

CO. NO. 262958

ANNUAL REPORT
& ACCOUNTS 2002



THISTLE HOTELS
more than just accommodating



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THISTLE HOTELS IS ONE OF THE
UK'S LEADING FULL SERVICE
HOTEL COMPANIES WITH
56 HOTELS IN KEY CITY CENTRE
AND COUNTRYSIDE LOCATIONS.
WE HAVE 24 HOTELS IN
LONDON ALONE, WHICH MAKES
US THE CAPITAL'S LARGEST
HOTEL GROUP.

Our staff maintain consistently high standards, and strive to provide the little things that make a big difference.

5,000 bedrooms and 140 meeting rooms have access to broadband internet.

Thistle Hotels are situated in leading city centres and beautiful leisure resorts throughout the UK.

Our business

OUR GOAL IS TO DEVELOP FULL SERVICE HOTELS OFFERING CONSISTENT STANDARDS IN PRIME LOCATIONS, OPERATING UNDER A STRONG AND WIDELY RECOGNISED BRAND.

WE WANT BUSINESS AND LEISURE GUESTS TO RECOGNISE THE THISTLE BRAND AND TO KNOW WHAT IT REPRESENTS: A QUALITY PRODUCT AND SERVICE THAT IS CONSISTENT ACROSS EVERY HOTEL IN THE GROUP.

More than 500 meeting rooms are equipped to the highest standard.

Our 11,000 bedrooms offer the comforts to make your stay more enjoyable.

Flexible pricing means both business and leisure guests get value for money.

CHAIRMAN'S STATEMENT

FINANCIAL HIGHLIGHTS

- DISPOSAL OF 37 HOTEL BUSINESSES FOR £598.6 MILLION INCLUDING £45 MILLION OF DEFERRED CONSIDERATION – AT APPROXIMATELY BOOK VALUE.
- SECOND HALF TURNOVER IN OWNED OR LEASED HOTELS AHEAD 1.9% AGAINST SECOND HALF 2001.
- FREE CASH FLOW £22.9 MILLION COMPARABLE WITH PRIOR YEAR.
- FINAL DIVIDEND MAINTAINED AT 3.4P PER SHARE.
- COST REDUCTION INITIATIVES CONTINUING IN RESPONSE TO MARKET CONDITIONS.
- CASH BALANCES AT YEAR END £367 MILLION.

RESULTS

In my statement last year, I commented that in 2001 we had experienced market conditions that were the most challenging for travel and tourism since the Gulf War in 1991. In the event, 2002 has been equally challenging with a continuing slowdown in the global economy. This was particularly noticeable in the USA from where a large proportion of our business and leisure travellers originate. The possibility of conflict in the Middle East, coupled with an unusual level of volatility and instability in stock markets, created even more uncertainty.

Against this background, one of our top priorities was the generation and preservation of cash linked to improvements in our balance sheet. Profit before tax and exceptional items was £30.9 million (2001: £45.5 million). Adjusted earnings per share, excluding the exceptional profit on sale of fixed assets and loss on disposal of businesses, were 5.2 pence (2001: 7.0 pence, restated following the adoption of FRS 19, the new accounting standard for deferred tax). Basic earnings per share were 4.5 pence (2001: 7.7 pence). These earnings reflect the challenging

trading environment and the loss of profits from the 37 hotel businesses disposed of during the year which were partially offset by interest income on the cash proceeds from the disposal.

DIVIDENDS

The Board is recommending a final dividend of 3.4 pence per share payable on 6 June 2003 to shareholders on the register on 9 May 2003. If approved, this would result in total dividends for the year of 5.1 pence per share, unchanged from the previous year.

FINANCE

Our free cash flow generated from operations in 2002 amounted to £22.9 million (2001: £23.3 million). Following the repayment of bank loans referred to below, we had cash on deposit at the year end amounting to £367.0 million. We still have debentures outstanding of £200 million and £60 million. Accordingly, our net cash position as of 29 December 2002 was £107.7 million. Following discussion with the two largest shareholders, who between them control approximately 66% of the Company, the Board decided to retain this cash in the Company for the time being. However, depending on the outcome of the announcement made by BIL International Limited on 21 February 2003 regarding a possible offer for Thistle described below, this policy will be reviewed to seek to ensure that full value for this cash is obtained by all shareholders.

