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The Savoy Hotel PLC

Annual Report and Accounts 1996

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With the completion of its refurbishment programme in 1997, The Savoy Group has restored its hotels to their original spirit and style. It is now relaunching itself and inviting guests to rediscover the luxury and service associated with the Savoy name.
The underlying profit increase in 1996 underlines the Group's revitalisation.

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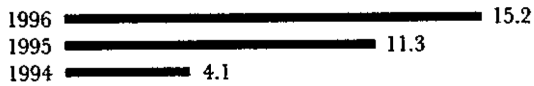
Financial highlights on Continuing Operations Before Exceptionals

Turnover up by	3%
Operating profit up by	33%
Adjusted earnings up by	43%
Dividend up by	25%

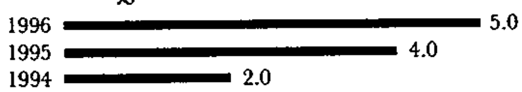
Profit before Tax £ million



Turnover £ million

Operating profit £ million

Dividend £ million



Financial Highlights on Continuing Operations before Exceptionals		**1996 £'000**	1995 £'000
Turnover		**91,412**	88,980
Operating profit before exceptional items		**15,652**	11,763
Profit for the financial year before exceptional items		**11,097**	7,745
Dividend		**5,008**	4,006
Key ratios			
Operating margin %		**17.1**	13.2
Exceptional items charged (credited) to profit and loss		**39,941**	(58)
Adjusted Earnings per share	A Ordinary Shares of 10p each	**38.8p**	27.1p
	B Ordinary Shares of 5p each	**19.4p**	13.5p
Dividends per share	A Ordinary Shares of 10p each	**17.5p**	14.0
	B Ordinary Shares of 5p each	**8.7p**	7.0p
Equity Shareholders' Funds		**372.1m**	91.2m

The relaunch and refurbishment

The refurbishment In 1997, The Savoy Group completed the most radical overhaul of fabric and infrastructure in its history. Aided by the finest British designers and craftsmen, it has restored the spirit and style of The Savoy, The Berkeley, Claridge's, The Connaught and The Lygon Arms.

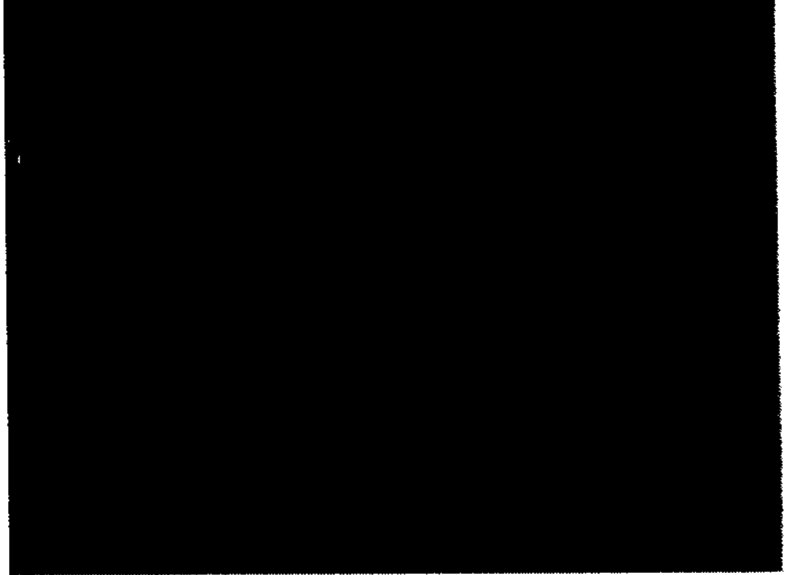
The aim has been to respect the past while understanding the demands of the future. The project has incorporated the best of modern technology while retaining - indeed enhancing - the character of each hotel. Skilfully blending old and new, the Group is now equipped to continue its tradition of excellence into the 21st century.

The Savoy difference The newly restored hotels appeal equally to those who value the Savoy tradition as they do to the busy executive passing through on business. The technology in the rooms is unobtrusive - easily found by those who need it, unnoticed by those who do not - while the luxury and service can be enjoyed by all.

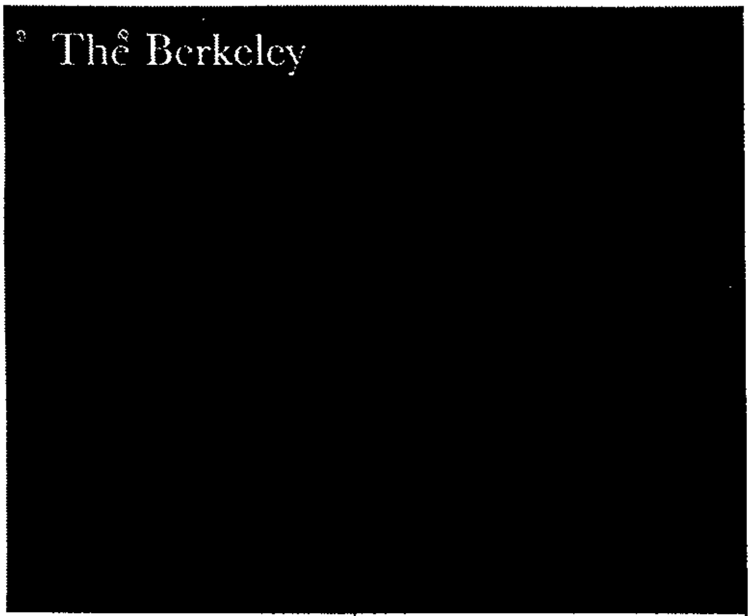
The Group is now inviting the world to experience the difference. The re-opening of The Savoy lobby in October 1996 marked the start of a vigorous relaunch programme extending to Europe, the USA and the Far East. The message is clear: the world's pre-eminent luxury hotels now extend a welcome second to none.

The Savoy

The Lygon Arms



The Connaught


The Berkeley

Communications

Chairman's statement

The Savoy Hotel PLC has had two positive themes during 1996. On the one hand, we have largely completed our restoration programme to bring all The Savoy Group hotels into the 21st century. On the other, our underlying operating performance continues to improve. As the year's achievements make clear, we have begun reaping the benefit of two years' unremitting effort to achieve excellence, to improve standards for our guests, to streamline and update our management control procedures, and to enhance the quality of service which our staff can offer.

During the year we have carried out a major part of our planned programme to refurbish our London hotels – in particular Claridge's, The Berkeley and The Savoy. Whilst this had a significant impact on our room availability and therefore our operating revenue, we nonetheless have achieved an excellent increase in operating profit, up 33% to £15.7 million, and increased our revenue by 3%. The increase in operating profit would have been much greater were it not for the lack of rooms due to the restoration programme, which we estimate resulted in potential lost revenue of £8 million. These results exclude exceptional costs arising primarily from the restoration programme. These items are fully explained in the Financial Review on pages 17, 18 and 19. This improvement in our performance bodes well for 1997, particularly after the completion of the restoration programme in the Summer of 1997.

We believe that shareholders can have confidence in the future. We doubled our dividend in 1994 and 1995 and think it right to propose a further increase of 25% for 1996. We look forward, in 1997 and beyond, to seeing our current efforts come to fruition.

While appreciating the need to renovate, some shareholders have asked if it was really necessary to spend all those millions. The answer is emphatically "yes". In a competitive marketplace, we could not afford to be second best, so had to ensure the highest standards of craftsmanship. Furthermore, in implementing modern comforts, we have scrupulously retained the best of the old and this in itself has often required extra skill and expenditure. Some of the money has also gone into staff facilities on the basis that one cannot offer superb service without well-motivated employees.

Environment

Although substantial, our capital expenditure has been subject to the same management controls that have so transformed our day-to-day operations. All of it has been channelled towards known and specified ends and one has only to walk through any of our hotels to appreciate the results. The restoration programme has resulted in a review of the values of our assets. The hotel properties have been included in the year end balance sheet at their new valuation of £384.3 million.

The fact that our hotels are now second to none greatly strengthens our sales and marketing. Our own efforts have been boosted by considerable media interest in what we have achieved – a benefit we would not have enjoyed had we opted for second best.

Shareholders stand to gain only if guests want to come to our hotels and restaurants. It is clear that guests expect traditional standards, yet also look to us to provide 21st century facilities. That has been the focus of our efforts – scrupulously to retain the best of the old, to renew only with the finest craftsmanship and, at the same time, to ensure that advances in technology are introduced in complete sympathy with our atmosphere and surroundings.

In 1997 The Connaught celebrates its centenary. We are greatly honoured that Her Majesty the Queen accepted our invitation to be the guest of honour on 19th March at The Connaught's celebratory dinner. Claridge's celebrates its centenary in 1998.

Whilst Granada PLC, our largest shareholder which now controls Forte Plc, still intends to sell its shareholdings in The Savoy, it has been wholly supportive of the Board's strategy. Despite the inevitable uncertainties, the Board's priorities are clear: to enhance the Group's value to shareholders by continually striving to improve operational performance. We remain firmly on course to do so.

Sir Ewen Fergusson, *Chairman*
18th March, 1997

Facilities

Managing Director's Review

The Managing Director of The Savoy Group is also the custodian of a valued British institution. Mindful of this fact, I have taken great care to be sensitive to the heritage, character and ethos of the Group, ensuring I never make changes purely for the sake of change.

Our determination to offer better service and customer care is like a road without an end and depends on having the most committed employees in the hotel industry. Quality people are a vital ingredient – indeed *the* vital ingredient – in our financial success.

This being so, the main issues facing our industry over the next decade are likely to be changes in working practices; the challenge of recruiting, training and retaining qualified people; and understanding how to take advantage of new technology to improve our efficiency, serve our customers better and make our employees' work more interesting.

Developing our people

Throughout the Group, we have large numbers of talented and experienced people who are able and eager to rise to the challenge. Concerned, equally, to provide outstanding service and make a profit, our management team seeks to encourage all staff to play their part in our success by taking on responsibility in an atmosphere of trust and mutual respect.

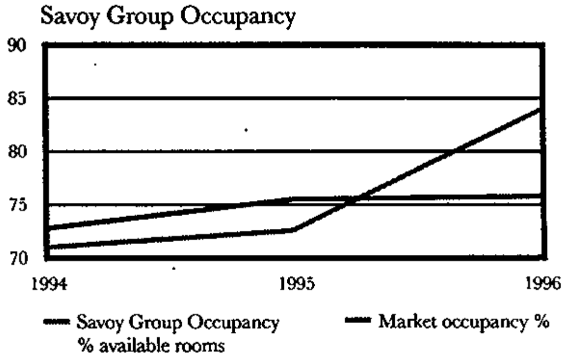
We are particularly pleased with the success of our training programmes and the growing numbers of people who are taking part. In 1996, more than twice as many staff underwent formal training as in 1995. A further – and ambitious – training programme began in January 1997. By the end of this year, we plan to have trained every single employee in the all-important skills of customer care.

To reward individual effort, we introduced an incentive scheme for all staff and management during 1996 and staff are already enjoying the results. In addition, a good number of employees will benefit from improved pension arrangements to be introduced during 1997.

The way employees treat the customer mirrors the way that they themselves are treated by the Company. This fact is fundamental to our daily life. By motivating, challenging and supporting our people, we intend to ensure ever higher standards in the service we offer.

