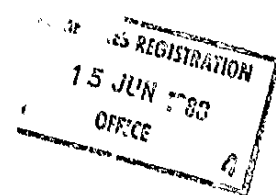


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THE LYGON FARM LIMITED.
REPORT AND FINANCIAL STATEMENTS
FOR THE 14 MONTHS ENDED 31ST DECEMBER 1987



LYGON ARMS LIMITED

REPORT OF THE DIRECTORS

FOR THE 14 MONTHS ENDED 31ST DECEMBER 1987

The directors present their annual report and the audited financial statements for the 14 months ended 31st December 1987.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The company continued to trade as hoteliers. There were no significant developments in the company's business during the year, however work is continuing on the development and improvement of existing services to meet customers' requirements.

The company's year end has been changed from 31st October to 31st December in order to bring it into line with the Group.

RESULTS AND DIVIDENDS

The profit for the year after taxation and extraordinary item amounted to £381,868 (1986: £124,538). The directors recommend the payment of a preference dividend of £1,225 and the balance of £380,643 is carried to reserves.

FIXED ASSETS

Changes in fixed assets are set out in Note 9 to the financial statements.

Land and Buildings are included in the financial statements at cost and have been professionally valued on an open market basis at £4.9 million.

DIRECTORS

The directors of the company during the period were as follows:

G.R.C. Shepard	(Chairman)
K. Ritchie	(Managing Director)
D.J. Barrington	
W.B.G. Bauer	
T. Ashley	
V.S. Enery	(resigned 31st January 1988)

THE LYGON ARMS LIMITED

REPORT OF THE DIRECTORS

FOR THE 14 MONTHS ENDED 31ST DECEMBER 1987

The interests of the directors other than the directors of the ultimate holding company in the shares and debentures of the company, its fellow subsidiary companies and its ultimate holding company at 1st November 1986 and 31st December 1987 were:

	<u>1st November 1986</u>	<u>31st December 1987</u>
(a) The company and its fellow subsidiary companies	Nil	Nil
(b) The Savoy Hotel PLC - the ultimate holding company		
D.J. Barrington		
A Ordinary Shares of 10p each	1,000	1,000
W.B.G. Bauer		
A Ordinary Shares of 10p each	1,173	1,173
B Ordinary Shares of 5p each	51	51

Mr. T. Ashley retires by rotation and being eligible offers himself for re-election.

AUDITORS

In accordance with Section 384 of the Companies Act 1985, a resolution proposing the reappointment of Deloitte Haskins & Sells as auditors to the company will be put to the general meeting.

BY ORDER OF THE BOARD

T. Ashley

T. Ashley.
Secretary

REPORT OF THE AUDITORS TO THE MEMBERS OF

THE LYGON ARMS LIMITED

We have audited the financial statements on Pages 4 to 15 in accordance with approved Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31st December 1987 and of its profit and source and application of funds for the period 1st November 1986 to 31st December 1987 and comply with the Companies Act 1985.

Deloitte Haskins & Sells

DELOITTE HASKINS & SELLS

Chartered Accountants

8 April 1988

London

THE LYGON ARMS LIMITED

PROFIT AND LOSS ACCOUNT

FOR THE 14 MONTHS ENDED 31ST DECEMBER 1987

		14 months 31 December 1987	12 months 31 October 1986
		£	£
TURNOVER		<u>3,114,241</u>	<u>2,345,615</u>
OPERATING PROFIT/(LOSS)	2	553,304	(222)
INVESTMENT INCOME	4	<u>20,983</u>	<u>5,199</u>
		574,287	4,977
AMOUNTS WRITTEN OFF INVESTMENTS		(5,808)	-
INTEREST PAYABLE	5	<u>(58,593)</u>	<u>(50,263)</u>
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION		509,886	(45,286)
TAXATION	6	<u>(144,279)</u>	<u>48,079</u>
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		365,607	2,793
EXTRAORDINARY ITEM	7	<u>16,261</u>	<u>121,745</u>
PROFIT FOR THE FINANCIAL PERIOD		381,868	124,538
DIVIDENDS	8	<u>(1,225)</u>	<u>(1,050)</u>
RETAINED PROFIT FOR THE PERIOD	16	£ <u>380,643</u>	£ <u>123,488</u>