ORB GROUP

As referred to in the Directors' Report last year, and approved at the Extraordinary General Meeting of shareholders on 4 April 2002, we disposed of 37 hotel businesses to Gamma Four Limited, part of the Orb Group of companies, on 4 April 2002 for £598.6 million including £45 million of deferred consideration – approximately book value. The transaction also involved Thistle entering into agreements to continue managing these 37 hotels for up to 30 years. The net cash proceeds from the disposals were applied in the first instance to repay our bank loans of some £174 million with the balance being invested in short term money market deposits.

On 4 November 2002, we felt compelled to issue proceedings against certain members of the Orb Group to seek recovery of amounts due to us in connection with the disposal agreements. The relevant members of the Orb Group have served a defence against our claim, together with a counterclaim, which we are defending. These proceedings are ongoing. Your Directors are of the opinion that the Company's claim will be successful and that the Orb Group's counterclaim can be successfully resisted.

Also on 4 November, Orb a.r.l., part of the Orb Group, announced that it was considering various strategic options including the possible acquisition of Thistle but that no discussions

Total Group occupancy

2002	72.3%
2001	71.0%
2000	75.8%
1999	74.5%
1998	68.8%

Total Group average room rate

2002	£66.01
2001	£71.21
2000	£70.49
1999	£66.86
1998	£65.57

Total Group revpar

2002	£47.73
2001	£50.56
2000	£53.43
1999	£49.81
1998	£45.11

had been held with us. No discussions were held with us subsequent to that announcement and on 9 January 2003, in response to a deadline imposed by the Panel on Takeovers and Mergers, Orb a.r.l. announced that they would not be proceeding with an offer for Thistle.

It has since been announced that Orb are in discussions which may lead to a sale of the 37 hotels they acquired from Thistle in 2002. We are monitoring these discussions closely.

BIL INTERNATIONAL LIMITED ('BIL')

On 21 February 2003 BIL, who control approximately 46% of Thistle, announced that their Board had met to consider making an offer for the issued and to be issued share capital of Thistle that BIL do not already own. On 25 February 2003 Thistle despatched a circular to shareholders advising them to take no action. Under the rules of the Panel on Takeovers and Mergers, the Company is now in an Offer Period and the non-conflicted Directors – namely all those Directors other than Tan Sri Quek Leng Chan and Arun Amarsi who are Chairman and Chief Executive respectively of BIL – will be watching the situation closely. They will keep shareholders informed.

PEOPLE

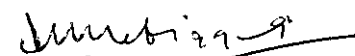
There have been no changes to our Board since those referred to in my statement last year. However, in 2002 our total employed headcount reduced significantly as some 3,500 Thistle employees transferred to employment with the Orb Group, being the majority of employees in the 37 hotels sold to them, although these same employees remain under Thistle's management. All the General Managers of hotels owned by the Orb Group and managed by Thistle remain employed by us. This helps us to maintain consistency across all of the hotels operating under the Thistle brand.

The arrangements relating to the sale and ongoing management of the 37 hotels have, inevitably, caused some personal disruption to the individuals concerned. We are grateful to them, and indeed to all those who work for Thistle, for their dedication and hard work in a very difficult operating environment.

PROSPECTS

There has been no perceptible improvement in economic conditions worldwide during the early months of 2003, and the weakness in stock markets demonstrates their continuing volatility and fragility. The possibility of hostilities in the Middle East adds to this uncertainty and it is clear that these factors are having a negative impact across the travel, tourism and hospitality industries generally. Our policy has been, and will continue to be, to contain costs and to generate and conserve cash in what we anticipate will be an uncertain economic climate in the months ahead.

Notwithstanding these cautious but, I believe, realistic remarks, revenue for the first eight weeks of the current year in our 18 owned or leased hotels, which will produce the majority of our revenue going forward, is 1% ahead of the comparable period in 2002. Our London hotel assets are of good quality, are well located and they underpin a strong balance sheet leaving us in a good position to take advantage of any improvement in London hotel market conditions. What we cannot predict is when such an upturn will come.



David Newbigging

Chairman

28 February 2003

Contemporary restaurants offer a range of cuisine – from British to Mediterranean to Asian. There are branded restaurants throughout our hotels, as well as a number of individual restaurants. Alternatively, our Co.Motion brewshop cafés provide guests with a light snack or meal.