Comfort

Occupancy is increasing as a result of the restoration of our facilities and services



Sales and marketing
Our sales and marketing have been restructured to capitalise on the restoration programme to regain market share and to secure it for the future. A new Sales and Marketing Director was recruited in May 1996 and has created a sales and marketing structure to achieve the sales targets we have set. Further investments in technology provide our sales staff with up-to-date information to ensure they are well equipped to follow up potential business and maximise the value of each account.

Much of the effort focuses on attracting high-yielding individual, corporate and leisure business and on developing long-term relationships with companies or individuals who appreciate superb service and surroundings and will keep coming back to our hotels. A key development in 1996 was the opening of our North American sales offices in New York and Los Angeles to increase our presence in these important markets.

The re-launch programme began in October 1996 and will continue until April 1997 to raise awareness of just how extensive our restoration has been. As part of the process, we have introduced new graphic images which emphasise the distinct character of each hotel under the overall branding of The Savoy Group. As part of a number of initiatives under the sales and marketing umbrella we have developed a new video and launched our worldwide website.

The re-launch has afforded the opportunity not only to win back clients previously lost to the competition, but to attract new clients who welcome the deluxe product and service The Savoy Group is able to offer.

To make our hotels more accessible, and to demonstrate our intention of leading the market, we now take reservations by e-mail and over the Internet. The addresses are:

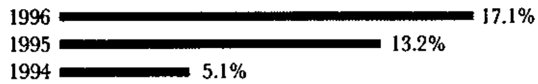
- e-mail: info@savoy-group.co.uk
- website: http://www.savoy-group.co.uk

The restoration – somehow different, somehow the same
By the time our restoration programme is finished in Summer 1997, The Savoy Group will offer some of the finest hotels in the world – bringing our guests all the benefits and comforts of modern technology while remaining true to the heritage and tradition which have made The Savoy name synonymous with excellence.

Service

Management controls increasing margins

Operating profit margin %



I am proud of how well the task has been carried out by the small army of designers, draughtsmen and engineers who have worked on the restoration programme over the last two years. The result is a wonderful blend of the past, present and future – what some have called "change without change".

It is a tribute to the team's skills and ingenuity that our guests notice only that things look brighter, and somehow better. And we intend to keep it that way. A programme of preventative maintenance will ensure that every area of every hotel is kept in top condition.

While the work has been going on, management and staff have sometimes had to endure very difficult conditions. They have responded admirably, doing everything possible to ensure the comfort and satisfaction of all our customers.

Examples of what we have achieved are described elsewhere in this report. I shall therefore confine myself to mentioning a few of the highlights.

The Savoy
It is all so puzzling to returning guests. Why does everything feel so good when it has not changed? Bathroom heating has been restored, but with new mechanisms so it looks the same but works so much better. The new, beautifully designed showers retain The Savoy tradition of extra-large showerheads. New air conditioning systems provide further comfort, even in the bathrooms.

We now find that guests who have stayed once in a newly restored room demand the same kind of room on their return. Visitors have also commented favourably on the banqueting rooms and many of our other restored facilities.

The Berkeley
The Berkeley was the first of our hotels to be completed, so offers the clearest indication of how the restoration – along with effective management and trained and motivated staff – will benefit the Group. Since all rooms became available, its occupancy and average room rate have dramatically improved.

Claridge's
By June 1997, every corridor, bathroom and bedroom at Claridge's will have been carefully restored with its elegance and individuality enhanced but its character untouched. New technology, unseen by the guest, will enable us to offer even better service than in the past.

Convenience

33% increase in Operating Profits

Operating profit before exceptionals £ million

The Connaught
At The Connaught, a new air conditioning system is controlled from a simple panel in each room. It is highly efficient and already much appreciated by regular guests. We have also completed the air conditioning in all the public areas – a challenging project met with skill and imagination.

The Lygon Arms
Each hotel has its own special attraction and the Lygon Arms with its country ambience and 17th and 18th century antiques is no exception. We have refurbished public areas, bedrooms, the restaurant, the meeting and banqueting rooms and part of the Country Club. Guests have clearly enjoyed the improvements and the changes have helped to boost the hotel's occupancy and average room rates.

Operational improvements
The operating profit margin before exceptionals increased from 13.2% in 1995 to 17.1% in 1996. The rise reflects significant improvements in management control, brought about by recruiting high quality managers, training our staff at all levels and providing them with the support needed to do their work.

Control has been reinforced by new IT systems to maximise our room revenue along with better analysis of our food and beverage operation. In addition, a new purchasing database and system ensures that we use only quality suppliers able to provide a consistent product and also benefit from volume buying. This has had the extra benefit of reducing the number and cost of transactions in all our businesses.

Looking ahead
We look ahead with enthusiasm and excitement. The Group's potential can already be seen in our 1996 results – and all the more so considering that 22% of our bedroom stock was unavailable in the year because of the restoration and that business at The Savoy was seriously affected during the summer as we installed the air conditioning and restored the lobby.

The work done has created a strong foundation on which to build another hundred years of success. With thanks to everyone who has worked so hard to make these successes possible, I look forward tremendously to 1997 and beyond as we seek to realise the full potential of this Company.

R Pajares, *Managing Director*
18th March, 1997

The Savoy Group's Awards in 1996

The Berkeley	
5 Red Stars	*The Automobile Association of Great Britain*
Listed in World's 50 Best Hotels	*Travel Digest*
Newcomer of the Year for VONG	*Egon Ronay's Restaurants Guide*
VONG receives the Eros Award	*Evening Standard*
Blue Ribbon Award	*The Royal Automobile Club*
Listed in top 20 hotels in Europe	*Institutional Investor Magazine*
Listed in top 20 International City hotels	*Andrew Harper's Hideaway Report, USA*
Claridge's	
Blue Ribbon Award	*The Royal Automobile Club*
5 Red Stars	*The Automobile Association of Great Britain*
Listed in Top 100 hotels in the World	*Institutional Investor Magazine*
Listed in 100 Best Hotels	*Travel & Leisure Magazine, USA*
The Connaught	
5 Red Stars	*The Automobile Association of Great Britain*
3 Red Rosettes for Food	*The Automobile Association of Great Britain*
Blue Ribbon Award	*The Royal Automobile Club*
Listed in top 100 hotels in the World	*Institutional Investor Magazine*
The Savoy	
Best City Hotel	*Viajes y Vacaciones, Spain*
Listed in World's Top 100 hotels	*Travel & Leisure Magazine*
Listed in World's Top 100 hotels	*Institutional Investor Magazine*
3 Red Rosettes for Food	*The Automobile Association of Great Britain*
5 Red Stars	*The Automobile Association of Great Britain*
Best Breakfast	*Executive Travel Magazine*
Most Hospitable Bar	*The American Bar at The Savoy*
Hotel of the Year for 1997	*The Egon Ronay Guide*
The Lygon Arms	
4 Red Stars	*The Automobile Association of Great Britain*
Blue Ribbon Award	*The Royal Automobile Club*

Financial Review

Trading results

In 1996, revenue from continuing operations increased 2.7% to £91.4 million. Considering the number of rooms unavailable for letting due to the restoration programme, this represents a significant improvement over 1995.

Higher revenues and improved management control increased operating profit margins from 13.2% to 17.1% and raised operating profit before exceptionals by 33% to £15.7 million. The increase in profit would have been much greater were it not for the lack of rooms in the second half as a result of the restoration programme. At the half year we reported that 27% of our rooms were unavailable: over the whole of 1996 the figure was 22%. This represents a reduction of 57,277 room nights and lost potential revenue of approximately £8 million during the year.

Despite the disruption associated with the restoration, occupancy as a percentage of available rooms increased to 84% in our London hotels for the full year. This compares with 73% for 1995. The figures for each London hotel are set out in the table below and show the considerable revenue potential of our hotels now that the restoration is nearly complete. The performance of our London hotels compares favourably with our competition in the capital who achieved average occupancy of 75.8% for the year.

	Occupancy			
	Total Rooms		Available Rooms	
	1995	**1996**	1995	**1996**
The Savoy	69.4%	**75.2%**	77.6%	**86.4%**
The Berkeley	66.0%	**70.6%**	70.6%	**86.2%**
Claridge's	58.6%	**42.6%**	70.9%	**84.9%**
The Connaught	65.7%	**69.3%**	68.4%	**74.1%**
London comparison (deluxe hotels)	75.5%	**75.8%**	75.5%	**75.8%**

Average room rate increased by 4% on 1995 as a result of our decision to limit rate increases during the restoration. By contrast, the average room rate in the marketplace increased by 8.5%, indicating an opportunity for the Group in the future.

In our hotels, operating profits before exceptionals rose 36% as a result of greater efficiency, especially in food and beverage. Vong is particularly noteworthy for its consistent success throughout the year. Our stand-alone restaurants, Simpson's-in-the-Strand and St Quentin's, were badly affected by the BSE scare in the first half but recovered in the second half to end only 1% down on 1995. The Savoy Theatre produced better results in the second half but still returned a higher loss than last year. Performance should improve in 1997 under new management.

Financial Review continued

Exceptional items – accelerated depreciation and asset write offs

The directors have decided, as a result of the restoration expenditure principally at Claridge's and The Savoy, to review the value of fixed assets brought forward at 31st December, 1995. We concluded that it would be inappropriate to carry the whole of these values forward. The reasons are that in some cases assets were replaced prior to the end of their normal economic life in order to ensure consistent high quality in the properties; and in others the original economic life has been re-appraised in the light of improved technology, the continued raising of customer expectation and the need to remain ahead of an increasingly competitive market. This has required us to depreciate assets more rapidly than originally anticipated. This has created a write off of £23.4 million and has been disclosed as depreciation on the face of the Profit and Loss Account.

Exceptional items – repairs

In determining the future depreciation and capitalisation policies, the directors regard as a critical objective the maintenance of our restored properties to the highest standard. The application of this policy means that items which improve or enhance the environment will be capitalised. This will be primarily plant, fixtures and fittings.

Applying this policy to the 1996 property improvement expenditure we have estimated £11.5 million of this is of a repair nature. This item has been classified as exceptional on account of its size and is included in operating costs.

Exceptional items – operating costs

The Group has undertaken a significant promotional and advertising campaign to create awareness in the market of the updated and restored facilities of the Group. The total of these costs is £1.9 million and they have been fully provided for in 1996, as they have been either committed or spent at the year end. The directors have reclassified fixed asset investments as current assets as it is their intention to sell them, and have reassessed their value as £0.3 million, resulting in a write down of £2.1 million. The bid by Granada PLC for Forte Plc and the consequent announcement that Granada would dispose of its stake in The Savoy Hotel PLC gave rise to advisors' fees and other related costs totalling £0.4 million. The items are disclosed separately as exceptional in Note 3 in the Notes to the Accounts.

Profit before tax

Profit before tax on continuing business before exceptional items is £15,237,000. This is calculated from the Operating profit on continuing businesses of £15,652,000, adding investment income of £227,000 and deducting interest payable of £642,000.

Earnings

Adjusted Earnings per share have increased by 43% from 27.1p to 38.8p. This reflects both the increase in underlying operating profits and a reduction in the effective rate of taxation to 27%. The effective tax rate has reduced due to the high level of capital expenditure in 1995 and 1996. We expect that the tax rate will remain at this level for the next two years unless there is a significant change in taxation policy.

The exceptional items, as they relate to primarily asset write downs and accelerated depreciation do not attract tax relief and so the effective tax credit associated with these is small.