THE LYGON ARMS LIMITED

BALANCE SHEET

AT 31ST DECEMBER 1987

	<u>Notes</u>	<u>31 December 1987</u>	<u>31 October 1986</u>
		£	£
FIXED ASSETS			
Tangible Assets	9	1,709,682	1,353,783
Investments	10	<u>40,130</u>	<u>44,290</u>
		1,749,812	1,398,073
CURRENT ASSETS			
Stocks	11	67,269	34,899
Debtors	12	316,163	202,107
Cash at bank and in hand		<u>321,869</u>	<u>197,969</u>
		705,301	434,975
CURRENT LIABILITIES			
Creditors - Amount falling due within one year	13	<u>(879,286)</u>	<u>(586,262)</u>
NET CURRENT LIABILITIES		<u>(173,985)</u>	<u>(151,287)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		£1,575,827	£1,246,786
Creditors - Amounts falling due after more than one year	13	(320,258)	(371,860)
Deferred taxation	14	<u>-</u>	<u>-</u>
NET ASSETS		<u>£1,255,569</u>	<u>£ 874,926</u>
CAPITAL AND RESERVES:			
Called up share capital	15	66,000	66,000
Profit and loss account	16	<u>1,189,569</u>	<u>808,926</u>
		£1,255,569	£ 874,926

The financial statements on pages 4 to 15 were approved by the board of directors on 8th April 1988 and were signed on its behalf by:

G.R.C. Shepard)
) Directors
 T. Ashley)

G.R.C. Shepard
T. Ashley

8th April 1988

THE LYGON ARMS LIMITED

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE 14 MONTHS ENDED 31ST DECEMBER 1987

	14 months 31 December 1987	12 months 31 October 1986
	£	£
SOURCE OF FUNDS		
Profit/(Loss) on ordinary activities before taxation	509,886	(45,286)
Extraordinary item	<u>16,261</u>	<u>121,745</u>
	526,147	76,459
Adjustment for items not involving the movement of funds:		
Written off of investment	5,808	-
Depreciation	80,242	48,723
(Profit)/Loss on disposal of tangible fixed assets	<u>(16,261)</u>	<u>5,420</u>
Total funds generated from operations	595,936	130,602
Proceeds from disposal of tangible fixed assets	<u>33,016</u>	<u>26,000</u>
TOTAL SOURCES OF FUNDS	<u>628,952</u>	<u>156,602</u>
APPLICATION OF FUNDS		
Dividends paid	(1,050)	(29,850)
Taxation paid	-	(11,506)
Purchase of tangible fixed assets	(444,141)	(166,612)
Purchase of investments	(1,648)	(2,005)
Loan repayments	<u>(1,602)</u>	<u>(22,863)</u>
TOTAL APPLICATION OF FUNDS	<u>(448,441)</u>	<u>(232,836)</u>
NET APPLICATION OF FUNDS	£ <u>180,511</u>	£ <u>(76,234)</u>
CHANGE IN WORKING CAPITAL		
Increase in stocks	32,370	4,135
Increase/(Decrease) in debtors	114,056	(24,261)
Increase in creditors	(89,815)	(372,803)
MOVEMENTS IN NET LIQUID FUNDS		
Increase in cash at bank and in hand	<u>123,900</u>	<u>316,695</u>
	£ <u>180,511</u>	£ <u>(76,234)</u>

THE LYGON ARMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 14 MONTHS ENDED 31ST DECEMBER 1987

1. ACCOUNTING POLICIES

Basis of Accounting

The financial statements have been prepared in accordance with the historical cost convention.

Tangible Fixed Assets

Tangible fixed assets are stated at cost.

No depreciation is provided on freehold property as it is the company's policy to maintain it, out of expenditure charged to revenue, to a standard which ensures its estimated residual value exceeds net book value. Depreciation is provided to write off the cost of all other assets on a reducing balance basis at the following rates:

Plant and boilers	-	15%
Hotel furniture and equipment	-	2% to 10%
Motor vehicles	-	20%

Expenditure on the development of the Inn, including replacement and restoration of certain assets, has been included in the cost of land and buildings. The cost of replacement of soft furnishings, glass and china and certain other loose equipment is charged to revenue in the period in which it is incurred.

Stock

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

Deferred Taxation

Provision is made for deferred taxation by the liability method unless there is a reasonable probability that such a liability will not arise in the foreseeable future.

Turnover

Turnover is attributable to the one principal activity of the company and represents amounts invoiced for goods and services, excluding VAT.