THE DISPOSAL OF 37 HOTEL BUSINESSES TO GAMMA FOUR LIMITED ON 4 APRIL 2002 HAS HAD A SIGNIFICANT IMPACT ON THE STRUCTURE OF THE GROUP AND ON THE PRESENTATION OF THE KEY REVENUE STATISTICS DISCUSSED BELOW.

OUR PEOPLE ARE THE CORE OF OUR BUSINESS, AND ARE CRITICAL IN DELIVERING THE QUALITY CUSTOMER SERVICE LEVELS WE ASPIRE TO. COMMUNICATION WITH STAFF AT ALL LEVELS IS ENCOURAGED, WITH REGULAR UPDATE FORUMS FOR ALL STAFF.

CHIEF EXECUTIVE'S REVIEW

*we take pride in our **high standards** of service*

SEGMENTAL REVIEW

Owned or Leased Hotels

Thistle owns or leases 18 hotels which have a total of 5,204 bedrooms and which are predominantly London located.

A creditable result was achieved in 2002, a year characterised by challenging trading conditions, particularly in the London hotel market. The effect of the events in 2001 reduced first half performance versus the prior year, with a 13.6% decline in turnover for these hotels. However, trading trends improved through the year and these hotels delivered 1.9% turnover growth in the second half year versus the comparable period in 2001. Turnover for the full year for these hotels was £151.1 million, down 6.8% against 2001.

In a small number of hotels there was turnover growth over the full year compared to 2001 but turnover declined by almost 13% at our largest hotel, the Thistle Tower, which has faced much new competitive supply in recent years.

Revenue per available room ("Revpar") in the 18 owned or leased hotels in the second half of the year was £58.36, an increase of 2.7% compared to the second half of 2001. This Revpar growth was driven by improvements in occupancy, which increased by 8.9 percentage points. Average room rate was down by 8.7% as a result of changes in business mix with fewer business travellers and more lower spend leisure travellers, combined with a number of tactical room rate reductions. Revpar in the second half of 2002 compared to the first half was up 5.4%. Revpar for the full year fell 6.8% year-on-year to £56.81 with occupancy up by 2.6 percentage points to 76.2% and average room rate down by 10.0% to £74.56.

Managed Hotels

Thistle operates 38 hotels under management contracts which have a total of 5,514 bedrooms, of which 1,268 bedrooms are in 6 hotels located in London. Revpar in the managed hotels fell 3.8% year-on-year to £39.15, with comparable occupancy levels at 68.6% and average room rate down by 3.9% to £57.07*. Revpar in the hotels outside London, which are less dependent upon

international travellers, was comparable with the prior year with particularly good performances at the Thistle East Midlands, Thistle Middlesbrough and Thistle Birmingham hotels.

KEY REVENUE STATISTICS

The key revenue statistics for the full year for the owned or leased and managed hotels are set out in the table on page 7. A geographical analysis is also provided.

CASH GENERATION

The focus throughout the year was cash generation by restricting turnover declines and maintaining tight control of costs.

Revenue Management

The components of revenue management comprise marketing initiatives that generate demand, a high performance sales team and effective management of distribution channels.

In terms of marketing programmes, we introduced a number of initiatives during the year to target business travellers including Thistle Advantage (a telemarketing and telesales initiative designed to manage and grow our base of smaller corporate accounts) and the Thistle Preferred Network Card – a package of benefits for medium and larger corporate accounts. The domestic short break leisure market remained relatively strong during the year and our tactical promotions including "Summer in the City" and new products such as the Thistle Advance Saver, a pre payment apex style product, contributed to revenue growth in the leisure segments.

Thistle's brand in the UK market continues to show improvements in the independent British Hotel Guest Survey produced by BDRC. Following extensive research with our customers, we launched our brand positioning internally in a series of road shows to all management and staff. Our staff training and customer service improvement efforts have centred on putting our guests at the heart of everything we do and consistently delivering to our customers a high quality individual experience.

* All numbers are for the full 52 week period

Health and leisure clubs are available at a number of our hotels. Under the Otium Health and Leisure Club brand we provide swimming pools, spa pools, sauna and steam rooms, aerobic and treatment rooms. There is also Just Gym, with equipment designed for a cardiovascular fitness programme.