The adjusted earnings calculation is included as the directors believe this provides a more accurate reflection of the underlying performance of the business.

Dividend

The Board of Directors is recommending a dividend of £5 million for the 1996 financial year – an increase of 25%. This means that since 1993 the dividend per A share has increased from 3.5p to 17.5p. (B share dividend has increased from 1.7p to 8.7p).

The directors review the level of dividend each year, taking into account both the actual performance of the year and the prospects for the future. The proposed increase of 25% to £5.0 million reflects the underlying improvement in the current year and our confidence in the future as our total room stock becomes available.

Revaluation of properties

The directors have decided to revalue the Group hotels to bring the Company into line with normal commercial practice. The directors believe that shareholders should be aware of the value of the underlying assets of the business in line with market practice. In the opinion of DE & J Levy, a qualified firm of surveyors, the value of our five hotels is £384.3 million and this has been included in the balance sheet. This has created a revaluation surplus of £305.5 million.

In view of the impact of the restoration programme the directors will review the hotel properties value to ensure that the accounts fully reflect their value when the restoration is completed.

Borrowings

Net debt at the year end is £20.8 million, representing a cash outflow of £21.5 million in the year. The cash outflow is primarily the result of the £43.2 million spent on restoring our properties in 1996. This amount includes the exceptional repair costs of £11.5 million. We expect to spend a further £19 million on our properties in 1997, though this we expect will be financed by the strong operating cash flow.

Total debt at 31st December, 1996 was 6% of shareholders' equity, leaving the Company conservatively financed. Total debt will rise during the year to approximately £30 million, well within our facilities, with the continuing property improvement programme, but will fall back towards 5% of shareholders' funds at 31st December, 1997.

Directors and Advisors

Sir Ewen Fergusson,* GCMG, GCVO Age 64
Appointed July, 1993
Chairman, appointed January, 1995
Chairman, Coutts & Co Group
Non Executive Director, British Telecommunications plc.
Joined the company after 36 years' service in H.M. Diplomatic Service, ending as Ambassador to Paris (1987-92).
Member of Remuneration and Audit Committees

R Pajares, FHCIMA Age 61
Managing Director, appointed November, 1994
Has 43 years' experience in hotels and leisure. Joined the Company from The Four Seasons Group, where he was Vice President, Europe, and General Manager, Inn on the Park, London (later Four Seasons) for 19 years.
Member of Executive Committee of Leading Hotels of the World.

A J Fort, ACA Age 40
Finance Director, appointed November, 1995
Joined the Company from BET plc, where he was employed in a range of finance and general management roles for 13 years. He qualified with Price Waterhouse in 1980.

Sir George Christie,* DL Age 62
Appointed January, 1985
Chairman, Glyndebourne Productions Ltd, since 1956, and of other family companies.
Member of Arts Council of Great Britain 1988-92;
Founder Chairman, The London Sinfonietta 1968-88.

J Kemp-Welch* Age 60
Appointed July, 1985
Chairman, The London Stock Exchange
Prior to this, was Joint Senior partner with Cazenove and Co, for whom he worked for 35 years.
Chairman, Scottish Eastern Investment Trust;
Director, Royal & Sun Alliance.
Chairman of Remuneration Committee, and member of Audit Committee

Mrs C S Price* Age 56
Appointed February, 1989
Director, Sotheby's Holdings Inc

The Rt. Hon. The Viscount Thurso,* FHCIMA
Age 43
Appointed September, 1993
Chief Executive, Fitness & Leisure Holdings Ltd
Has significant experience of the Hotel Industry, having trained with The Savoy Group, and, prior to his current role, was Director and General Manager of Cliveden; also previously Chief Executive of Granfel Holdings Ltd.
Member of Remuneration and Audit Committees.

J Leigh Pemberton,* CBE Age 63
Appointed July, 1995
Chairman, Mid Kent Holdings plc,
Morgan Grenfell Equity Income Trust plc,
Business Link (Kent) Limited,
Fleming Fledgling Investment Trust Plc, and a director of London & Manchester Group plc.
Chairman of Audit Committee, and member of Remuneration Committee.

G Robinson* Age 48
Appointed May, 1996
Chairman, Granada Group
Joined Granada in 1991 from Compass Group.
Previous career includes Lesney Products, Lex Service Group and Grand Metropolitan.
Chairman, BSkyB and ITN;
Non-Executive Director, Caradon.

A Bernstein* Age 60
Appointed May, 1996
Former Granada Group Chairman 1979-96.
Joined Granada 1959.
Managing Director, Granada TV Rental 1962-67;
Joint Managing Director, Granada Television 1971-75;
Chairman, Granada TV Rental 1977-86.
Appointed to Group Board 1964.

M B Radcliffe, MA Age 63
Company Secretary

The Savoy Hotel PLC
Registered Office
1 Savoy Hill
London WC2R 0BP
Registered in England and Wales No 29022

Auditors
Coopers & Lybrand

Brokers
Cazenove & Co

Financial Advisors
Baring Brothers International Limited

Registrars
Lloyds Bank Registrars

Solicitors
Slaughter and May

*Non-executive directors

Directors' Report

Directors' Report for the Year ended 31st December, 1996
The directors submit herewith their report and the audited accounts for the year ended 31st December, 1996.

Principal Activities
The principal activities of the Group are unchanged from last year and are the ownership and management of hotels and restaurants.

Review of Business
The consolidated profit and loss account and the statement of total recognised gains and losses for the year are shown on pages 28 and 29.

Turnover from continuing operations increased over 1995. During the year we disposed of our chauffeur hire company for £0.9 million cash and deferred amounts of up to £0.7 million are payable, dependent on performance. The first payment of £0.2 million has been received. In addition, certain of our ancillary properties which were primarily used for rental were sold for £6.3 million cash.

The directors expect that the present level of activity will at least be sustained for the foreseeable future, in the absence of unforeseen circumstances. A detailed review is included in the Chairman's and Managing Director's Report on pages 5 to 15.

Dividend
The directors recommend an increase in the dividend to 17.5p for each A share and 8.7p for each B share a total of £5.0 million. This is being met from reserves owing to the exceptional items incurred in 1996. The recommended dividend reflects the significant underlying improvement in performance in the year and the directors' confidence in the future. If approved it will be paid on 26th May, 1997 to shareholders on the Register at the close of business on 7th April, 1997.

Property Assets
The Group's freehold and leasehold hotel properties were revalued at 31st December, 1996 at £384.3 million. The freehold land and buildings of the Savoy Theatre were revalued as at 31st December, 1993 to a figure of £7 million. In the opinion of the directors, this valuation is still appropriate. These valuations are included in the Group's balance sheet.

Directors
The names of the present directors of the Company are shown on page 20. The interests that the directors and Company Secretary at 31st December, 1996, held in the share and loan capital at 1st January, 1996 and 31st December, 1996 are shown on page 44 and are deemed to be part of this report.

M B Radcliffe retired from the Board on 31st December, 1996 after 32 years service with the Group of which 24 years were on the Board. He continues to act as Company Secretary. The Board is extremely grateful to him for his long years of loyal and exceptional service.

Mrs C Price has offered her resignation, after eight years on the Board, and we thank her for her significant contribution. She will retire with effect from May 1997.

The Hon. Sir Rocco Forte and Sir Anthony Tennant resigned in May 1996 as a consequence of the takeover of Forte Plc by Granada PLC.

Sir Ewen Fergusson and The Rt. Hon. The Viscount Thurso retire by rotation and, being eligible, offer themselves for re-election.

G Robinson and A Bernstein were nominated to the Board by Forte Plc and having been appointed since the last Annual General Meeting in May 1996, retire and, being eligible, offer themselves for election.

Directors' Report continued

Staff
The Group's policy is to consult with employees concerning matters likely to affect their interests.

Information on matters of concern to employees is also given through information bulletins and reports (including an annual Employee Report) which seek to achieve a common awareness on the part of all employees of the economic and financial factors affecting the Group's performance.

Well-trained and motivated staff are recognised as critical to the Group's success and we shall continue to invest in this area to develop the skills of all our staff. An incentive scheme for all staff was introduced in 1996 reflecting our desire to reward and motivate our staff. In addition a new pension scheme is being introduced in April 1997 which will improve the benefits provided for our staff currently in the "Wages Pensions Scheme".

The Group's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, where possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Health Safety and the Environment
The Group recognises the importance of health and safety as well as environmental issues in all areas of operation. Standards are regularly monitored by an independent Health and Safety Consultant, and it is our policy to recycle waste.

Charitable Donations
The Group made charitable donations during the year amounting to £12,914.

Creditors Payment Policy
The Company's current policy concerning the payment of trade creditors is to follow the CBI's Prompt Payment Code (copies are available from the CBI, Centre Point, 103 New Oxford Street, London WC1A 1DU). For other suppliers, the Company's policy is to:

1. Settle the terms of payment with those suppliers when agreeing the terms of each transaction;
2. Ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
3. Pay in accordance with its contractual and other legal obligations.

The payment policy applies to all payment to creditors for revenue and capital supplies of goods and services without exception.

Pre-Emption Rights
Resolution 7 establishes the directors authority to allot shares for cash up to a maximum of five per cent. of the issued share capital of the Company other than pro rata to existing shareholdings. This power will only be exercised in accordance with the guidelines for such issues published by the institutional shareholder committees.

Auditors
Coopers & Lybrand have indicated their willingness to continue as auditors and, in accordance with Section 384 of the Companies Act 1985, a Resolution proposing their re-appointment will be put to the Annual General Meeting.

M B Radcliffe, *Secretary*
18th March, 1997

Corporate Governance

The Board is pleased to confirm that the Company has complied throughout the period with the Code of Best Practice published by the Cadbury Committee on the financial aspects of corporate governance.

Board Composition

M B Radcliffe was an executive director throughout 1996. Since his retirement in December 1996 the Board has comprised two executive and eight non-executive directors. The number of non-executives will reduce to seven with the resignation of Mrs C Price. It is chaired by Sir Ewen Fergusson and meets seven times a year. The Board is responsible for the overall direction and strategy of the Group and for securing the optimum performance of Group assets. Mr M B Radcliffe has remained Company Secretary.

All non-executive directors are selected through a formal process and according to the Articles of Association a certain number retire by rotation at an Annual General Meeting and offer themselves for re-election.

Board Committees

The Chairman's Committee ceased to operate during the year, and its functions of reviewing the strategies of the Group and monitoring performance to achieve these strategies are undertaken by the whole Board of Directors.

The Remuneration Committee recommends terms of service and remuneration of all members of the Board. The committee comprises: J Kemp-Welch, Chairman, Sir Ewen Fergusson, The Rt. Hon. The Viscount Thurso and J Leigh Pemberton. The Hon. Sir Rocco Forte resigned from the Commitee in May 1996.

The Audit Committee meets at least three times a year to monitor compliance with statutory and regulatory standards and to enquire, as appropriate, into any financial matters relating to the Group. The Committee now comprises: J Leigh Pemberton, Chairman, Sir Ewen Fergusson, The Rt. Hon. The Viscount Thurso and J Kemp-Welch. The auditors are invited to attend all meetings of the Committee. Sir Anthony Tennant resigned from the Committee in May 1996

The Nominations Committee makes recommendations to the Board about the nomination of non-executive Directors. The Committee comprises: Sir Ewen Fergusson, Chairman, R Pajares, The Rt. Hon. The Viscount Thurso, and J Kemp-Welch. The Hon. Sir Rocco Forte resigned from the Committee in May 1996.