THE LYGON ARMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 14 MONTHS ENDED 31ST DECEMBER 1987 (continued)

	14 months 31 December 1987	12 months 31 October 1986
2. OPERATING PROFIT/(LOSS)		
	£	£
Turnover	3,114,241	2,345,615
Other operating income	<u>19,523</u>	<u>7,567</u>
Total operating income	<u>3,133,764</u>	<u>2,353,182</u>
Raw materials and consumables	(655,014)	(507,942)
Staff costs (Note 3)	(911,595)	(780,229)
Depreciation	(80,242)	(48,723)
Other operating charges	<u>(933,609)</u>	<u>(1,016,510)</u>
Total operating charges	<u>(2,580,460)</u>	<u>(2,353,404)</u>
Operating Profit/(Loss)	£ <u>553,304</u>	£ <u>(222)</u>
Operating charges included:		
Plant and machinery hire	£ 16,607	£ 24,579
Auditors' remuneration	<u>£ 10,100</u>	<u>£ 7,200</u>
Other operating income includes:		
Rents receivable	£ <u>8,500</u>	£ <u>5,592</u>

3. STAFF COSTS

The average weekly number of persons (including directors) employed during the period was:

	1987 <u>Number</u>	1986 <u>Number</u>
Administration	5	6
Other	<u>108</u>	<u>108</u>
	<u>113</u>	<u>114</u>
	<u>1987</u>	<u>1986</u>
	£	£
Staff costs (for the above persons)		
Wages and salaries	835,873	706,156
Social Security costs	59,300	50,834
Other pension costs	<u>16,422</u>	<u>23,239</u>
	£ <u>911,595</u>	£ <u>780,229</u>

THE LYGON ARMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 14 MONTHS ENDED 31ST DECEMBER 1987 (continued)

3. STAFF COSTS (continued)

	<u>1987</u> £	<u>1986</u> £
Directors' remuneration:		
Fees	-	7,207
Other emoluments	<u>83,471</u>	<u>78,249</u>
	£ <u>83,471</u>	£ <u>85,456</u>

Fees and other emoluments disclosed above (excluding pension contributions) include amounts paid to:

Chairman:	£ <u>Nil</u>	£ <u>19,016</u>
Highest paid director	£ <u>42,118</u>	£ <u>23,352</u>

The number of other directors who received fees and emoluments (excluding pension contributions) in the following ranges was:

	<u>1987</u> Number	<u>1986</u> Number
0 to £5,000	2	3
£5,001 to £10,000	1	1
£10,001 to £15,000	-	1
£15,001 to £20,000	1	-

4. INVESTMENT INCOME

	<u>1987</u> £	<u>1986</u> £
Interest receivable	20,983	1,199
Share of profits from partnership in the Inn Shop	<u>-</u>	<u>4,000</u>
	£ <u>20,983</u>	£ <u>5,199</u>

5. INTEREST PAYABLE

	<u>1987</u> £	<u>1986</u> £
Bank loans, overdrafts and loans wholly repayable within five years	5,982	5,363
Mortgages loans repayable after more than five years	<u>52,611</u>	<u>44,900</u>
	£ <u>58,593</u>	£ <u>50,263</u>

THE LYGON ARMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 14 MONTHS ENDED 31ST DECEMBER 1987

6. TAXATION (CHARGE)/CREDIT

	<u>1987</u>	<u>1986</u>
	£	£
Corporation tax @ 35% (1986: 29%)		
Current	(144,279)	8,367
Deferred	-	-
(Under)/Over-provision in respect of prior years:		
Current	-	(288)
Deferred	-	40,000
	<u>£ (144,279)</u>	<u>£ 48,079</u>

7. EXTRAORDINARY ITEM

	<u>1987</u>	<u>1986</u>
	£	£
Extraordinary profit on disposal of freehold properties	25,016	121,745
Taxation	<u>(8,755)</u>	<u>-</u>
	<u>£ 16,261</u>	<u>£ 121,745</u>

No tax arises on the disposal of freehold properties in 1986 due to the rollover of capital gains against additions during the year.

8. DIVIDENDS

	<u>1987</u>	<u>1986</u>
3.5% Preference £1 Shares	<u>£ 1,225</u>	<u>£ 1,050</u>
Ordinary £1 Shares		
Proposed final of nil (1986: nil)	<u>£ Nil</u>	<u>£ Nil</u>

THE LYGON ARMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 14 MONTHS ENDED 31ST DECEMBER 1987

9. TANGIBLE FIXED ASSETS

	<u>Land and Buildings</u>	<u>Plant and Machinery</u>	<u>Fixtures Fittings Tools and Equipment</u>	<u>Total</u>
	£	£	£	£
COST				
At 1st November 1986	957,780	607,672	256,912	1,822,364
Additions	165,632	130,077	148,432	444,141
Disposals	(8,000)	-	-	(8,000)
At 31st December 1987	<u>1,115,412</u>	<u>737,749</u>	<u>405,344</u>	<u>2,258,505</u>

DEPRECIATION

At 1st November 1986	-	393,495	75,086	468,581
Charge for year	-	60,244	19,998	80,242
At 31st December 1987	-	<u>453,739</u>	<u>95,084</u>	<u>548,823</u>

