd	Great Britain	Owns Connaught Hotel	100% (indirect)
The Lygon Arms Hotel Ltd	Great Britain	Owns Lygon Arms Hotel	100% (indirect)
The Savoy Theatre Ltd	Great Britain	Owns Savoy Theatre	100% (indirect)
The Savoy Theatre Holdings Ltd	Great Britain	Owns The Savoy Theatre Ltd	100% (indirect)
The Savoy Management Service Ltd	Great Britain	Management Services	100% (indirect)
The Savoy Hotel Ltd	Great Britain	Owns Savoy Hotel	100% (indirect)

Investments are carried at cost less amounts written off.

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

11. STOCKS

	Group 2002 £'000	Group 2001 £'000
Raw materials and consumables	2,947	3,093

12. DEBTORS

	2002		2001	
	Group £'000	Company £'000	Group £'000	Company £'000
Trade debtors	7,536	-	8,386	-
Amounts owed by parent entity	1,890	-	146	-
Amounts owed by subsidiary undertaking	-	2,379	-	2,808
Prepayments and accrued income	2,120	-	1,837	-
	11,546	2,379	10,369	2,808

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002		2001	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank loans and overdrafts (see note 14)	15,020	-	5,600	-
Obligations under finance leases	-	-	23	-
Trade creditors	7,051	-	10,349	-
Amounts owed to parent entity	2,379	2,379	2,808	2,808
Income tax	-	-	145	-
Other taxes and social security	3,631	-	3,930	-
Other creditors	13,658	-	11,869	-
Accruals and deferred income	5,920	-	7,381	-
	47,659	2,379	42,105	2,808

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

14. BANK AND OTHER LOANS

	2002 Group £'000	2001 Group £'000
Due within one year	5,020	5,400
Due between one and two years	440,085	435,556
Due between two and five years	-	-
	445,105	440,956

The group's banking facilities fall due for renewal on 30 June 2004. Negotiations for the renewal of these facilities are at an early stage. The directors are satisfied, at the time of approval of the financial statements, that the group will be able to operate within the facilities currently agreed and within those expected to be agreed on or before 30 June 2004.

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's subsidiary company Blackstone Hotel Acquisitions Company ("BHAC") has obtained a senior credit facility of £275 million which matures on 30 June 2004. Repayment of the loan will be made in quarterly instalments. The interest rate is LIBOR plus 1.125 per cent. BHAC also obtained a junior credit facility of £100.6 million which matures on 30 June 2004. Repayment of the loan will be made in full on the maturity date. The interest rate is LIBOR plus 4 per cent. Discussions relating to the renewal of these facilities are currently ongoing.

Concurrently with the signing of these agreements, BHAC 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.

BHAC entered into a credit agreement with BRE/Satellite L.P., a limited partnership which is the ultimate parent entity of the group, 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 of fixed and floating charges over BHAC and its subsidiary companies' assets.

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

	2002 Group £'000	2001 Group £'000
Bank loans (see note 14)	346,045	346,731
Other loans with related entity (see note 14)	94,040	88,825
	440,085	435,556

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

16. PROVISIONS FOR LIABILITIES AND CHARGES

Movement in deferred tax provision – Group	**2002 £'000**
Provision at 1 January 2002	
As previously reported	(158)
Prior year adjustment (see note 24)	(10,350)
As Restated	(10,508)
Credit to the profit and loss account	1,931
At 31 December 2002	(8,577)

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

17. CALLED UP SHARE CAPITAL

	2002 £'000	**2001 £'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

18. PROFIT AND LOSS ACCOUNT

	Group £'000	**Company £'000**
At 1 January 2002 (restated)	(12,223)	-
Loss for the year	(3,897)	-
At 31 December 2002	(16,120)	-

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

19. FINANCIAL COMMITMENTS

	2002 £'000	2001 £'000
Capital commitments:		
Contracted but not provided in the accounts	2,750	9,300
Operating lease commitments:		
Land and buildings expiring:		
- within one year	37	38
- in two to five years	-	65
- in more than five years	295	221
	332	324
Other assets expiring:		
- within one year	2	21
- in two to five years	129	109
- in more than five years	69	4
	200	134
Annual commitments under non-cancellable leases	532	458

20. RECONCILIATION OF OPERATING PROFIT TO OPERATING CASH FLOWS

	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 stocks	146	627
(Increase)/decrease in debtors	(1,177)	1,284
(Decrease)/increase in creditors	(5,358)	4,438
Net cash inflow from operating activities	40,143	43,799

21. 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 in hand	7,014	(6,146)	-	868
Overdrafts	(200)	200	-	-
	6,814	(5,946)	-	868
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	(434,165)	(17,707)	(2,365)	(454,237)

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

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

	2002 £'000	2001 £'000
(Decrease)/increase in cash in 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)
Opening net debt	(434,165)	(433,035)
Closing net debt	(454,237)	(434,165)

23. 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%

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

23. 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 £'000	Long term expected rate of return	Value at 31 December 2001 £'000
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)

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

23. 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)

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

23. 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%

24. 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

25. 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.

26. POST BALANCE SHEET EVENT

On 30 June 2003 the group sold the Lygon Arms Hotel via a sale of the subsidiary undertaking, The Lygon Arms Hotel Limited, for a consideration of £16.7m. This will be reflected in the group accounts for the year ending 31 December 2003.

27. ULTIMATE PARENT ENTITY

At 31 December 2002, the company's immediate and ultimate parent entity and controlling party is BRE/Satellite L.P., a Delaware limited partnership. BRE/Savoy Acquisition Company is the smallest and largest group for which group accounts are prepared.