A Committee of directors was established on 28th November, 1995 to deal with matters affecting The Savoy Hotel Plc arising from the offer on behalf of Granada Group PLC for the whole of the issued share capital of Forte Plc. The committee comprises Sir Ewen Fergusson, Chairman, R Pajares, A J Fort, J Kemp-Welch and The Rt. Hon. The Viscount Thurso; M B Radcliffe is Secretary to the Committee.

Going Concern

After making appropriate enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Group's financial statements.

Internal financial controls

The Board of directors is responsible for the Group's system of internal financial controls. It should be recognised that such a system can provide only reasonable and not absolute assurance against material misstatement or loss. The Board have reviewed the effectiveness of the system of internal financial controls and report on the key procedures established as follows.

Control Environment

The Group's control environment is the responsibility of the Group's directors and managers at all levels. The Group's organisational structure has clear lines of responsibility. Operating and financial responsibility for subsidiary companies is delegated to operating units. The Board has communicated ethical policies to all personnel.

Corporate Governance continued

Identification of business risks
The Group's management have a clear responsibility for identifying risks facing each of the Group's businesses and for developing systems to mitigate and monitor risks. Both the Board's executive directors and its non-executive directors monitor this process.

Major corporate information systems
The Group's accounting manual sets out the Group's policies and financial and accounting procedures. The Group operates a comprehensive budgeting and financial reporting system, which, as a matter of routine, compares actual results to budget. Management accounts are produced on a monthly basis. Variances from budget are thoroughly investigated and revisions to forecasts are made. Cash flow forecasts are prepared on a regular basis to ensure that the Group has adequate funds and resources for the foreseeable future.

Main control procedures
Operating management establish control procedures in response to each of the key risks identified. Operating management report whether its key controls have functioned effectively. Standard financial control procedures operate throughout the Group to ensure the integrity of the Group's financial statements. The Board has procedures for authorisation of capital expenditure budgets.

Monitoring system used by the Board
The Board reviews and approves budgets and monitors the Group's performance against those budgets. Variances from the expected outcome are investigated fully and where lapses in internal control are detected, these are rectified. The Board receives reports on any deficiencies in internal control from the Audit Committee and external auditors. Where lapses are detected, action is taken to prevent further breaches of the Group's procedures. The Audit Committee also reviews the work programmes and findings of the external auditors.

Statement of Directors' Responsibilities
Company law requires the directors to prepare consolidated accounts for each financial year, which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Company and the Group for that period. In preparing those accounts, 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, subject to any material departures disclosed and explained in the accounts;

Prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company, or any member of 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 the Group, and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

M B Radcliffe, *Secretary*
18th March, 1997

Report of the Remuneration Committee

Remuneration of Executive Directors

The remuneration of directors is determined by the Remuneration Committee ("The Committee") comprising J Kemp-Welch, Sir Ewen Fergusson, The Rt. Hon. The Viscount Thurso and J Leigh Pemberton. The Company has complied throughout the period with Section A of the best practice provisions for directors remuneration annexed to the London Stock Exchange Listing Rules, which concerns the membership and operation of the remuneration committee. Fees of the non-executive directors are recommended by the Committee and determined by the Board as a whole. In determining that policy it has given full consideration to Section B of the best practice provisions for directors remuneration annexed to the London Stock Exchange Listing Rules. The committee follows certain fundamental principles in deciding appropriate levels and forms of remuneration for the executive directors including a policy reflecting:

- *the decentralised nature of our operations and a focus on gaining market share*
- *the importance of recruiting and retaining international management of the appropriate calibre*
- *a strong link between reward and performance against agreed targets, specifically recognising the return provided to shareholders and the long-term performance of both the business and the individual.*

The Committee has applied these principles in the development of reward plans which:

- *pay a mid-market base salary while providing a highly competitive total pay package, but only when warranted by performance*
- *recognising the importance of attaining targets set in the Company's budgets and five year plans*
- *directly align the interests of executives with those of the shareholders.*

The following is intended as a summary of the remuneration packages for executive directors and other senior executives. Copies of the full documentation covering the various plans, together with the executive directors' employment contracts are available for inspection by shareholders.

Details of each director's remuneration, including, but not restricted to basic salary and fees, bonuses, compensation for loss of office, together with the total for each director for the period to 31st December, 1996 and the corresponding period to 31st December, 1995, are set out in this report.

Base salary and benefits

The base salaries and benefits (typically including car and life and health insurance) of executive directors and other senior executives are reviewed, normally annually by the Committee, having regard to competitive market practice supported by external, independent surveys and advice. Any increase reflects both individual and business performance.

Annual and longer-term incentive plans

Target setting

The Savoy Hotel PLC operates a systematic, annual planning and budgeting review process covering each business. The financial targets arising out of this process are reviewed and approved by the Board and the Committee. There are two important targets identified for incentive plans:

- *a Target Profit, at which the target reward is earned*
- *a Maximum Profit Target (typically 115% of Target Profit) at which the maximum reward is earned.*

Executive directors' incentive scheme

R Pajares earns a bonus of 30% of nominal salary if 80% of budgeted profit before tax ("entry point") is achieved and an additional 1% of nominal salary for each incremental 1% of budgeted profit before tax achieved above the entry point, up to 100% of budgeted profit before tax, at which point the maximum of 50% of nominal salary is earned. An additional bonus of £150,000 is payable (once only) if the Company's pre tax profits exceed an amount to be agreed between £18 million and £20 million.

M B Radcliffe earned a bonus of ½% of profits before tax in excess of £5 million, up to a maximum of £25,000.

A J Fort earns 5% of annual basic salary at 95% of budgeted profit before tax rising in stages to 32% of annual base salary, at 115% of budgeted profits. In addition, he can receive up to a further 8% of annual base salary, dependent on the achievement of certain personal objectives. An additional bonus of £100,000 is payable if the Company's profits before tax exceed £20 million by the end of 1998, or £22 million by the end of 1999, or £25 million by the end of 2000.

Report of the Remuneration Committee continued

Remuneration of non-executive directors
The remuneration of the non-executive directors is determined by the Board with the assistance of independent advice concerning comparable organisations and appointments.

Neither the Chairman nor the other non-executive directors receive any pension or other benefits from the Company, nor do they participate in any of the bonus or incentive schemes or share option schemes.

The Chairman and the other non-executive directors do not have service contracts with the Company.

Retirement benefits
M B Radcliffe is a member of the Group's contributory pension fund which, subject to Inland Revenue limits, provides members with a pension of up to two thirds of basic salary after 20 years of membership.

The company provides 20% of either basic or nominal salary, which ever is the higher, subject to Inland Revenue limits to provide a pension for R Pajares, and 20% of basic salary subject to Inland Revenue limits to provide a pension for A J Fort.

Entitlement to notice
R Pajares currently has a notice period which expires on 7th November, 1999. This was an element of the contract required to attract him to The Savoy Hotel PLC from an international competitor.

A J Fort currently has a notice period of six months.

Sir Ewen Fergusson and The Rt. Hon. The Viscount Thurso, who retire by rotation, and, being eligible, offer themselves for re-election, have no service contract.

G Robinson and A Bernstein, having been appointed since the last Annual General Meeting, retire and, being eligible, offer themselves for election. Neither director has a service contract.

Remuneration of directors

Directors' emoluments	Salary Payments £	Other Emoluments £	Incentive Payments £	Pension Contributions £	Fees £	**1996 Total £**	1995 Total £
Executive directors							
R Pajares (Highest Paid Director)	190,866	16,623	74,146	28,455	–	**310,090**	308,745
M B Radcliffe [1][9]	80,383	8,782	25,000	–	–	**114,165**	145,179
A J Fort	89,000	7,750	34,960	16,440	–	**148,150**	20,877
W R L Leigh [2]	–	–	–	–	–	–	7,236
Non-executive directors							
Sir Ewen Fergusson (Chairman)	40,000	–	–	–	–	**40,000**	30,000
Sir George Christie	–	–	–	–	8,750	**8,750**	5,000
J Kemp-Welch	–	–	–	–	10,000	**10,000**	5,000
Mrs C S Price	–	–	–	–	8,750	**8,750**	8,750
The Hon. Sir Rocco Forte [3]	–	–	–	–	2,500	**2,500**	5,000
The Rt Hon. The Viscount Thurso	–	10,000	–	–	10,000	**20,000**	5,000
Sir Anthony Tennant [4]	–	–	–	–	2,500	**2,500**	5,000
J Leigh Pemberton	–	–	–	–	11,250	**11,250**	2,500
G J Robinson [5]	–	–	–	–	6,771	**6,771**	–
A Bernstein [6]	–	–	–	–	6,771	**6,771**	–
Sir Michael Richardson [7]	–	–	–	–	–	–	5,000
Sir Anthony Tuke [8]	–	–	–	–	–	–	1,530
	400,249	43,155	134,106	44,895	67,292	**689,697**	554,817

[1] Retired 31st December, 1996
[2] Resigned 14th January, 1995. W R L Leigh received an additional £198,000 in 1995 for loss of executive office
[3] Resigned 20th May 1996
[4] Resigned 20th May, 1996
[5] Appointed 24th May, 1996
[6] Appointed 24th May, 1996
[7] Retired 31st December, 1995
[8] Retired 11th January, 1995
[9] Mr M B Radcliffe transferred into the Group Staff Pension Scheme from another group pension scheme. The estimated actuarial cost to the Staff Pension Scheme of funding this transfer was £475,000 representing the cost of Mr M B Radcliffe's early retirement on two thirds final salary and with this benefit escalating at the lower of RPI or 5%.

Report of the Auditors

To the Members of The Savoy Hotel PLC
We have audited the accounts on pages 28 to 43.

Respective responsibilities of Directors and Auditors
As described on page 24 the Company's directors are responsible for the preparation of accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts are free from material misstatements, 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 accounts.

Opinion
In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group at 31st December, 1996 and of the loss, total recognised gains and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand
Chartered Accountants and Registered Auditors

London
18th March, 1997

Report of the Auditors to The Savoy Hotel PLC on Corporate Governance matters
In addition to our audit of the accounts, we have reviewed the directors' statement on pages 23 and 24 on the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the accounts. The objective of our review is to draw attention to non-compliance with the Listing Rules 12.43(j) and 12.43(v).

Basis of opinion
We carried out our review in accordance with the guidance issued by the Auditing Practices Board. The guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial controls or its corporate governance procedures, nor on the ability of the Company to continue in operational existence.

Opinion
With respect to the directors' statement on internal financial control on pages 23 and 24 and going concern on page 23, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the accounts.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on pages 23 and 24 appropriately reflect the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).