Chief executive's review

We re-structured our sales team midway through the year away from an individual hotel approach to an account management approach; changes which we believe will enable us to win more new accounts in the corporate, conference and meetings sectors and improve the overall business mix.

Significant changes are occurring generally within channels of distribution. Customers can book rooms in our hotels in person, or through travel agents, by phone, fax, via Global Distribution Systems (GDS) or the internet. In 2002 internet bookings grew most rapidly, nearly 120% up on 2001. On average over £100,000 of revenue was generated each week through internet bookings and this growth rate has continued in the early weeks of the current financial year. GDS bookings were down approximately 4% year on year although over 8% of all bookings are made through this channel.

Cost Containment

Tight control was maintained over costs throughout the year. We reduced our like for like operating costs by approximately 5% year-on-year despite gains in occupancy and cost increases in a number of areas including insurance costs, although we benefited from a one-off property rates rebate of £2.3 million. Our new central purchasing and distribution arrangement with Scottish & Newcastle Retail and Wincanton covering the majority of the Group's food requirements is working well. We have experienced lower food purchasing costs and processing efficiencies and a significant reduction in the number of food lines purchased from a more limited number of food suppliers.

Capital expenditure in the year was £8.5 million (2001: £38.3 million), of which £1.2 million was spent at the managed hotels during the period prior to the disposal. The significant reduction against the prior year reflects both the policy to restrict capital expenditures to essential maintenance expenditures only, and the completion in 2001 as planned of our three year refurbishment programme.

The net impact of these actions to restrict turnover declines and control costs has been to generate free cash flow of £22.9 million (2001: £23.3 million).

PEOPLE

Our people are the core of our business, and are critical in delivering the quality customer service levels we aspire to. Communication with staff at all levels is encouraged, with regular update forums for all staff. Staff turnover has again reduced to 48% (2001: 61%) and our 2002 Employee Attitude Survey showed improved staff satisfaction.

Ian Burke

Chief Executive

28 February 2003

every visitor experiences our **"Be My Guest"** service

Key revenue statistics

52 weeks 2002	52 weeks 2001	% change
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STATISTICS BY HOTEL TYPE**OWNED OR LEASED**

Occupancy (%)	76.2	73.6	3.5
Average room rate (£)	74.56	82.86	(10.0)
Revpar (£)	56.81	60.98	(6.8)
Turnover (£m)	151.1	162.2	(6.8)

MANAGED

Occupancy (%)	68.6	68.5	0.1
Average room rate (£)	57.07	59.39	(3.9)
Revpar (£)	39.15	40.68	(3.8)

TOTAL HOTELS

Occupancy (%)	72.3	71.0	1.8
Average room rate (£)	66.01	71.21	(7.3)
Revpar (£)	47.73	50.56	(5.6)

The statistics shown above include managed hotels for the full 52 week period

STATISTICS BY GEOGRAPHICAL AREA**LONDON**

Occupancy (%)	75.9	74.0	2.6
Average room rate (£)	73.33	81.91	(10.5)
Revpar (£)	55.66	60.61	(8.2)

REGIONS

Occupancy (%)	67.7	67.2	0.7
Average room rate (£)	55.53	56.14	(1.1)
Revpar (£)	37.59	37.73	(0.4)

Thistle Hotels are easy places to do business. Many hotels feature business rooms and business centres offering in-room fax and modem points, and extra workspace. Some also have Premier Executive Rooms, which are among the best in our hotels and provide extra facilities for the executive.

FINANCE DIRECTOR'S REVIEW

DISPOSAL OF 37 HOTEL BUSINESSES

The disposal of a group of subsidiary companies which together owned 37 London and regional hotel businesses to Gamma Four Limited, a member of the Orb Group, was completed on 4 April 2002 for a total consideration of £598.6 million, including deferred consideration of £45.0 million. On 4 November 2002 the Company issued proceedings against Gamma Four Limited and certain other members of the Orb Group to seek recovery of amounts due in connection with that disposal. The amount being sought by the Company is approximately £14.6 million plus interest and costs. The principal sum only is included in debtors at 29 December 2002. On 17 January 2003 the relevant members of the Orb Group served a defence against the Company's claims, together with a counterclaim, which the Company is defending. The amount of the counterclaim is asserted to be £54 million. No provision has been made in respect of the counterclaim as, having taken legal advice, the directors are of the opinion that the counterclaim can be successfully resisted.

