

SAVOY MANAGEMENT SERVICES LIMITED
(Formerly SAVREG H LIMITED)

Report and Financial Statements

For the period 12 November 1998 (date of incorporation) to 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
JD Gray
JV Cerialle
T Barrack Jr

SECRETARY

MR France

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 provision of management services to other entities within the group, where the parent company is Blackstone Hotel Acquisitions Company. The principal activity of these companies is the provision of five star deluxe hotel and restaurant services.

REVIEW OF DEVELOPMENTS

The company was incorporated on 12 November 1998 and commenced trading on 5 January 1999 after a restructuring of "The Savoy Group".

On 18 December 1998 the company changed its name from SAVREG H Limited to Savoy Management Services Limited.

On 24 December 1999 the company disposed of Savoy Laundry for the sum of £3.7 million.

The profit for the year before interest, tax and depreciation is £3.1 million. The profit and loss account is shown on page 5.

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

DIVIDENDS

During the period dividends have been paid to the immediate parent, Blackstone Hotel Acquisitions Company, to the value of £1.1 million.

DIRECTORS AND THEIR INTERESTS

The directors of the company at 31 December 1999, who have been directors for the whole period unless otherwise stated, are listed below. The directors do not hold any material interests in the shares of the company or any other group companies.

R Pajares	Appointed 12 November 1998, resigned 31 December 1999
AJ Fort	Appointed 12 November 1998, resigned 30 September 1999
MR Aucott	Appointed 12 November 1998, resigned 12 November 1998
JZ Kukral	Appointed 11 May 1999
JD Gray	Appointed 11 May 1999
JV Ceriale	Appointed 11 May 1999
T Barrack Jr	Appointed 11 May 1999

EMPLOYEES

The Company'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 Company's personnel policies ensure that all its employees are made aware, on a regular basis, of the Company'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.


J V Ceriale

On behalf of the Board

Date: 14 June 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 as at the end of the financial year and of the profit and loss of the company 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 company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and 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 company and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS' REPORT TO THE MEMBERS

We have audited the financial statements on pages 5 to 14 which have been prepared under the accounting policies set out on pages 7 and 8.

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 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 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 as at 31 December 1999 and of the profit of the company for the period from 12 November 1998 to 31 December 1999 and have been properly prepared in accordance with the Companies Act 1985.



DELOITTE & TOUCHE
Chartered Accountants and
Registered Auditors
Date

1 Little New Street
London EC4A 3TR

15 June 2000

SAVOY MANAGEMENT SERVICES LIMITED
(Formerly SAVREG H LIMITED)

PROFIT AND LOSS ACCOUNT

Period 12 November 1998 (date of incorporation) to 31 December 1999

	Note	Acquired and continuing operations £'000	Acquired and Discontinued operations £'000	Total £'000
TURNOVER	2	699	1,717	2,416
Cost of sales		(3,998)	(1,212)	(5,210)
Gross (loss) / profit		(3,299)	505	(2,794)
Administration expenses		4,052	(1,059)	2,993
OPERATING PROFIT / (LOSS)	5	753	(554)	199
Profit on disposal on discontinued businesses	20			2,379
Bank interest receivable				312
Bank interest payable				(1,011)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION				1,879
Tax on profit on ordinary activities	6			-
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR				1,879
Equity dividends paid	7			(1,129)
RETAINED PROFIT FOR THE PERIOD				750

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

Trading commenced on 5 January 1999.

SAVOY MANAGEMENT SERVICES LIMITED
(Formerly SAVREG H LIMITED)

BALANCE SHEET
31 December 1999

	Note	£'000
FIXED ASSETS		
Tangible Assets	8	2,754
		<u>2,754</u>
CURRENT ASSETS		
Stocks	9	5
Debtors	10	6,358
Cash at bank and in hand		1,061
		<u>7,424</u>
CREDITORS: amounts falling due within one year	11	(6,226)
NET CURRENT ASSETS		<u>1,198</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		3,952
Net Assets		<u><u>3,952</u></u>
CAPITAL AND RESERVES		
Called up share capital	13	150
Share premium account	14,15	3,052
Profit and loss account	14,15	750
Equity shareholders' funds		<u><u>3,952</u></u>

These financial statements were approved by the Board of Directors on 14 June 2000.