Coopers & Lybrand
Chartered Accountants

London
18th March, 1997

Consolidated Profit and Loss Account

Year ended 31st December, 1996

	Note	**1996 Before exceptional items £'000**	1995 Before exceptional items £'000	**1996 Exceptional items £'000**	1995 Exceptional items £'000	**1996 Total £'000**	1995 Total £'000
Turnover	1						
Continuing		**91,412**	88,980	–	–	**91,412**	88,980
Discontinued		**881**	7,066	–	–	**881**	7,066
		92,293	96,046	–	–	**92,293**	96,046
Operating costs	2, 3	**70,633**	77,663	**16,512**	(58)	**87,145**	77,605
Gross profit (loss)		**21,660**	18,383	**(16,512)**	58	**5,148**	18,441
Depreciation	3, 14	**5,976**	6,658	**23,429**	–	**29,405**	6,658
Operating profit/(loss)	2, 3						
Continuing		**15,652**	11,763	**(39,941)**	58	**(24,289)**	11,821
Discontinued		**32**	(38)	–	–	**32**	(38)
Operating (loss) profit						**(24,257)**	11,783
Profit (loss) on sale of discontinued operations	4					**362**	(706)
						(23,895)	11,077
Investment income	5					**227**	143
						(23,668)	11,220
Interest payable	6					**642**	657
(Loss) profit on ordinary activities before taxation						**(24,310)**	10,563
Taxation	7					**2,527**	4,301
(Loss) profit for the financial year	8					**(26,837)**	6,262
Dividend						**5,008**	4,006
Transfer (from)/to reserves						**(31,845)**	2,256
Earnings (loss) per share:	9						
A Ordinary Shares of 10p each		**38.8p**	27.1p			**(93.8)p**	21.9p
B Ordinary Shares of 5p each		**19.4p**	13.5p			**(46.9)p**	10.9p

Statement of Total Recognised Gains and Losses

Year ended 31st December, 1996

	Note	1996 £'000	1995 £'000
(Loss) profit for the financial year		**(26,837)**	6,262
Other recognised gains and losses for the year:			
Exchange profit on consolidation of subsidiaries' net assets		–	503
Unrealised deficit on revaluation of Savoy Theatre		–	(30)
Unrealised revaluation surplus on land and buildings		**312,490**	–
	24	**312,490**	473
Total gains recognised since the last annual report		**285,653**	6,735

Note of historical cost profits and losses

	1996 £'000	1995 £'000
Reported (loss) profit on ordinary activities before taxation	**(24,310)**	10,563
Realisation of property valuation surplus of previous year	**4,050**	–
	(20,260)	10,563
Historical cost (loss) profit for the year retained after taxation and dividends	**(27,795)**	2,256

Reconciliation of movement in shareholders' funds

	1996 £'000	1995 £'000
(Loss) profit for the financial year	**(26,837)**	6,262
Dividend for the year	**(5,008)**	(4,006)
	(31,845)	2,256
Goodwill on disposals	**232**	594
Exchange profit on consolidation	–	503
Unrealised revaluation surplus (deficit) on land and buildings	**312,490**	(30)
Net addition to shareholders' funds	**280,877**	3,323
At 31st December, 1995	**91,206**	87,883
At 31st December, 1996	**372,083**	91,206

Balance Sheets

At 31st December, 1996

	Note	**Group 1996 £'000**	Group 1995 £'000	**Company 1996 £'000**	Company 1995 £'000
Fixed assets					
Investment properties	13	**–**	4,500	**–**	4,500
Tangible assets	14	**402,958**	89,978	**390,796**	77,199
		402,958	94,478	**390,796**	81,699
Investments	15	**–**	2,406	**10,554**	13,865
		402,958	96,884	**401,350**	95,564
Current assets					
Stocks	16	**3,478**	2,955	**3,471**	2,939
Debtors: amounts falling due after more than one year	17	**4,313**	4,145	**4,313**	4,145
Debtors: amounts falling due within one year	17	**10,585**	11,008	**14,495**	12,774
Investments	18	**300**	–	**300**	–
Cash at bank and in hand		**1,084**	5,577	**1,077**	5,567
		19,760	23,685	**23,656**	25,425
Creditors – amounts falling due within one year					
Loans and overdrafts	19	**18,471**	1,473	**18,670**	1,923
Creditors	20	**20,755**	17,752	**21,331**	17,933
Dividend		**5,008**	4,006	**5,008**	4,006
		44,234	23,231	**45,009**	23,862
Net current (liabilities)/assets		**(24,474)**	454	**(21,353)**	1,563
Total assets less current liabilities		**378,484**	97,338	**379,997**	97,127
Creditors – amounts falling due after more than one year					
Loans and overdrafts	19	**2,042**	2,442	**1,962**	2,362
Creditors	20	**935**	618	**12,985**	10,935
		2,977	3,060	**14,947**	13,297
Provisions for liabilities and charges					
Deferred taxation	21	**315**	299	**–**	–
Deferred profit on disposal	22	**3,109**	2,773	**4,213**	3,877
		3,424	3,072	**4,213**	3,877
		6,401	6,132	**19,160**	17,174
Net assets		**372,083**	91,206	**360,837**	79,953
Capital and reserves					
Called up share capital	23	**2,861**	2,861	**2,861**	2,861
Share premium account	24	**3,128**	3,128	**3,128**	3,128
Revaluation reserves	24	**319,739**	11,299	**315,721**	7,281
Other reserves	24	**1,741**	1,741	**–**	–
Profit and loss account	24	**44,614**	72,177	**39,127**	66,683
Equity shareholders' funds		**372,083**	91,206	**360,837**	79,953

The accounts on pages 28 to 43 were approved by the Board of Directors on 18th March, 1997, and were signed on its behalf by:

Sir Ewen Fergusson
Chairman

Ramon Pajares
Managing Director

Consolidated Cash Flow Statement

For the year ended 31st December, 1996

	Note	**1996 £'000**	Restated 1995 £'000
Net cash inflow from operating activities	A	**11,539**	20,916
Returns on investments and servicing of finance	B	**(496)**	(323)
Taxation		**(3,714)**	(1,595)
Capital expenditure and financial investment	B	**(30,875)**	(10,320)
Acquisition and disposals	B	**6,760**	6,630
Equity dividends paid		**(4,006)**	(2,003)
Cash outflow before use of liquid resources and financing		**(20,792)**	13,305
Management of liquid resources		**–**	–
Financing			
Decrease in debt and lease financing	B	**(699)**	(848)
(Decrease) increase in cash in the period		**(21,491)**	12,457

Reconciliation of net cash flow to movement in net debt

Decrease in cash in the period	**(21,491)**	12,457
Cash outflow from decrease in debt and lease financing	**699**	848
Change in net debt resulting from cash flows	**(20,792)**	13,305
Exchange differences	**–**	(58)
New finance leases	**(707)**	–
Movement in net debt in the period	**(21,499)**	13,247
Net debt at 1st January, 1996	**687**	(12,560)
Net debt at 31st December, 1996	**(20,812)**	687

Notes to the Consolidated Cash Flow Statement

For the year ended 31st December, 1996

A Reconciliation of operating profit to operating cash flows	**Continuing operations 1996 £'000**	Continuing operations 1995 £'000	**Discontinued operations 1996 £'000**	Discontinued operations 1995 £'000	**Total 1996 £'000**	Total 1995 £'000
Operating profit	**(24,289)**	11,821	**32**	(38)	**(24,257)**	11,783
Depreciation charges	**5,856**	6,053	**120**	605	**5,976**	6,658
Profit on asset disposals	**(107)**	13	**–**	(30)	**(107)**	(17)
Asset and investment write-down	**25,529**	–	**–**	–	**25,529**	–
Finance lease interest included in operating profit	**93**	131	**–**	–	**93**	131
(Increase) decrease in stocks	**(533)**	2,383	**3**	21	**(530)**	2,404
Decrease (increase) in debtors	**541**	(39)	**41**	99	**582**	60
Increase (decrease) in creditors	**4,416**	(387)	**(163)**	284	**4,253**	(103)
Net cash inflow from operating activities	**11,506**	19,975	**33**	941	**11,539**	20,916

B Analysis of cash flows for headings netted in the cash flow statement	**1996 £'000**	1995 £'000
Returns on investments and servicing of finance:		
Interest received	**252**	591
Interest paid	**(655)**	(783)
Interest element of finance leases	**(93)**	(131)
Net cash outflow for returns on investments and servicing of finance	**(496)**	(323)
Capital expenditure and financial investment:		
Purchase of tangible fixed assets	**(30,988)**	(10,867)
Sale of plant and machinery	**113**	547
Net cash outflow for capital expenditure and financial investment	**(30,875)**	(10,320)
Net cash inflow from disposals:		
Cash proceeds net of cost	**6,905**	6,455
(Cash) overdraft disposed	**(145)**	175
	6,760	6,630
Financing:		
Repayment of loans	**(400)**	(400)
Capital element of finance lease repayments	**(299)**	(448)
	(699)	**(848)**

C Analysis of net debt	**As at 1 Jan 96 £'000**	Cash flow £'000	Other non-cash changes £'000	**As at 31 Dec 96 £'000**
Cash at bank and in hand and overdrafts	**4,504**	(21,491)	–	**(16,987)**
Debt due after 1 year	**(2,442)**	–	400	**(2,042)**
Debt due within 1 year	**(400)**	400	(400)	**(400)**
Finance leases	**(975)**	299	(707)	**(1,383)**
Total	**687**	(20,792)	(707)	**(20,812)**

D Major non-cash transactions

During the year the group entered into finance lease arrangements in respect of assets with a total capital value at the inception of the leases of £707,000 (1995: Nil).

Notes to the Consolidated Cash Flow Statement

For the year ended 31st December, 1996

E **Sale of Business**	Ancilliary Properties & Other £'000	Camelot £'000
Net assets disposed of:		
Fixed assets	**1,192**	**603**
Investment properties	**4,500**	**–**
Stocks	**–**	**7**
Debtors	**–**	**292**
Creditors	**–**	**(260)**
	5,692	**642**
Goodwill	**–**	**232**
	5,692	**874**
Profit on disposal	**261**	**101**
	5,953	**975**
Satisfied by:		
Deferred payment due 31st March, 1997	**–**	**168**
Cash proceeds net of costs	**5,953**	**952**
Cash transferred with disposal	**–**	**(145)**
	5,953	**975**

Accounting Policies

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 Group and are consistent with prior years.

Basis of Consolidation

The consolidated accounts include the results of the Company and its subsidiaries. The results of subsidiaries, sold or acquired, are included in the consolidated profit and loss account up to, or from, the date control passes.

Fixed Assets

Expenditure on development of the Group's hotels and restaurants, including major replacement and improvement of assets and re-equipment and modernisation of hotel rooms and other facilities, is disclosed appropriately as Land and Buildings, Plant, Machinery, Fixtures and Fittings. Land and Buildings includes the costs associated with structural improvements to freehold and long-term leasehold properties. The cost of replacement of glass and china and certain other loose equipment of hotels and restaurants is charged to revenue in the year in which it is incurred. Antiques are valued by external valuers based on market value. Hotels are valued by external valuers on the basis of existing use value. They will be valued on a regular basis.

Depreciation and Amortisation

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 or amortisation 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 acquisition or subsequent valuation of the property in question. In the event of any diminution in property value below historical cost, provision is made in the profit and loss account.

No depreciation is charged on antiques as they are maintained in good condition and they are not expected to reduce in value.

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

Depreciation and amortisation of other tangible fixed assets is provided on a straight line basis over the following useful lives:
Plant and Machinery: between 1 and 25 years.
Fixtures and Fittings: between 5 and 15 years.

Turnover

Turnover excludes value added tax and sales between Group companies.

Fixed Asset Investments

Investments in subsidiary companies are stated at their historical cost.

Current Asset Investments

Investments held for resale are stated at directors' valuation.

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.

Exchange Rates

Transactions in foreign currencies are translated at average rates.