The deferred consideration in the form of a £45.0 million loan note is receivable on or before 1 January 2005. Interest accrues at a rate of 5% per annum and is receivable when the principal is repaid. At 29 December 2002 the interest accrued was £1.7 million. There is no dispute with the Orb Group over this loan note. Payment has been guaranteed by various members of the Orb Group. In addition, Thistle holds a second legal charge over the shares in the Jersey-based parent of the Orb Group company which owns the managed hotels as security for the loan note. In view of the litigation noted above and other matters recently reported in the press in respect of the Orb Group, the Board has decided to defer recognition of the deferred consideration and associated interest receivable until there is either increased certainty of recovery or the amounts are realised in cash. Accordingly, the exceptional profit on disposal of £41.3 million reported in the Interim Report has been restated to a £4.0 million loss on disposal, and interest income to 29 December 2002 of £1.7 million has not yet been recognised in the Profit and Loss Account.

The trading result for the hotels which were disposed of is included until disposal and is shown separately within the segmental reporting. This amounted to a profit of approximately £9.0 million. Fee income earned from subsequent management of the hotels was £5.9 million and is included in turnover. Thistle's fee income comprises a sales and marketing fee of 2% of rooms revenue, a management fee of 3% of total revenue and an incentive fee based on EBITDA performance.

TRADING PERFORMANCE – PROFIT

Thistle's trading profit and cash flow performance in 2002 reflects both the continuing difficult market conditions described in the Chief Executive's review and the sale of the 37 hotel businesses in April 2002.

Turnover for the owned or leased hotels fell by £11.1 million from £162.2 million to £151.1 million and due to the Group's high operational gearing this reduction was largely reflected in a gross profit reduction of £8.4 million from £63.8 million to £55.4 million. Throughout the year there has been tight control

the Thistle brand **continues** *to improve*

Operating cash flow

2002	£61.9m
2001	£112.4m
2000	£152.8m
1999	£116.8m
1998	£134.6m

Capital expenditure

2002	£8.5m
2001	£38.3m
2000	£66.3m
1999	£63.0m
1998	£55.7m

Ordinary dividend per share

2002	5.1p
2001	5.1p
2000	5.1p
1999	4.8p
1998	4.5p

of support office costs and a year-on-year reduction of £2.9 million was achieved. The achievement of improved operational efficiency remains a priority both within the hotels and the support office functions.

OTHER EXCEPTIONAL ITEMS

An exceptional profit of £1.0 million arose during the year on the disposal of one non-trading property. The relocation of the Leeds support office to new leasehold premises has been delayed to April 2003, due to building delays beyond the control of Thistle. This move will generate an exceptional pre-tax profit on disposal of the current freehold site of some £2.0 million on completion of its sale in 2003.

INTEREST

Interest payable of £28.8 million comprised £26.2 million in respect of the £260.0 million debentures in place throughout the year and £2.6 million in respect of bank loans and overdrafts for the period up to the disposal of the 37 hotel businesses in April 2002.

Since the disposal, the Group has been cash positive and funds have been deposited with leading UK banks. Interest receivable on these deposits amounted to £10.5 million during the year; an average rate of 3.8% per annum.

PROFIT BEFORE TAX

Profit before tax (PBT) decreased by £21.2 million to £27.9 million but, adjusting for the exceptional items in each year, the underlying profit before tax was £30.9 million, a decrease of £14.6 million.

TAX

The Group's overall tax charge of £6.1 million comprised a £9.8 million charge in respect of current year trading and a credit of £3.7 million in respect of prior years. The overall effective rate for the year was thus 20% of the profit before exceptional items. It is not anticipated that any tax charge will arise on those exceptional items. For the year to December 2003, the tax charge is expected to revert to the standard rate of 30% of profit before exceptional items.

Financial Reporting Standard (FRS) 19 (Deferred Tax) has been applied for the first time in 2002. FRS 19 requires the Group to provide for deferred tax on certain timing differences where previously no provision has been required. On the implementation of FRS 19 a prior year adjustment has been made which has the effect of reducing shareholders' funds at 30 December 2001 by £133.3 million to £1,023.2 million from the previously reported £1,156.5 million. The 2001 tax charge has been restated from £9.0 million to £11.7 million to reflect this change in accounting policy.

