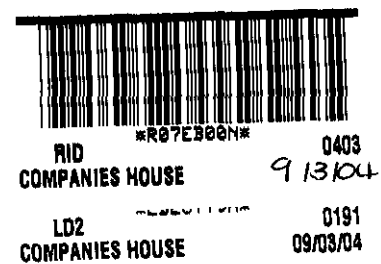


**Company Registration No. 3558968**

**BRE/Savoy Acquisition Company**  
**(An unlimited company)**

**Report and Financial Statements**

**31 December 2003**



**Deloitte & Touche LLP**  
**London**

# **BRE/Savoy Acquisition Company**

## **Report and financial statements 2003**

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# **BRE/Savoy Acquisition Company**

## **Report and financial statements 2003**

### **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 0BP

#### **Auditors**

Deloitte & Touche LLP  
Chartered Accountants  
London

# **BRE/Savoy Acquisition Company**

## **Directors' report**

The directors present their annual report and the audited financial statements for the year ended 31 December 2003.

### **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 £36.76 million (2002: £46.24 million). The loss before tax for the year is £11.87 million (2002: £5.83 million). The consolidated profit and loss account is shown on page 5.

On 27 June 2003 the group sold the shares in The Lygon Arms Hotel Limited for a consideration of £16.75 million resulting in a loss of £683,000 being recognised.

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 (2002: £nil) and no dividend is proposed (2002: £nil).

### **DIRECTORS AND THEIR INTERESTS**

The directors of the company at 31 December 2003, 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 LLP have expressed their willingness to continue in office as auditors. A resolution to re-appoint them will be proposed at the forthcoming Annual General Meeting.



J V Ceriale  
On behalf of the Board

3 March 2004

## **BRE/Savoy Acquisition 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 of 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 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 2003 which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement and the related notes 1 to 28. 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 or material inconsistencies with the financial statements.

### **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 2003 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

*4 March* 2004

## BRE/Savoy Acquisition Company

### Consolidated profit and loss account Year ended 31 December 2003

	Note	2003 £'000	2002 £'000
Turnover	2	102,632	117,276
Cost of sales		(38,612)	(70,745)
<b>Gross profit</b>		<b>64,020</b>	<b>46,531</b>
Administration expenses		(33,166)	(6,127)
<b>Operating profit</b>	4	<b>30,854</b>	<b>40,404</b>
Loss on sale of tangible fixed assets		-	(294)
Loss on sale of investment	11	(683)	-
Interest receivable and similar income	5	753	192
Interest payable and similar charges	6	(42,791)	(46,130)
<b>Loss on ordinary activities before taxation</b>		<b>(11,867)</b>	<b>(5,828)</b>
Tax (charge)/credit on loss on ordinary activities	7	(460)	1,931
<b>Loss on ordinary activities after taxation</b>		<b>(12,327)</b>	<b>(3,897)</b>
<b>Retained loss carried forward</b>	19	<b>(12,327)</b>	<b>(3,897)</b>

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

There are no recognised gains or losses in either year other than the loss for that year. Accordingly, no statement of total recognised gains and losses has been prepared.

# BRE/Savoy Acquisition Company


## Balance Sheets

31 December 2003

		2003		2002	
	Note	Group £'000	Company £'000	Group £'000	Company £'000
<b>Fixed assets</b>					
Goodwill	9	(14,053)	-	(14,053)	-
Tangible fixed assets	10	625,506	-	638,593	-
Investments in subsidiaries	11	-	160,000	-	160,000
		<u>611,453</u>	<u>160,000</u>	<u>624,540</u>	<u>160,000</u>
<b>Current assets</b>					
Stocks	12	2,571	-	2,947	-
Debtors	13	11,011	3,307	11,546	2,379
Investments		300	-	300	-
Cash at bank and in hand		1,849	-	868	-
		<u>15,731</u>	<u>3,307</u>	<u>15,661</u>	<u>2,379</u>
<b>Creditors: amounts falling due within one year</b>	14	<u>(487,114)</u>	<u>(3,307)</u>	<u>(47,659)</u>	<u>(2,379)</u>
<b>Net current liabilities</b>		<u>(471,383)</u>	<u>-</u>	<u>(31,998)</u>	<u>-</u>
<b>Total assets less current liabilities</b>		<u>140,070</u>	<u>160,000</u>	<u>592,542</u>	<u>160,000</u>
<b>Creditors: amounts falling due after more than one year</b>	16	-	-	(440,085)	-
<b>Provisions for liabilities and charges</b>	17	<u>(8,517)</u>	<u>-</u>	<u>(8,577)</u>	<u>-</u>
<b>Net assets</b>		<u>131,553</u>	<u>160,000</u>	<u>143,880</u>	<u>160,000</u>
<b>Capital and reserves</b>					
Called up share capital	18	160,000	160,000	160,000	160,000
Profit and loss account	19	<u>(28,447)</u>	<u>-</u>	<u>(16,120)</u>	<u>-</u>
<b>Total equity shareholders' funds</b>		<u>131,553</u>	<u>160,000</u>	<u>143,880</u>	<u>160,000</u>