Stocks

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

Leasing

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

Pensions 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 at a substantially level percentage of payroll costs over employees' working lives with the Group. The cost of providing post retirement benefits is recognised on an accruals basis.

Changes in presentation of financial information

FRS 8 'Related party disclosures' requires the disclosure of the details of material transaction between the reporting entity and any related parties. The new standard came into effect for all accounting periods commencing on or after 23rd December 1995. Accordingly the new disclosures are shown in note 27.

FRS 1 Cash flow statements has been revised in 1996 to change the format for reporting cash flows. The revised standard comes into effect for accounting periods ending on or after 23rd March 1997; Early adoption is encouraged and accordingly the cash flow statement has been presented under the new format and restates the comparatives.

Notes to the Accounts

For the year ended 31st December, 1996

1 Turnover	1996 £'000	1995 £'000
Hotel, restaurant and ancillary business receipts	**91,031**	93,798
Property rentals and theatre revenue	**1,262**	2,248
	92,293	96,046

2 Operating profit

Operating profit including exceptional items is stated after:		
Raw materials and consumables	**16,231**	14,499
Staff costs (note 10)	**31,687**	30,577
Repairs and maintenance	**13,626**	2,483
Operating leases:		
Land and buildings	**690**	471
Other assets	**358**	202
Interest paid on finance leases	**93**	131
Profit on sale of tangible fixed assets	**(107)**	(17)
Auditors' remuneration – the Company	**118**	120
– Subsidiaries	**12**	33
Other operating cost	**23,708**	22,607
Total operating costs of continuing businesses	**86,416**	71,106

Of the costs noted above the amount of each cost attributable to discontinued operations is as follows:

Raw materials	**212**	1,472
Staff costs	**249**	3,456
Repairs and maintenance	**142**	215
Other operating costs	**126**	1,356
Total operating costs of discontinued businesses	**729**	6,499
Total operating costs	**87,145**	77,605

Remuneration of the Company's auditors for the provision of non-audit services to the Company and its UK subsidiaries was £252,000 (1995: £183,000), mainly in respect of work performed to protect the trade in the Offer Period and taxation advice.

Depreciation related to discontinued businesses is £120,000 (1995: £605,000).

3 Exceptional items included in operating profits

Exceptional operating items comprise the following:		
Repair costs	**11,545**	–
Write down of current asset investments (note 18)	**2,100**	–
Advertising and promotional activities	**1,890**	–
Staff costs (included above in staff costs in note 10)	**545**	414
Costs to protect the trade in the Offer Period	**432**	–
Reorganisation costs	–	945
Profit on sale of surplus wine	–	(725)
Rate rebates	–	(92)
Insurance receipts	–	(600)
Exceptional items included in operating costs	**16,512**	(58)
Asset write down and accelerated depreciation disclosed as depreciation	**23,429**	–
Total exceptional items	**39,941**	(58)

These costs are more fully described in the Financial Review on Pages 17, 18 and 19.

Notes to the Accounts

For the year ended 31st December, 1996

4 Profit on sale of discontinued operations	1996 £'000	1995 £'000
Loss on disposal of Forest Mere	–	(216)
Profit on disposal of Camelot	333	–
Profit on disposal of investment and other surplus properties	393	–
Loss on disposal of other operations	(132)	–
Goodwill previously written off to reserves	(232)	(490)
Profit on disposal of discontinued operations	362	(706)

The profits (losses) on disposal relate to the disposal of Camelot Barthropp Ltd, investment properties held by The Group and other non core activities. The tax liability relating to these disposals is £840,000.

5 Investment income		
Interest receivable	227	143

6 Interest payable		
Bank loans and overdrafts	589	604
Debentures and other loans	53	53
Total interest payable on bank loans, overdrafts and other loans	642	657
Finance leases	93	131
Total financing cost	735	788

7 Taxation		
UK taxation:		
Corporation tax for the year at 33% (1995: 33%)	1,660	8,297
Less relief for overseas tax suffered	–	(4,703)
Capital gains tax arising on disposal of businesses	840	600
Under/(over) provision of corporation tax in respect of prior years	11	(56)
Deferred tax charge	16	132
	2,527	4,270
Overseas taxation:		
Charge on profits for the year	–	31
	2,527	4,301

The taxation charge is discussed in the Financial Review on page 18.

8 (Loss) Profit for the financial year

(Loss) profit for the financial year dealt with in the accounts of the Company was £(26,598,000) (1995: £6,993,000).

As permitted, by Section 230 of the Companies Act 1985, a profit and loss account is not presented for the Company.

9 Earnings per share

This is calculated on the net basis using the totals of 27,962,739 A Ordinary Shares of 10p each and 1,306,267 B Ordinary Shares of 5p each in issue and on the (loss)/profit on ordinary activities after taxation of £(26,837,000) (1995: £6,262,000).

Adjusted earnings per share from continuing operations is calculated on the net basis using the totals of 27,962,739 A Ordinary Shares of 10p each and 1,306,267 B Ordinary Shares of 5p each in issue and on the profit on ordinary activities after taxation of £11,097,000 (1995: £7,745,000). Adjusted earnings is calculated on continuing business profit before exceptional items and their related tax charge. Profit before tax from continuing business before exceptionals is £15,237,000 (1995: £11,282,000) and the related tax charge is £4,140,000 (1995: £3,537,000).

10 Employees	1996 £'000	1995 £'000
Staff costs during the year amounted to:		
Wages and salaries	**28,735**	30,130
Social security costs	**2,297**	2,853
Pension costs (note 11)	**904**	1,050
	31,936	34,033
The average number of persons employed by the Group was	**2,235**	2,645

Wages and salaries include exceptional costs of £545,000 (1995: £414,000) relating to the compensation for loss of executive office of directors in 1995 and redundancy payments to other employees following the rationalisation of certain of the Group's operations.

11 Pension and similar obligations

The Group operates two pension schemes:– The Staff Scheme is a defined benefit scheme; The Wages Scheme is a defined contribution scheme. With effect from April, 1997 the Wages Scheme will end and be replaced by a defined contribution scheme which will provide improved benefits to those members of staff who were previously in The Wages Scheme. The Company believes this is an important element of the remuneration package to reward existing staff and attract new staff.

The total pension cost for the Group was £904,000 (1995: £1,050,000), of which £Nil (1995: £52,000) relates to overseas schemes, £45,000 (1995: £65,000) relates to executive director's pension schemes.

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 1st April, 1996. The assumptions that have the most significant effect on the valuation are those relating to the rate of return on investments, rate of increase in dividends and the rates of increase in pension and salaries. It was assumed the investment return would be 8½% per annum, dividends increase would be 4% per annum, salary increases would average 6½% per annum and present and future pensions would increase at the rate of 4½% per annum.

At the date of the latest actuarial valuation, the market value of the assets of the schemes was £19.6m and the actuarial value of the assets was sufficient to cover 119% of the benefits which has accrued to members, after allowing for expected future increases in earnings.

12 Remuneration of directors	1996 £'000	1995 £'000
Staff costs include the following remuneration in respect of directors of the Company:		
Fees	**48**	23
Salary payments (including other emoluments)	**443**	340
Pension contributions	**45**	65
Annual incentive payments	**134**	109
Fees paid to third parties	**19**	18
	689	555
Compensation for loss of executive office	**–**	198
	689	753

Detailed disclosure of directors individual remuneration is given in the Report of the Remuneration Committee on pages 25 and 26.

13 Investment properties	Group 1996 £'000	Group 1995 £'000	Company 1996 £'000	Company 1995 £'000
Freehold land and buildings	**–**	4,500	**–**	4,500

All investment properties were disposed of during the year together with other surplus properties. The revaluation surplus of £4,050,000 (1995: £NIL) relating to the investment properties has been transferred to the profit and loss account reserve (see note 24). The net profit of £393,000 has been disclosed in note 4.

Notes to the Accounts

For the year ended 31st December, 1996

14 Tangible fixed assets	Land and Buildings Freehold £'000	Leasehold Long-term £'000	Leasehold Short-term £'000	Fixtures, Fittings, and Plant and Machinery £'000	Total £'000
Group					
Cost or valuation					
At 1st January, 1996	32,453	9,057	4,437	86,455	132,402
Reclassification	4,313	1,796	(124)	(5,985)	–
Written-off as at 1st January, 1996*	–	–	(2,016)	(28,809)	(30,825)
Additions in the year	15,926	1,478	–	14,291	31,695
Fully depreciated and written off	–	–	(152)	(1,899)	(2,051)
Revaluation in the year	193,061	112,447	–	6,982	312,490
Disposals in the year	(286)	(684)	(264)	(1,917)	(3,151)
At 31st December, 1996	245,467	124,094	1,881	69,118	440,560
Depreciation					
At 1st January, 1996	–	–	2,590	39,834	42,424
Reclassification	–	–	(68)	68	–
Written-off as at 1st January, 1996*	–	–	(1,108)	(6,288)	(7,396)
Charge for the year	–	–	132	5,844	5,976
Fully depreciated and written off	–	–	(152)	(1,899)	(2,051)
Disposals in the year	–	–	(140)	(1,211)	(1,351)
At 31st December, 1996	–	–	1,254	36,348	37,602
Net book value					
At 31st December, 1996	245,467	124,094	627	32,770	402,958
At 1st January, 1996	32,453	9,057	1,847	46,621	89,978
Company					
Cost or valuation					
At 1st January, 1996	21,284	9,057	4,437	83,744	118,522
Reclassification	4,313	1,796	(124)	(5,985)	–
Written-off as at 1st January, 1996*	–	–	(2,016)	(28,809)	(30,825)
Additions in the year	15,926	1,478	–	14,289	31,693
Fully depreciated and written off	–	–	(152)	(1,169)	(1,321)
Revaluation in the year	193,061	112,447	–	6,982	312,490
Disposals in the year	(286)	(684)	(264)	(1,145)	(2,379)
At 31st December, 1996	234,298	124,094	1,881	67,907	428,180
Depreciation					
At 1st January, 1996	–	–	2,590	38,733	41,323
Reclassification	–	–	(68)	68	–
Written-off as at 1st January, 1996*	–	–	(1,108)	(6,288)	(7,396)
Charge for the year	–	–	132	5,719	5,851
Fully depreciated and written off	–	–	(152)	(1,169)	(1,321)
Disposals in the year	–	–	(140)	(933)	(1,073)
At 31st December, 1996	–	–	1,254	36,130	37,384
Net book value					
At 31st December, 1996	234,298	124,094	627	31,777	390,796
At 1st January, 1996	21,284	9,057	1,847	45,011	77,199

*See Financial Review on page 18.

14 Tangible fixed assets (continued)

The freehold and long leasehold hotel properties which the group occupies were valued as at 31st December, 1996 on the basis of existing use value as defined by the Appraisal and Valuation Manual published by The Royal Institution of Chartered Surveyors in the United Kingdom by DE & J Levy, Chartered Surveyors, acting in the capacity of external valuers. One of the properties is primarily long leasehold and therefore the whole of the property has been classified as long leasehold.

In the opinion of DE & J Levy the value of the hotels is £384.3 million.

Antiques which The Group owns, were valued independently as at 31st December, 1995 on the basis of market value by an independent Fine Art and Chattels Valuer, Mr A F Acquier BA, FSVA. In the opinion of the Directors the value of these assets had not materially changed at 31st December, 1996 and they are therefore included at the 1995 valuation. It is the intention of the Directors to have these assets independently valued every 5 years. These assets are classified by The Group as operational assets within Fixtures and Fittings at a value of £7.0 million, the carrying cost is insignificant.