Net Book Value

At 31st December 1987	<u>£1,115,412</u>	<u>£ 284,010</u>	<u>£ 310,260</u>	<u>£1,709,682</u>
At 31st October 1986	<u>£ 957,780</u>	<u>£ 214,177</u>	<u>£ 181,826</u>	<u>£1,353,783</u>

1987

1986

Capital commitments:

Contracted for but not provided in the
financial statements

£ 237,000 £ 62,000

Authorised by the directors but not
contracted for

£ Nil £ Nil

THE LYGON ARMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 14 MONTHS ENDED 31ST DECEMBER 1987

10. FIXED ASSET INVESTMENTS

	Life Assurance Premiums Paid	Other Investments	Total
	£	£	£
COST			
At 1st November 1986	37,770	6,520	44,290
Additions	2,340	-	2,340
Transfer for fixed assets	-	(692)	(692)
Amounts written off	-	(5,808)	(5,808)
At 31st December 1987	£ 40,110	£ 20	£ 40,130

11. STOCKS

	1987	1986
	£	£
Stocks comprise:		
Liquor and food stocks	66,663	34,799
Consumable stocks	600	100
	£ 67,269	£ 34,899

12. DEBTORS

	1987	1986
		£
Amounts falling due within one year:		
Trade debtors	245,381	130,387
Other debtors	2,257	10,812
Prepayments and accrued income	68,525	60,908
	£ 316,163	£ 202,107

THE LYGON ARMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 14 MONTHS ENDED 31ST DECEMBER 1987 (continued)

13. CREDITORS

	<u>Amounts falling due within one year</u>		<u>Amounts falling due after more than one year</u>	
	<u>1987</u>	<u>1986</u>	<u>1987</u>	<u>1986</u>
	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>
Amounts due to holding company	319,171	359,133	-	-
Loans	50,000	-	312,000	362,000
Mortgage loans	-	-	8,258	9,860
Bank loans	-	-	-	-
Trade creditors	204,143	138,709	-	-
Corporation tax	153,034	-	-	-
Other taxation and social security	73,692	44,515	-	-
Proposed dividend	1,225	1,050	-	-
Other creditors	36,587	12,640	-	-
Accruals and deferred income	<u>41,434</u>	<u>30,215</u>	<u>-</u>	<u>-</u>
	<u>£ 879,286</u>	<u>£ 586,262</u>	<u>£ 320,258</u>	<u>£ 371,860</u>

The company has two loans from Phoenix Assurance PLC.

1. Loans of £50,000 repayable on maturity of the Life assurance policy (note 10) in 1988. Interest is fixed at 7.75%.
2. Loans of £312,000 repayable in the year 2000. Interest rate is variable based on domestic Building Society lending rates.

Mortgage loans are repayable between 1987 and 1999 by instalments. Interest rates are variable based on domestic Building Society lending rates.

The loans and the mortgage loans are secured on certain of the company's property.

THE LYGON ARMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 14 MONTHS ENDED 31ST DECEMBER 1987

14. DEFERRED TAXATION

Deferred taxation provided at a rate of 27% (1986: 35%) and the total potential liability including amounts for which provision has been made, are as follows:

	Amount Provided		Total Potential Liability	
	<u>1987</u>	<u>1986</u>	<u>1987</u>	<u>1986</u>
	£	£	£	£
Taxation deferred by capital allowances	-	-	148,088	147,000
Advance Corporation Tax recoverable	-	-	(36,077)	(35,236)
	<u>£ Nil</u>	<u>£ Nil</u>	<u>£ 112,011</u>	<u>£ 111,764</u>

15. CALLED UP SHARE CAPITAL

	<u>Authorised</u>		<u>Allotted Called up and Fully Paid</u>	
	<u>No. of Shares</u>	£	<u>No. of Shares</u>	£
1987 and 1986				
3.5% £1 Preference shares	30,000	30,000	30,000	30,000
£1 Ordinary shares	40,000	<u>40,000</u>	36,000	<u>36,000</u>
		<u>£70,000</u>		<u>£66,000</u>

16. RESERVES

Profit and Loss Account	
At 1st November 1986	808,926
Profit for the period	<u>380,643</u>
At 31st December 1987	<u>£1,189,569</u>

THE LYGON ARMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 14 MONTHS ENDED 31ST DECEMBER 1987

17. ULTIMATE HOLDING COMPANY

The holding company is The Savoy Hotel PLC which is incorporated in Great Britain. Under the terms of the companies Act 1985, The Savoy Hotel PLC is a subsidiary of Trusthouse Forte PLC, but Trusthouse Forte PLC does not control The Savoy Hotel PLC.