These financial statements were approved by the Board of Directors on 3 March 2004.

Signed on behalf of the Board of Directors



JV Ceriale  
Director



# **BRE/Savoy Acquisition Company**

## **Consolidated cash flow statement Year ended 31 December 2003**

	<b>Note</b>	<b>2003 £'000</b>	<b>2002 £'000</b>
<b>Net cash inflow from operating activities</b>	<b>23</b>	<b>38,836</b>	<b>40,143</b>
<b>Returns on investments and servicing of finance</b>			
Interest received		152	144
Interest paid		(25,344)	(42,250)
Income from investments		601	48
<b>Net cash outflow from returns on investments and servicing of finance</b>		<b>(24,591)</b>	<b>(42,058)</b>
<b>Capital expenditure and financial investment</b>			
Payments to acquire tangible fixed assets		(9,803)	(17,541)
Cash received on sale of fixed assets		15,293	1,749
<b>Net cash inflow/(outflow) from capital expenditure and financial investment</b>		<b>5,490</b>	<b>(15,792)</b>
<b>Net cash inflow/(outflow) before financing</b>		<b>19,735</b>	<b>(17,707)</b>
<b>Financing</b>			
Repayment of loans		(18,754)	(5,540)
New loans drawn down		-	6,086
Increase in long term borrowings		-	11,215
<b>Net cash (outflow)/inflow from financing</b>		<b>(18,754)</b>	<b>11,761</b>
<b>Increase/(decrease) in cash</b>	<b>24</b>	<b>981</b>	<b>(5,946)</b>

# **BRE/Savoy Acquisition Company**

## **Notes to the accounts**

### **Year ended 31 December 2003**

#### **1. Accounting policies**

The principal accounting policies adopted and applied consistently throughout the year are described below.

##### **Basis of accounting and consolidation**

These accounts have been prepared on the historical cost basis of accounting 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 2003.

##### **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 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.

# **BRE/Savoy Acquisition Company**

## **Notes to the accounts**

**Year ended 31 December 2003**

### **1. Accounting policies (continued)**

#### **Goodwill**

Negative goodwill arising on the acquisition of The Savoy Hotel 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.*

#### **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**

For defined benefit schemes the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net amount of other finance costs or credits adjacent to interest. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

Defined benefit schemes are funded, with the assets of the scheme held separately from those of the group, in separate trustee administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained at least triennially and are updated at each balance sheet date. The resulting defined benefit asset or liability, net of the related deferred tax, is presented separately after other net assets on the face of the balance sheet.

For defined contribution schemes the amount charged to the profit and loss account in respect of pension costs and other post-retirement benefits is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

## BRE/Savoy Acquisition Company

### Notes to the accounts

Year ended 31 December 2003

#### 2. Turnover

	Turnover		Profit/(loss) before taxation		Net assets	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Hotel, restaurant and ancillary services	102,080	116,710	(11,830)	(5,851)	127,012	139,328
Theatre ticket sales and ancillary services	552	566	(37)	23	4,541	4,552
	<u>102,632</u>	<u>117,276</u>	<u>(11,867)</u>	<u>(5,828)</u>	<u>131,553</u>	<u>143,880</u>