The asset write down at 1st January 1996 has been included in the Profit and Loss Account as depreciation. The write off has resulted from a reassessment of our capitalisation policy and a review of assets in the balance sheet at 31 December 1995.

	1996 £'000	1995 £'000
Freehold and long leasehold properties of the Group at cost or valuation comprise:		
At valuation in 1996	**361,091**	–
At valuation in 1993, 1994 and 1995	**7,000**	7,000
At valuation in 1962	**260**	4,136
At valuation in 1948	**–**	1,281
At historical cost	**1,210**	29,093
	369,561	41,510
At historical cost	**54,999**	34,261

Fixtures, fittings, plant and machinery includes assets held under finance leases with net book value of £670,000 (1995: £952,000). The depreciation charge for the year on these assets was £1,038,000 (1995: £403,000).

15 Fixed asset investment – unlisted	Subsidiaries £'000	Other Investments £'000	Total £'000
Group			
Cost			
At 1st January, 1996	–	2,406	2,406
Reclassification as current asset (see note 18)	–	(2,400)	(2,400)
Reclassification as fixtures and fittings	–	(6)	(6)
At 31st December, 1996	–	–	–
Company			
Cost			
At 1st January, 1996	14,084	2,400	16,484
Reclassification as current asset (see note 18)	–	(2,400)	(2,400)
Net disposals in the year	(911)	–	(911)
At 31st December, 1996	13,173	–	13,173
Provision against cost			
At 1st January, 1996	2,619	–	2,619
Utilised during the year	–	–	–
At 31st December, 1996	2,619	–	2,619
Net book value			
At 31st December, 1996	10,554	–	10,554
At 1st January, 1996	11,465	2,400	13,865

Notes to the Accounts

For the year ended 31st December, 1996

16 Stocks	Group 1996 £'000	Group 1995 £'000	Company 1996 £'000	Company 1995 £'000
Raw materials and consumables	**3,478**	2,955	**3,471**	2,939

17 Debtors				
Amounts falling due within one year:				
Trade debtors	**5,559**	5,995	**5,500**	5,624
Advance corporation tax recoverable	**1,252**	1,001	**1,252**	1,001
Amounts owed by subsidiaries	**-**	-	**3,962**	2,209
Other debtors	**1,181**	721	**1,256**	717
Prepayments and accrued income	**2,593**	3,291	**2,525**	3,223
	10,585	11,008	**14,495**	12,774

Other debtors include an amount of £504,000 (1995: Nil) relating to deferred consideration for the sale of Camelot Barthropp Ltd. The amount is payable in three half yearly instalments with the final payment being due on 31st March 1998. The final payment of £168,000 is due on 31st March, 1998 is disclosed in Other Debtors falling due after more than one year.

Amounts falling due after more than one year:				
Other debtors	**4,313**	4,145	**4,313**	4,145

Other debtors falling due after more than one year represents the deferred payment of £4,145,000 (1995: £4,145,000) due in respect of The Lancaster Hotel. This payment is due on the 30th April, 1998 and carries interest at the rate of 3% per annum.

18 Current Asset – Investments				
At 1st January, 1996	**-**	-	**-**	-
Transferred on 1st January, 1996 (see note 15)	**2,400**	-	**2,400**	-
Write down to directors' valuation	**(2,100)**	-	**(2,100)**	-
At 31st December, 1996	**300**	-	**300**	-

19 Loans and overdrafts				
Amounts falling due within one year:				
Bank loans and overdrafts	**18,471**	1,473	**18,670**	1,923
Amounts falling due after more than one year:				
Secured loan repayable in 1998 (interest at building society rates)	**312**	312	**312**	312
4% First Mortgage Perpetual Debenture Stock	**450**	450	**450**	450
Bank loans:				
Repayable within five years	**1,200**	1,600	**1,200**	1,600
Savoy Theatre Limited:				
4% First Mortgage Perpetual Debenture Stock	**80**	80	**-**	-
	2,042	2,442	**1,962**	2,362

Bank loans and overdrafts incur interest at rates which vary with LIBOR.

The Company has a ten year loan repayable in annual instalments of £400,000 with £1,600,000 (1995: £2,000,000) outstanding at the year end. Of this total £400,000 (1995: £400,000) is included in amounts falling due within one year and £1,200,000 (1995: £1,600,000) repayable within five years.

20 Creditors	Group 1996 £'000	Group 1995 £'000	Company 1996 £'000	Company 1995 £'000
Amounts falling due within one year:				
Trade creditors	**4,310**	2,490	**4,246**	2,390
Corporation tax including ACT payable	**3,745**	4,736	**3,754**	4,634
Other taxation and social security payable	**1,505**	3,000	**1,453**	2,889
Other creditors	**876**	1,029	**1,595**	1,662
Obligations under finance leases	**448**	357	**448**	357
Accruals and deferred income	**9,871**	6,140	**9,835**	6,001
	20,755	17,752	**21,331**	17,933
Amounts falling due after more than one year:				
Amounts owed to subsidiaries	–	–	**12,050**	10,317
Obligations under finance leases				
repayable – between one and two years	**294**	237	**294**	237
– between two and five years	**641**	339	**641**	339
– over five years	–	42	–	42
	935	618	**12,985**	10,935

21 Deferred taxation

Amount provided for accelerated capital allowances	**315**	299	–	–
Potential liability:				
Accelerated capital allowances	**4,299**	9,655	**3,986**	9,338
Revaluation and capital gains deferred by		–	–	–
rollover and holdover relief	–	900	–	900
Other timing differences	**(286)**	(286)	**(286)**	(284)
	4,013	10,269	**3,700**	9,954
Deferred taxation movements:				
At 1st January 1996	**299**	167	–	–
Charge for the year	**16**	132	–	–
At 31st December 1996	**315**	299	–	–

The potential tax liability which might arise in the event of the disposal of revalued properties is not quantified as the directors do not consider it to constitute timing differences, after taking account of expected rollover relief.

22 Deferred profit on disposal

Included in provisions for liabilities and charges is an amount of £3,109,000 (1995: £2,773,000) which is the Group's deferred profit on the sale of The Lancaster Hotel and Camelot Barthropp Ltd.

The deferred profit relating to the The Lancaster Hotel is £2,773,000 (1995: £2,773,000). The deferred profit will be recognised in the profit and loss account when the deferred payment of £4,145,000 is received in April, 1998. The deferred profit in the Company is £3,877,000 (1995: £3,877,000).

The deferred profit relating to Camelot Barthropp Ltd is £336,000 (1995: Nil). The profit is recognised in the profit and loss account when the deferred payments are earned. The second payment of £168,000 which has been earned, and is receivable on 31st March, 1997 has been included in the Profit and Loss Account of the current year. Two further equal instalments of £168,000 are due on 30th September, 1997 and 31st March, 1998 provided certain revenue targets are achieved. The deferred profit in the Company is £336,000 (1995: Nil).

Notes to the Accounts

For the year ended 31st December 1996

23 Called up share capital	**1996 £'000**	1995 £'000
Authorised:		
48,780,490 A Ordinary Shares of 10p each	**4,878**	4,878
2,439,020 B Ordinary Shares of 5p each	**122**	122
	5,000	5,000
Allotted, called up and fully paid:		
27,962,739 A Ordinary Shares of 10p each	**2,796**	2,796
1,306,267 B Ordinary Shares of 5p each	**65**	65
	2,861	2,861

The A and B Ordinary Shares rank *pari passu* in all respects other than their voting rights. A Ordinary Shares of 10p carry 1 vote per 10 shares. B Ordinary Shares of 5p carry 10 votes per 5 shares.

24 Share premium account and reserves	Share Premium £'000	Revaluation Reserves £'000	Other Reserves £'000	Profit and Loss Account £'000
Group				
At 1st January, 1996	3,128	11,299	1,741	72,177
Loss for the financial year	–	–	–	(26,837)
Dividend	–	–	–	(5,008)
Revaluation surplus in year	–	312,490	–	–
Realised gain on disposal of investment properties	–	(4,050)	–	4,050
Goodwill on disposal	–	–	–	232
At 31st December, 1996	3,128	319,739	1,741	44,614
Company				
At 1st January, 1996	3,128	7,281	–	66,683
Loss for the financial year	–	–	–	(26,598)
Dividend	–	–	–	(5,008)
Revaluation surplus in the year	–	312,490	–	–
Realised gain on disposal of investment properties	–	(4,050)	–	4,050
At 31st December, 1996	3,128	315,721	–	39,127

The accumulated goodwill written off to Group reserves as at 31st December, 1996 is £977,000 (1995: £1,209,000).

25 Financial commitments	**Group 1996 £'000**	Group 1995 £'000	**Company 1996 £'000**	Company 1995 £'000
Capital commitments:				
Not contracted	**867**	10,321	**867**	10,321
Contracted but not provided in the accounts	**14,000**	7,507	**14,000**	7,507
Operating lease commitments:				
Land and buildings expiring – within one year	**23**	6	**23**	6
– in two to five years	**61**	56	**61**	56
– in more than five years	**410**	396	**410**	396
	494	458	**494**	458
Other assets expiring – within one year	**101**	57	**101**	55
– in two to five years	**395**	85	**395**	80
– in more than five years	**1**	8	**1**	8
	497	150	**497**	143
Annual commitments under non-cancellable leases	**991**	608	**991**	601

26 Interest in Group undertakings

The principal trading subsidiaries of the Company are:

	Country of incorporation and operation	Description of shares held	Proportion of nominal value of issued shares held by the Company
Savoy Theatre Ltd	England & Wales	Ordinary shares of £5.50	100%

27 Related Party Disclosure

During the year there were no material transactions apart from pension transactions as shown in note 11, involving any Related Party which requires disclosure.

Directors' Interests and Other Major Shareholdings

Interest at 31st December, 1996, and at 1st January, 1996

	Ordinary Share Capital			
Directors' and Company Secretary Beneficial Interests	A Shares		B Shares	
	31st December 1996	1st January 1996	31st December 1996	1st January 1996
Sir George Christie	1,500	1,500	–	–
J Kemp-Welch	3,000	3,000	–	–
Mrs C S Price	2,500	2,500	90	90
The Rt Hon. The Viscount Thurso	200	200	3	3
R Pajares	100	100	–	–
J Leigh Pemberton	500	500	8	8
M B Radcliffe (Company Secretary)	3,233	3,233	–	–
Directors' and Company Secretary Interests as Trustees				
M B Radcliffe	1,044,903	1,044,903	329,651	329,021
R Pajares	–	–	630	630

M B Radcliffe has a beneficial interest of £500 (1995: £500) in the 4% First Mortgage Debenture Stock of Savoy Theatre Ltd. R Pajares and M B Radcliffe have an interest as trustees of £600 (1995: £600) in the 4% First Mortgage Perpetual Debenture Stock of The Savoy Hotel PLC.

M B Radcliffe and The Rt Hon. The Viscount Thurso have interests as members on the Conseil d'Administration of La Fondation pour la Formation Hôtelière in 155,163 B Shares.

There has been no change in directors' interests between 31st December, 1996 and 28th February, 1997.

Major Interest in the Ordinary Share Capital at 31st January, 1996.