EARNINGS PER SHARE

Adjusted earnings per share decreased by 26% to 5.2 pence reflecting the reduced adjusted PBT but benefiting from the reduced effective tax rate described above. Adjusted EPS is calculated on earnings before the after tax impact of exceptional items. Basic EPS decreased from 7.7 pence to 4.5 pence.

CASH FLOW

Net cash inflow from operating activities of £61.9 million represented 126% of operating profit. There was a net working capital outflow of £10.0 million during the year of which

Thistle Hotels offer lots of character and local flavour. What is more, our employees are happy to share their local knowledge, recommending nearby attractions.

Finance director's review

£6.1 million is in respect of amounts recoverable as part of the £14.6 million balance disputed by the Orb Group as described above.

Interest paid of £31.5 million was £2.7 million higher than the profit and loss account charge due to the payment of amounts accrued at the previous year end. Interest receipts of £10.2 million were only marginally less than the profit and loss account income of £10.5 million.

The Group's 2002 cash tax rate was 31%, substantially lower than in 2001 when tax paid included £21.4 million deferred from 2000. The cash tax rate is the ratio of corporation tax paid during the year to profit before tax and exceptional items for the year.

The Group generated cash (after tax and interest) of £30.9 million. This cash flow, together with proceeds from fixed asset sales, financed capital expenditure of £8.5 million, the purchase of Thistle shares held by the Employee Benefits Trust of £1.1 million and the payment of ordinary dividends of £24.6 million.

In 2002 in line with previously reported policy, capital expenditure of £8.5 million was focused on essential replacement and health and safety expenditure.

A net cash inflow after costs of £539.1 million arose on the sale of the 37 hotels and from this £174.0 million was used to repay bank debt with the remainder being retained in the business.

BALANCE SHEET

Following the disposal of the 37 hotel businesses the Group's balance sheet investment in properties has been reduced from £1.6 billion at December 2001 to £1.0 billion at December 2002. This represents the remaining 18 hotels, whose value is substantially higher on an individual hotel basis than those sold due to their size and location, being mainly in London.

The Directors have carried out an internal review of the carrying value of the Group's assets based on the prospect of long-term ownership. In the case of one hotel, The London Ryan, a professional valuation was obtained, which indicated a write down of £4.8 million. Accordingly an impairment provision has been made and was charged directly to the Revaluation Reserve.

At the end of the year, the Group held cash of £367.0 million. After deducting the fixed rate debentures of £259.3 million, net cash was £107.7 million (2001: net debt of £430.2 million).

DIVIDEND

The dividend policy remains to maintain a payout which is substantially financed out of free cash flow and reflects the sustainable cash flow and balance sheet strength of the Group. Although the operational cash generating capacity of the business has fallen as a result of the sale of 37 hotel businesses, net cash flow in 2002 remains strong, and hence the Board has decided to recommend maintaining the final dividend at 3.4 pence per share. This would result in an unchanged dividend for the year and a total cash outflow of £24.6 million.

TREASURY POLICY

The Board has regularly reviewed the funding policy of the Group, including the appropriate levels of equity and debt, management of the Group's liquidity and the dividend policy. Following the sale of the 37 hotel businesses during 2002 the Treasury policy involved the maintenance of the Group's surplus cash on deposit with banks of high credit standing. There were no interest rate swaps outstanding at any time during the year.

ACCOUNTING STANDARDS

The Group has not adopted early the accounting requirements of FRS 17 (Retirement Benefits). Had the Group implemented FRS 17 at 29 December 2002 then the balance sheet would have contained an item for the pensions liability of £8.5 million net of deferred tax with a corresponding reduction in Group net assets. We will review our funding commitments at the time of the next Actuarial Review in May 2003.

Ian Durant

Finance Director

28 February 2003

Directors and advisers

DAVID NEWBIGGING OBE

69, was appointed a director and Chairman on 25 March 1999. He is chairman of Friends Provident Plc and Faupel Trading Group plc, and deputy chairman of Benchmark Group Plc. He is also a director of Merrill Lynch & Co. Inc., Paccar Inc. and Ocean Energy Inc. in the USA. He is the Chairman of the Remuneration and Nomination Committees.†§

CHARLES MACKAY

62, was appointed to the Board in 1996 as non-executive Deputy Chairman. He is also chairman of the Eurotunnel Group, chairman of TDG plc, a non-executive director of Johnson Matthey PLC, and a member of the Board of INSEAD. He is the Chairman of the Audit Committee.*§

IAN BURKE

46, Chief Executive, joined the Group in April 1998 and was appointed as a director in May 1998. He is also a director of the London Tourist Board. He is a member of the Board of the British Tourist Authority.