#### 3. Information regarding directors and employees

	2003 No.	2002 No.
<b>Average number of persons employed (excluding directors)</b>		
Hotel and administration	<u>1,275</u>	<u>1,502</u>
	<b>£'000</b>	<b>£'000</b>
<b>Staff costs during the year (excluding directors)</b>		
Wages and salaries	23,689	25,965
Social security costs	2,147	2,122
Pension costs	1,780	574
	<u>27,616</u>	<u>28,661</u>

#### 4. Operating profit

	2003 £'000	2002 £'000
<b>Operating profit is stated after charging</b>		
Depreciation – owned assets	6,590	6,128
Operating leases:		
Plant and machinery	229	229
Other assets	224	231
Auditors' remuneration - audit services	82	85
Auditors' remuneration - non-audit services	58	160

Auditors' remuneration of £5,250 (2002: £5,250) for the audit of the company, was borne by another group company.

# **BRE/Savoy Acquisition Company**

## **Notes to the accounts**

### **Year ended 31 December 2003**

#### **5. Interest receivable and similar income**

	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Bank interest receivable	152	144
Dividends receivable	601	48
	<u>753</u>	<u>192</u>

#### **6. Interest payable and similar charges**

	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Bank loans and overdrafts	25,344	31,035
Amortisation of loan issue expenses	2,998	2,365
Other loans	14,449	12,730
	<u>42,791</u>	<u>46,130</u>

#### **7. Tax (charge)/credit on loss on ordinary activities**

	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Current taxation		
UK corporation tax for year at 30% (2002: 30%) based on the loss for the period	-	-
Deferred tax (charge)/credit		
Timing differences: origination and reversal		
Current year	1,247	665
Adjustment in respect of prior years	(2,126)	1,624
Increase/(decrease) in discount		
Current year	180	15
Adjustment in respect of prior years	239	(373)
Tax (charge)/credit on loss on ordinary activities	<u>(460)</u>	<u>1,931</u>

## BRE/Savoy Acquisition Company

### Notes to the accounts

#### Year ended 31 December 2003

#### 7. Tax charge on profit on ordinary activities (continued)

##### 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% (2002: 30%).

The differences are explained below:

	2003 £'000	2002 £'000
Loss on ordinary activities before tax	(11,867)	(5,828)
Tax at 30% thereon:	(3,560)	(1,748)
Effects of:		
Capital allowances in excess of qualifying depreciation	1,269	643
Other timing differences (deferred tax provided)	(22)	22
Tax losses carried forward (no deferred tax provided)	948	-
Other reconciling timing differences (no deferred tax provided)	(42)	(84)
Non qualifying depreciation	722	655
Capitalised tax deductible expenses	(333)	(288)
Loss on disposal of shares in subsidiary undertaking	205	-
Other permanent differences	813	800
Current tax charge for the period	-	-

##### Factors that may affect the future tax charge

Deferred tax has not been provided on the difference between the carrying value and the tax basis 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 £119.7m.

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 £4.9m.

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 £5.2m.

#### 8. Result for the financial year

The company did not trade during the year ended 31 December 2003 and therefore made neither profit nor loss (2002: £nil). As permitted by Section 230 of the Companies Act 1985, a profit and loss account is not presented for the company.

#### 9. Intangible assets

Group	£'000
Negative goodwill	
At 1 January 2003 and 31 December 2003	(14,053)
Net book value	

# BRE/Savoy Acquisition Company

## Notes to the accounts

### Year ended 31 December 2003

At 1 January 2003 and 31 December 2003

(14,053)

#### 10. 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 con- struction £'000	Fixtures, fittings, plant and machinery £'000	Group total £'000
<b>Cost</b>						
At 1 January 2003	382,075	189,636	414	18,403	72,405	662,933
Reclassification	-	3,949	-	(18,313)	14,364	-
Additions	144	1,400	-	639	7,620	9,803
Disposals	(14,517)	-	-	-	(4,835)	(19,352)
At 31 December 2003	367,702	194,985	414	729	89,554	653,384
<b>Accumulated depreciation</b>						
At 1 January 2003	-	-	136	-	24,204	24,340
Charge for the year	-	-	-	-	6,590	6,590
Disposals	-	-	-	-	(3,052)	(3,052)
At 31 December 2003	-	-	136	-	27,742	27,878
<b>Net book value</b>						
At 31 December 2003	367,702	194,985	278	729	61,812	625,506
At 31 December 2002	382,075	189,636	278	18,403	48,201	638,593

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

The company does not own any tangible fixed assets.