The Company has been notified that Forte Plc (a subsidiary of Granada Group PLC) is interested in 19,479,880 A Shares and 164,960 B Shares equal to 68.36% of the ordinary share capital of The Savoy Hotel PLC, which carries the right to 42.12% of the total votes. Under the terms of the Companies Act 1985, The Savoy Hotel PLC is not a subsidiary of Forte Plc.

The Company has also been informed of the interest as shown below of the trustees of The D'Oyly Carte Charitable Trust, which amounts to 25.19% of the B Shares in issue and 3.74% of the A Shares (equivalent to 14.10% of the total votes), the trustees of The Wontner Family Settlement, which amounts to 20.66% of the B Shares (equivalent with A Shares to 10.66% of the total votes) and of the trustees of The Savoy Educational Trust, which amounts to 18.82% of the B Shares and 4.57% of the A Shares (equivalent to 11.45% of the total votes).

The individual interest of each trustee, as notified to the Company, being their total interest in the A and B Ordinary Shares is as follows: E J P Elliott 2,323,182 A Shares and 574,840 B Shares; Mrs J Sibley 2,323,192 A Shares and 574,840 B Shares; R F Jones 1,278,449 A Shares and 245,819 B Shares; D Battersby and M T Parker 1,278,424 A Shares and 245,189 B Shares; Sir John Batten and Sir Martyn Beckett 1,044,758 A Shares and 329,021 B Shares; Mrs F M Radcliffe 1,048,136 A Shares and 329,021 B Shares; Lady Wontner 271,520 B Shares; M J Donovan and J B Dinan 269,827 B Shares.

Other interests of which the Company has been notified are as follows: La Fondation pour la Formation Hôtelière has an interest in 155,163 B Shares (equivalent with A Shares to 5.74% of the total votes); December Commercial (No.1) Ltd (in Receivership) formerly St Anselm Development Co Ltd has 822,443 A Shares and 64,492 B Shares (equivalent to 3.90% of the total votes); Credit Suisse London Nominees Ltd. has 928,400 A Shares representing 3.32% of the A Shares in issue; J I H Wontner 90,926 B Shares representing 6.96% of the B Shares in issue; A G I Wontner 45,457 B Shares representing 3.48% of the B Shares in issue; Mrs J C S Emery 84,918 B Shares representing 6.50% of the B Shares in issue.

Financial Record

Year Ended 31st December, 1996

	1992 £'000	1993 £'000	1994 £'000	1995 £'000	**1996 £'000**
Turnover					
Continuing operations	69,983	76,440	85,289	88,980	**91,412**
Discontinued operations	6,779	6,829	6,768	7,066	**881**
	76,762	83,269	92,057	96,046	**92,293**
Operating profit/(loss)					
Continuing operations	(142)	1,679	4,318	11,763	**15,652**
Discontinued operations	(19)	(425)	359	(38)	**32**
Exceptional profit/(loss)	104	291	(181)	58	**(39,941)**
	(57)	1,545	4,496	11,783	**(24,257)**
Profit/(loss) on sale of discontinued operations	–	–	–	(706)	**362**
	(57)	1,545	4,496	11,077	**(23,895)**
Investment income	229	589	532	143	**227**
	172	2,134	5,028	11,220	**(23,668)**
Interest payable	1,599	1,409	798	657	**642**
Profit/(loss) on ordinary activities before taxation	(1,427)	725	4,230	10,563	**(24,310)**
Taxation	(1,066)	215	1,165	4,301	**2,527**
Profit/(loss) for the financial year	(361)	510	3,065	6,262	**(26,837)**
Dividend	2,003	1,001	2,003	4,006	**5,008**
Transfer to/(from) reserves	(2,364)	(491)	1,062	2,256	**(31,845)**
Adjusted earnings per share from continuing operations					
A Ordinary Shares of 10p each	1.6p	1.8p	10.5p	27.1p	**38.8p**
B Ordinary Shares of 5p each	0.8p	0.9p	5.3p	13.5p	**19.4p**
Earnings per share from total operations					
A Ordinary Shares of 10p each	(1.3)p	1.8p	10.7p	21.9p	**(93.8)p**
B Ordinary Shares of 5p each	(0.6)p	0.9p	5.4p	10.9p	**(46.9)p**
Net assets employed					
Fixed assets	98,945	102,349	100,715	96,884	**402,958**
Net current assets/(liabilities)	(10,061)	(11,421)	(8,811)	454	**(24,474)**
Total assets less current liabilities	88,884	90,928	91,904	97,338	**378,484**
Long-term creditors and provisions	1,093	982	1,179	3,690	**4,359**
Long-term loans and overdrafts	4,617	3,242	2,842	2,442	**2,042**
Net assets	83,174	86,704	87,883	91,206	**372,083**
Called up share capital	2,861	2,861	2,861	2,861	**2,861**
Reserves including share premium	80,313	83,843	85,022	88,345	**369,222**
Equity shareholders' funds	83,174	86,704	87,883	91,206	**372,083**

Notice of Meeting

Notice is hereby given that the One Hundred and Eighth Annual General Meeting of The Savoy Hotel PLC will be held at The Savoy Hotel (River Entrance), London WC2R 0EU, on Monday, 19th May, 1997, at 12 noon, for the purpose of transacting the following business:

Resolutions

1 To receive and adopt the Directors' Report, the Consolidated Profit and Loss Account for the year ended 31st December, 1996, and the Balance Sheets as at 31st December, 1996 and to declare a dividend of 175% for the year ended 31st December, 1996.

2 To re-elect Sir Ewen Fergusson, a Director retiring by rotation.

3 To re-elect The Rt. Hon. The Viscount Thurso, a Director retiring by rotation.

4 To elect G Robinson, a Director appointed since the last Annual General Meeting.

5 To elect A Bernstein, a Director appointed since the last Annual General Meeting.

6 To re-appoint Coopers & Lybrand as auditors to the Company and to authorise the Directors to determine their remuneration.

As special business, to consider and, if thought fit, to pass Resolution 7 as a Special Resolution:

7 That the Board of Directors be and is hereby empowered pursuant to section 95 of the Companies Act 1985, to allot equity securities (within the meaning of section 94 of the said Act) for cash, as if section 89(1) of the said Act did not apply to any such allotment, provided that this power shall be limited:

(A) to the allotment of equity securities in connection with a rights issue in favour of A and B Ordinary shareholders where the equity securities respectively attributable to the interests of the A and B Ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of A and B Ordinary Shares held by them (subject in each case to such exclusions or other arrangements as the Board may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of, or the requirements of, any regulatory body or any stock exchange in any territory or otherwise howsoever); and

(B) to the allotment (otherwise than pursuant to sub-paragraph (A) above) of equity securities up to an aggregate nominal value of £143,079

and shall expire at the conclusion of the next Annual General Meeting of the Company or fifteen months from the date on which this Resolution is passed, whichever is the earlier, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Board may allot equity securities in pursuance of such an offer or agreement as if the power conferred hereby had not expired.

Registered Office:
1 Savoy Hill
London WC2R 0BP
Registered in England and Wales No 29022

By Order of the Board
M B Radcliffe
Secretary
19th March, 1997

Notes

A member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote instead of them. A proxy need not be a member of the Company. To be valid, instruments of proxy must be deposited at the offices of Lloyds Bank Registrars, The Causeway, Worthing, W. Sussex BN99 6DB not less than 48 hours before the time approved for holding the meeting. Ordinary Shareholders will find enclosed a form of proxy for use at the meeting.

Completion and return of the form of proxy will not prevent an Ordinary Shareholder attending and voting at the meeting in person.

The Company pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only those shareholders registered in the register of members of the Company as at 6 p.m. on 17th May, 1997 shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6 p.m. on 17th May, 1997 shall be disregarded in determing the rights of any person to attend or vote at the meeting.

A statement of the holdings and of all the transactions of each Director and his family interests in the equity share capital of the Company and the service contracts of Directors will be available for inspection by any member of the Company at the Registered Office of the Company during the usual business hours on any weekday (Saturdays and Bank Holidays excepted) from the date of this Notice until the date of the Annual General Meeting. This statement together with service contracts of Directors will also be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting.

Notes for Shareholders

Registrars

On 19th February, 1997 the Company appointed Lloyds Bank Registrars as its Registrar. All communications to the Registrars should be addressed to Lloyds Bank Registrars, The Causeway, Worthing, West Sussex BN99 6DA.

CREST

CREST is the new computerised settlement system for shares which has been developed by CRESTCO Limited. The system was introduced in July 1996 and it is expected that the Company will join CRESTCO on 24th March, 1997. Shareholders may retain their share certificates if they so wish, although they might find the CRESTCO system a more efficient method for holding and transferring shares if they deal regularly.

Payments of dividends by BACS

Many shareholders have already arranged for dividends to be paid by mandate directly to their bank or building society account. The Company have, for a number of years, been paying mandated dividends through the BACS ("Bankers Automated Clearing Service") system. The benefit to shareholders of the BACS payments method is that the Registrars will post the tax voucher directly to them, possibly reducing bank charges and providing timely confirmation of the actual dividend payment. Shareholders who have not yet arranged for their dividends to be paid direct to their bank or building society account who wish to benefit from this service should request Lloyds Bank Registrars, The Causeway, Worthing, West Sussex BN99 6DA (Telephone number 0190 383 3425) to send them a Dividend/Interest Mandate form.

Shareholder Discount

Appreciating that Savoy Group shareholders are quite often our guests and to thank you for your support we extend, as in the past, the offer of a 10% reduction on full rate accommodation at each of our hotels, to those with a minimum of 10 "A" or 5 "B" shares.

We hope that you will take advantage of the offer to experience personally all the improvements, apartments designed by some of England's leading interior designers, new air-conditioning, telephone and in-room entertainment systems, new meeting rooms at The Berkeley and Claridge's, the new health centre at Claridge's, new beauty treatment rooms at The Lygon Arms and the stunningly restored lobby of The Savoy.

Simply advise us when placing your reservation that you are a shareholder. We look forward to welcoming you soon.

The Savoy Group of Hotels and Restaurants

The Berkeley
Wilton Place, Knightsbridge
London SW1X 7RL
Tel (0171) 235 6000
Fax (0171) 235 4330

Claridge's
Brook Street, Mayfair
London W1A 2JQ
Tel (0171) 629 8860
Fax (0171) 499 2210

The Connaught
Carlos Place, Mayfair
London W1Y 6AL
Tel (0171) 499 7070
Fax (0171) 495 3262

The Savoy
Strand
London WC2R 0EU
Tel (0171) 836 4343
Fax (0171) 240 6040

The Lygon Arms
Broadway
Worcestershire WR12 7DU
Tel (01386) 852255
Fax (01386) 858611

Brasserie St. Quentin
243 Brompton Road
London SW3 2EP
Tel (0171) 589 8005/581 5131
Fax (0171) 584 6064

Grill St. Quentin
3 Yeoman's Row
London SW3 2AL
Tel (0171) 581 8377
Fax (0171) 584 6064

Simpson's-in-the-Strand
100 Strand
London WC2R 0EW
Tel (0171) 836 9112
Fax (0171) 836 1381

Edward Goodyear
Court Florist,
45 Brook Street
London W1A 2JQ
Tel (0171) 629 1508
Fax (0171) 495 0524

Savoy Theatre
Strand
London WC2R 0ET
Tel (0171) 836 8888
Fax (0171) 379 7322

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