Signed on behalf of the Board of Directors


J. Ceriale
Director

SAVOY MANAGEMENT SERVICES LIMITED
(Formerly SAVREG H LIMITED)

NOTES TO THE ACCOUNTS

Period 12 November 1998 (date of incorporation) to 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.

The principal accounting policies laid down for the preparation of the accounts have been reviewed and are appropriate to the company.

Fixed Assets

Land and Buildings includes the costs associated with structural improvements to freehold properties.

Depreciation

Having regard to the high level of expenditure on general maintenance, the long anticipated lives and high residual values of the company's freehold properties, the resultant amount of any further depreciation on carrying value is not considered to be material. No depreciation is therefore charged on freehold properties.

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 is derived from UK operations.

SAVOY MANAGEMENT SERVICES LIMITED
(Formerly SAVREG H LIMITED)

NOTES TO THE ACCOUNTS

Period 12 November 1998 (date of incorporation) to 31 December 1999

1 ACCOUNTING POLICIES (continued)

Interest

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

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.

Stocks

Stocks are valued at the lower of cost and net realisable value.

Pension and other post retirement benefits

Contributions to the company'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.

SAVOY MANAGEMENT SERVICES LIMITED
(Formerly SAVREG H LIMITED)

NOTES TO THE ACCOUNTS

Period 12 November 1998 (date of incorporation) to 31 December 1999

2. TURNOVER

	£'000
Property rental, management fees, laundry and ancillary business receipts	2,416
	<u>2,416</u>

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

	No
Monthly average number of persons employed	
Hotel and administration	68
	<u>68</u>

	£'000
Staff costs during the period	
Wages and salaries	4,436
Social security costs	331
Pension costs	243
	<u>5,010</u>

4 DIRECTORS

	£'000
Aggregate emoluments and benefits	989
Company pension contributions to money purchase schemes	93
Compensation for loss of office	175
	<u>1,257</u>

Retirement benefits were provided for two of the directors through money purchase schemes

Highest paid director:

	£'000
Aggregate emoluments and benefits	707
Company pension contributions to money purchase scheme	71
Compensation for loss of office	175
	<u>953</u>

5 OPERATING PROFIT

	Continuing operations £'000	Discontinued operations £'000	Total £'000
Operating profit is stated after charging			
Operating leases:			
Land and buildings	84	73	157
Other assets	65	17	82
Auditors' remuneration	48	-	48
Depreciation	520	12	532

SAVOY MANAGEMENT SERVICES LIMITED
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NOTES TO THE ACCOUNTS

Period 12 November 1998 (date of incorporation) to 31 December 1999

6 TAX ON PROFIT ON ORDINARY ACTIVITIES

There is no tax charge for the period as a result of group relief received which has not been paid for.

7 DIVIDENDS

£'000

Amounts paid to immediate parent company

A Shares (1,000,000 shares at 112.89p per share)

1,129

B Shares (500,000 shares at 0.011p per share)

-

1,129

8 TANGIBLE FIXED ASSETS

	Freehold land and buildings £'000	Short leasehold properties £'000	Assets in course of construction £'000	Fixtures, fittings, plant and machinery £'000	Total £'000
Cost or valuation					
As at 12 November 1998	-	-	-	-	-
Intercompany transfer 5 January 1999	2,584	349	-	4,063	6,996
Additions	-	-	17	1,004	1,021
Disposals	(735)	-	-	(1,443)	(2,178)
At 31 December 1999	1,849	349	17	3,624	5,839
Accumulated Depreciation					
As at 12 November 1998	-	-	-	-	-
Intercompany transfer 5 January 1999	-	307	-	3,689	3,996
Charge for the period	-	1	-	531	532
Disposals	-	-	-	(1,443)	(1,443)
At 31 December 1999	-	308	-	2,777	3,085
Net book value					
At 31 December 1999	1,849	41	17	847	2,754