## BRE/Savoy Acquisition Company

### Notes to the accounts

### Year ended 31 December 2003

#### 11. Investment in subsidiaries

Company	Company £'000
At 1 January 2003 and 31 December 2003	160,000

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	Owens Claridge's Hotel	100% (indirect)
Claridge's Hotel Holdings Ltd	Great Britain	Owens Claridge's Hotel Ltd	100% (indirect)
The Berkeley Hotel Ltd	Great Britain	Owens Berkeley Hotel	100% (indirect)
The Connaught Hotel Ltd	Great Britain	Owens Connaught Hotel	100% (indirect)
The Lygon Arms Hotel Ltd*	Great Britain	Owens Lygon Arms Hotel	100% (indirect)
Savoy Theatre Ltd	Great Britain	Owens Savoy Theatre	100% (indirect)
Savoy Theatre Holdings Ltd	Great Britain	Owens Savoy Theatre Ltd	100% (indirect)
Savoy Management Services Ltd	Great Britain	Management services	100% (indirect)
The Savoy Hotel Ltd	Great Britain	Owens Savoy Hotel	100% (indirect)

\*On 27 June 2003 the group sold its shares in The Lygon Arms Hotel Limited for a consideration of £16.75m, resulting in a loss of £0.7m.

#### 12. Stocks

Group	2003 £'000	2002 £'000
Raw materials and consumables	2,571	2,947

The company does not own any stocks.

#### 13. Debtors

	2003		2002	
	Group £'000	Company £'000	Group £'000	Company £'000
Trade debtors	7,868	-	7,536	-
Other debtors	590	-	1,890	-
Amounts owed by other group companies	-	3,307	-	2,379
Prepayments and accrued income	2,553	-	2,120	-
	<u>11,011</u>	<u>3,307</u>	<u>11,546</u>	<u>2,379</u>



# BRE/Savoy Acquisition Company

## Notes to the accounts

### Year ended 31 December 2003

#### 14. Creditors: amounts falling due within one year

	2003		2002	
	Group £'000	Company £'000	Group £'000	Company £'000
Bank loans and overdrafts (see note 15)	345,309	-	15,020	-
Other loans with related entity (see note 15)	94,040	-	-	-
Trade creditors	8,630	-	7,051	-
Amounts owed to parent undertaking	3,307	3,307	2,379	2,379
Other taxes and social security	3,170	-	3,631	-
Other creditors	27,815	-	13,658	-
Accruals and deferred income	4,843	-	5,920	-
	<u>487,114</u>	<u>3,307</u>	<u>47,659</u>	<u>2,379</u>

#### 15. Bank and other loans

	2003 £'000	2002 £'000
<b>Group</b>		
Due within one year	439,349	15,020
Due between one and two years (note 16)	-	440,085
	<u>439,349</u>	<u>455,105</u>

In line with FRS 4 "Capital Instruments" loan acquisition costs of £1,734,000 (2002: £4,732,000) 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 £275m 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 £100.6m 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 £375.6m, 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. On the renewal of the senior and junior facilities the group entered into a new arrangement to cap the interest on a notional principal amount of £354.7m at 5.54% plus margin.

During 2001 an additional loan facility of £20m was made available to the company. At 31 December 2003 £9m of this facility has been drawn down.

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 £60m. 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.