IAN DURANT

44, Finance Director, joined the Group and was appointed to the Board on 18 December 2001. He is a Chartered Accountant and a Fellow of the Institute of Corporate Treasurers.

ARTHUR HAYES

59, was appointed to the Board in 1996 as a non-executive director. He is a non-executive director of Legal & General Investment Management (Holdings) Limited and a former director of Royal & Sun Alliance Insurance Group Plc.*

BARONESS O'CATHAIN OBE

65, was appointed to the Board in 1996 as a non-executive director. She is a non-executive director of BNP Paribas (UK) Holdings Limited, British Airways plc and South East Water plc.*†

TAN SRI QUEK LENG CHAN

59, was appointed to the Board in February 1999 as a non-executive director. He is the chairman of BIL International Limited ('BIL'), the executive chairman of Hong Leong Group Malaysia and Guoco Group Limited (Hong Kong). He is the chairman of Benchmark Group Plc.†§

LAU WING TAT

48, was appointed to the Board in November 1999 as a non-executive director. He is an assistant director of Government of Singapore Investment Corporation Pte. Limited.†§

ARUN AMARSI

45, was appointed to the Board on 18 December 2001 as a non-executive director. He joined BIL in July 1999 and was appointed group managing director and chief executive officer of BIL on 1 April 2002. Prior to this he had been a partner of Ernst & Young in New Zealand.*

* member of the Audit Committee

† member of the Remuneration Committee

§ member of the Nomination Committee

Auditors

PricewaterhouseCoopers LLP
Benson House
33 Wellington Street
Leeds LS1 4JP

Solicitors

Clifford Chance LLP
200 Aldersgate Street
London EC1A 4JJ

Stockbrokers

Deutsche Bank AG
Winchester House
1 Great Winchester Street
London EC2N 2DB

Corporate Financial Advisers

Merrill Lynch International
Merrill Lynch Financial Centre
2 King Edward Street
London EC1A 1HQ

Directors' report

The directors have pleasure in presenting their report and the audited Group financial statements for the 52 weeks ended 29 December 2002.

PRINCIPAL ACTIVITY

The principal activity of the Group is the ownership and operation of hotels in the UK.

REVIEW OF THE BUSINESS

A review of the Group's performance in the year and of its position at the year end, together with an indication of likely future developments, is given in the Chairman's, Chief Executive's and Finance Director's reviews.

On 4 April 2002 the Company disposed of a group of subsidiary companies, which together owned 37 Regional and London hotel businesses to Gamma Four Limited, part of the Orb Group of companies, in return for a consideration of £553.6 million (subject to a post-completion adjustment to reflect working capital in the businesses), and £45.0 million in the form of deferred consideration under an interest bearing loan note to be redeemed no later than 1 January 2005. On 4 April 2002 the Company entered into 30-year management contracts to manage these hotel businesses.

Full details of the disposal were provided in the circular to shareholders dated 12 March 2002. A resolution to approve the disposal was passed at an Extraordinary General Meeting of the Company's shareholders on 4 April 2002.

On 4 November 2002 the Company issued proceedings against certain members of the Orb Group to seek recovery of amounts due in connection with the disposal agreements. On 17 January 2003 the relevant Orb Group companies served a Defence against the Company's claims and a counterclaim which the Company is defending. These proceedings are ongoing. Based on advice received to date, the directors are of the opinion that the Company's claims will be successful and that the Orb Group's counterclaim can be successfully resisted.

RESULTS AND DIVIDENDS

The Group's profit before tax in the year amounted to £27.9 million (2001: £49.1 million). The profit after taxation amounted to £21.8 million (2001: £37.4 million). The total dividends during the year amounted to £24.6 million (2001: £24.6 million).

The directors recommend that a final dividend of 3.4 pence per share is paid on 6 June 2003 to the holders of shares on the

register at the close of business on 9 May 2003. This is subject to the approval of shareholders at the forthcoming Annual General Meeting. Together with the interim dividend of 1.7 pence per share, this will make a total dividend of 5.1 pence per share for the financial year.