SAVOY MANAGEMENT SERVICES LIMITED
(Formerly SAVREG H LIMITED)

NOTES TO THE ACCOUNTS

Period 12 November 1998 (date of incorporation) to 31 December 1999

9 STOCKS

	£'000
Raw materials and consumables	<u>5</u>

10 DEBTORS

	£'000
Trade debtors	1,106
Amounts owed by ultimate parent	129
Other taxes and social security	1,287
Other debtors	24
Prepayments and accrued income	3,812
	<u>6,358</u>

11 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	£'000
Trade creditors	915
Amounts owed to other group companies	3,289
Other creditors	19
Accruals and deferred income	2,003
	<u>6,226</u>

12 UNPROVIDED DEFERRED TAX

The potential deferred tax liability / (asset), which has not been provided in the accounts, is as follows:

	£'000
Accelerated capital allowances in advance of depreciation	(43)
Rolled over gains	1,164
	<u>1,121</u>

In addition there would be a tax charge of approximately £448,000 if the properties held by the company were disposed of at the value at which they are carried in the balance sheet.

SAVOY MANAGEMENT SERVICES LIMITED
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NOTES TO THE ACCOUNTS

Period 12 November 1998 (date of incorporation) to 31 December 1999

13 CALLED UP SHARE CAPITAL

	£'000
Authorised, called up, allotted and fully paid:	
1,000,000 "A" ordinary shares of 10p each	100
500,000 "B" ordinary shares of 10p each	50
	<u>150</u>

All the share capital was issued in the period. Details of the consideration received are given in note 22.

Shares rank equally, except for a dividend and return on capital, where the distribution rights of the A shares are 10,000 times those of B shares.

14 SHARE PREMIUM ACCOUNT AND RESERVES

	Share Premium £'000	Profit and loss account £'000
At 12 November 1998	-	-
Profit for the period	-	1,879
Dividends	-	(1,129)
Share premium arising on restructuring of the Group (note 22)	3,052	-
At 31 December 1999	<u>3,052</u>	<u>750</u>

15 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	£'000
Profit for the financial period	1,879
Dividend	(1,129)
Share capital issued	150
Share premium	3,052
Net addition to shareholders' funds	<u>3,952</u>
At 12 November 1998	-
At 31 December 1999	<u><u>3,952</u></u>

SAVOY MANAGEMENT SERVICES LIMITED
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NOTES TO THE ACCOUNTS

Period 12 November 1998 (date of incorporation) to 31 December 1999

16 CASH FLOW STATEMENT

The company is exempt under the provisions of FRS 1 "Cash Flow Statements" from presenting a cash flow statement

17 PENSIONS AND SIMILAR OBLIGATIONS

Savoy Management Services Limited is a participating employer in the Savoy Group pension and life insurance 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 company 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.

18 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.

19 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 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.

Blackstone Hotel Acquisitions Company is the smallest member of the Group in which the company is a member and for which Group accounts are prepared. Copies of its statutory accounts will also be available from its registered office 1 Savoy Hill, London WC2R 0BP.

SAVOY MANAGEMENT SERVICES LIMITED
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NOTES TO THE ACCOUNTS

Period 12 November 1998 (date of incorporation) to 31 December 1999

20 SALE OF BUSINESS DURING THE PERIOD

On 24 December 1999 the company 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
	<u>3,700</u>
Satisfied by:	
Amounts due from debtor	<u>3,700</u>

21 FINANCIAL COMMITMENTS

	£'000
Operating lease commitments:	
Land and buildings	
- within one year	21
- in two to five years	65
- in more than five years	65
	<u>151</u>

22. BUSINESS ACQUIRED IN THE PERIOD

On 5 January 1999 the company acquired the assets and trade of The Savoy Group head office. The following table shows the book value and provisional fair value of assets acquired:

	Book value and provisional fair value £'000
Tangible fixed assets	3,000
Stock	52
Prepayments	107
Cash	43
Net Assets	<u>3,202</u>
Satisfied by:	
Issue of share capital	150
Issue of share premium	3,052
	<u>3,202</u>