# BRE/Savoy Acquisition Company

## Notes to the accounts

Year ended 31 December 2003

### 16. Creditors: amounts falling due after more than one year

Group	2003 £'000	2003 £'000
Bank loans	-	346,045
Other loans with related entity	-	94,040
	-	440,085

### 17. Provisions for liabilities and charges

Movement in deferred tax provision Group	2003 £'000
Provision at 1 January 2003	(8,577)
Charge to the profit and loss account	(460)
Deferred tax balance in respect of subsidiary undertaking disposed of during the year	520
At 31 December 2003	(8,517)

Analysis of deferred tax balance Group	2003 £'000	2002 £'000
Capital allowances in excess of depreciation	(11,191)	(11,092)
Short term timing differences	-	118
Undiscounted provision for deferred tax	(11,191)	(10,974)
Discount on timing differences	2,674	2,397
Discounted provision for deferred tax	(8,517)	(8,577)

### 18. Called up share capital

	Group and company	
	2003 £'000	2002 £'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

# BRE/Savoy Acquisition Company

## Notes to the accounts

Year ended 31 December 2003

### 19. Profit and loss account

	2003		2002	
	Group £'000	Company £'000	Group £'000	Company £'000
At 1 January	(16,120)	-	(12,223)	-
Retained loss for the year	(12,327)	-	(3,897)	-
At 31 December	<u>(28,447)</u>	<u>-</u>	<u>(16,120)</u>	<u>-</u>

### 20. Reconciliation of movement in shareholders' funds

	2003 £'000	2002 £'000
Loss for the financial year	(12,327)	(3,897)
Opening shareholders' funds	<u>143,880</u>	<u>147,777</u>
Closing shareholders' funds	<u>131,553</u>	<u>143,880</u>

### 21. Capital commitments

	Group 2003 £'000	2002 £'000
Capital commitments (land and buildings):		
Contracted but not provided in the accounts	<u>925</u>	<u>2,750</u>

### 22. Operating lease commitments

At 31 December 2003 the group was committed to making the following payments during the next year in respect of operating leases:

	2003 £'000	2002 £'000
Expiring (land and buildings):		
- within one year	-	37
- in two to five years	158	-
- in more than five years	<u>130</u>	<u>295</u>
	<u>288</u>	<u>332</u>
Expiring (other assets):		
- within one year	31	2
- in two to five years	45	129
- in more than five years	<u>-</u>	<u>69</u>
	<u>76</u>	<u>200</u>
Annual commitments under non-cancellable leases	<u>364</u>	<u>532</u>

# BRE/Savoy Acquisition Company

## Notes to the accounts

Year ended 31 December 2003

### 23. Reconciliation of operating profit to operating cash inflow

	<b>Group</b>	
	<b>2003</b>	<b>2002</b>
	<b>£'000</b>	<b>£'000</b>
Operating profit	30,854	40,404
Depreciation charges	6,590	6,128
Decrease in stocks	376	146
Decrease/(increase) in debtors	535	(1,177)
Increase/(decrease) in creditors	481	(5,358)
Net cash inflow from operating activities	<u>38,836</u>	<u>40,143</u>

### 24. Analysis of net debt

	<b>As at 1 January 2003 £'000</b>	<b>Cash flow £'000</b>	<b>Non cash movements £'000</b>	<b>As at 31 December 2003 £'000</b>
Cash at bank and in hand	<u>868</u>	<u>981</u>	<u>-</u>	<u>1,849</u>
Debt due after one year	(440,085)	-	440,085	-
Debt due within one year	<u>(15,020)</u>	<u>18,754</u>	<u>(443,083)</u>	<u>(439,349)</u>
Total	<u>(454,237)</u>	<u>19,735</u>	<u>(2,998)</u>	<u>(437,500)</u>

### 25. Reconciliation of net cash flow to movement in net debt

	<b>Group 2003 £'000</b>	<b>Group 2002 £'000</b>
Increase/(decrease) in cash in the year	981	(5,946)
Cash outflow/(inflow) from decrease/(increase) in debt and lease financing	18,754	(11,761)
Amortisation of loan issue expenses	<u>(2,998)</u>	<u>(2,365)</u>
Movement in net debt	16,737	(20,072)
Net debt at 1 January	<u>(454,237)</u>	<u>(434,165)</u>
Net debt at 31 December	<u>(437,500)</u>	<u>(454,237)</u>

## BRE/Savoy Acquisition Company

### Notes to the accounts

#### Year ended 31 December 2003

##### 26. 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 2003. 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 7.0% pre-retirement and 5.0% post-retirement per annum, salary increases would average at 4.0% per annum for senior staff and 3.5% for other staff, and present and future pensions would increase at a rate of 2.5% per annum.

At the date of the latest actuarial valuation, the market value of the assets of the schemes was £25.9million and the actuarial value of the assets was sufficient to cover 66% of the benefits which have accrued to members, after allowing for expected future increases in earnings. The Group has agreed with the Trustees to pay contributions at the rate of 7.9% of pensionable salaries. In addition the Group will pay £91,000 per month for 10 years from 1 April 2003. These additional monthly payments will increase annually in line with inflation.

The valuation used for FRS 17 disclosures has been based on the most recent actuarial valuation at 31 March 2003 updated to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 December 2003. Scheme assets are stated at their market value at 31 December 2003.

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

	Projected Unit 2003	Projected Unit 2002
Valuation method		
Rate of salary increase (Staff/Senior Staff)	3.50%/4.10%	3.00%/3.50%
Rate of increase in pensions in payment	2.70%	2.25%
Rate of increase in deferred pensions	2.70%	2.25%
Discount rate	5.60%	5.50%
Inflation assumption	2.80%	2.25%

## BRE/Savoy Acquisition Company

### Notes to the accounts

### Year ended 31 December 2003

#### 26. 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 2003	Long term expected rate of return	Value at 31 December 2002
Equities (including property in 2002)	8.00%	16,931	8.00%	17,473
Property	7.00%	624	8.00%	-
Gilts	5.00%	8,277	4.50%	3,180
Other	4.50%	1,475	5.00%	2,809
Total market value of assets		27,307		23,462
Present value of scheme liabilities		(39,008)		(36,507)
Deficit in the scheme		(11,701)		(13,045)
Related deferred tax asset		3,510		3,914
Net pension liability		(8,191)		(9,131)

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.

Had the group adopted FRS 17 early, reserves at 31 December 2003 would have been stated as follows:

	31 December 2003 £'000	31 December 2002 £'000
<b>Net assets</b>		
Net assets excluding pension deficit	131,553	143,880
Pension deficit	(8,191)	(9,131)
Net assets including pension deficit	123,362	134,749
<b>Reserves</b>		
Profit and loss reserve excluding pension deficit	(28,447)	(16,120)
Pension deficit	(8,191)	(9,131)
Profit and loss reserve including pension deficit	(36,638)	(25,251)

# BRE/Savoy Acquisition Company

## Notes to the accounts

Year ended 31 December 2003

### 26. Pensions and similar obligations (continued)

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

	2003 £'000	2002 £'000
<b>Analysis of the amount charged to operating profit</b>		
Current service cost	849	574
<b>Analysis of the amount credited to other finance income</b>		
Expected return on pension scheme assets	1,720	1,908
Interest on pension scheme liabilities	(2,016)	(1,913)
<b>Net return</b>	(296)	(5)
	2003 £'000	2002 £'000
<b>Analysis of amount recognised in the statement of total recognised gains and losses (STRGL)</b>		
Actual return less expected return on pension scheme assets	1,482	(7,138)
Experience gains arising on liabilities	175	104
Loss due to changes in assumptions underlying the present value of scheme liabilities	(890)	(2,908)
<b>Actuarial loss recognised in the STRGL</b>	767	(9,942)
		2003 £'000
<b>Movement in deficit during the year</b>		
Deficit at the beginning of the year		(13,045)
<b>Movement in year:</b>		
Current service cost		(849)
Contributions		1,723
Other financial income		(296)
Actuarial loss		766
<b>Deficit at the end of the year</b>		(11,701)

## BRE/Savoy Acquisition Company

### Notes to the accounts

Year ended 31 December 2003

#### 26. Pensions and similar obligations (continued)

	2003	2002
<b>History of experience gains and losses</b>		
Difference between the expected and actual return on scheme assets		
Amount (£'000)	1,482	(7,138)
Percentage of scheme assets	5.4%	(30.4%)
Experience gains and losses on scheme liabilities		
Amount (£'000)	175	104
Percentage of scheme liabilities	0.4%	0.3%
Total amount recognised in statement of total recognised gains and losses		
Amount (£'000)	766	(9,941)
Percentage of the present value of the scheme liabilities	2.0%	(27.2%)

#### 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 entity

At 31 December 2003, 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.