DIRECTORS

The current directors of the Company are listed on page 11.

All of the directors noted on page 11 were in office throughout the year. Greg Terry served as a non-executive director until his resignation as a director on 31 March 2002. Tan Sri Quek Leng Chan, Charles Mackay and Baroness O'Cathain each retire by rotation in accordance with the Company's Articles of Association and, being eligible, will offer themselves for re-election at the forthcoming Annual General Meeting.

No director has any material interest in any contract with the Company or its subsidiary undertakings other than as referred to in the Remuneration Report.

DIRECTORS' INTERESTS

Details of directors' interests in the Company's shares, options over shares granted under employee share schemes and awards granted under long term performance share plans are set out in the Remuneration Report on pages 19 to 25.

SUBSTANTIAL SHAREHOLDINGS

As at 28 February 2003, the Company had received notification under Section 198 of the Companies Act 1985 that the following parties were interested in 3% or more of the issued share capital of the Company:

	Number of shares	% issued shares
BIL International Limited ¹	221,094,640	45.8%
Government of Singapore		
Investment Corporation Pte. Limited	63,134,760	13.1%
Havelock Investments Pte. Limited	31,567,381	6.5%
Tweedy Browne Company LLC ²	29,413,457	6.1%

¹ Held by certain subsidiary undertakings.

² Acting as investment manager.

CHARITABLE AND POLITICAL CONTRIBUTIONS

During the year the Group contributed £6,600 to UK charitable organisations (2001: £22,000). There were no political contributions in either year.

COMMUNICATIONS

Investors

The Company considers communication with shareholders to be very important. The Company publishes annual and interim reports for all shareholders, and the Annual General Meeting provides an opportunity for members to question the Board, who are all expected to attend. In addition, information regarding the Group is published through its website and it responds to correspondence from its investors. Owners Club members (holding a minimum investment) receive regular newsletters and are eligible for special rates on accommodation and meals at Thistle hotels.

Employees

All staff are informed about matters concerning their interests as employees and the financial and economic factors affecting the Group. Established management communication channels are supplemented by the regular distribution to staff of a staff magazine. An annual staff satisfaction survey is conducted at all operating locations and the results of this are reviewed by management and communicated to employees. The directors recognise the importance of employee participation in the ownership of the Company. Various schemes have been established to facilitate this, details of which are set out in the Remuneration Report on pages 19 to 25.

Disability

The Group has a Disability Committee, whose objective is to work within relevant legislation to ensure that the needs and requirements of disabled staff and guests are recognised. In addition, the Company participates in the Hoteliers Disability Forum supporting accessibility initiatives for disabled people in hotels. The Company's disability policy is covered in the section on Corporate Social Responsibility.

DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors confirm that they comply with the above requirements.

The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the financial statements comply with the Companies Act 1985. They have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and the Group and to prevent and detect fraud and other irregularities.

DIRECTORS' LIABILITY INSURANCE

During the year the Company purchased insurance for its directors and officers against liabilities in relation to the performance of their duties.

CORPORATE GOVERNANCE

The Board's report on corporate governance is set out on pages 16 to 18.

PAYMENTS TO CREDITORS

The policy of the Company and the Group concerning the payment of suppliers is either to agree terms of payment at the start of business with each supplier or to ensure that the supplier is made aware of the standard payment terms applied by the Company and the Group and, in either case, to pay in accordance with its contractual or other legal obligations. The average trade creditor days of the Company and the Group during the year were 142 (2001: 37) and 35 (2001: 30) respectively.

CORPORATE SOCIAL RESPONSIBILITY

Disabled Workers

The Company recognises that it has clear obligations towards all its employees and the community at large to ensure that people with disabilities are afforded equal opportunities to enter employment and progress within the Group. In addition to complying with the requirements of the Disability Discrimination Act 1995, the Company follows procedures designed to provide for fair consideration and selection of disabled applicants and to satisfy their training and career development needs.

If employees become disabled in the course of their employment, reasonable steps are taken to accommodate their disability by making adjustments to their existing employment or redeployment and, through appropriate retraining, to enable employees to remain in employment with the Group wherever possible.

Directors' report

The Company is an active participant in the industry Disability Employers Action Group which provides career opportunities for the disabled in the leisure industry.

Equal Opportunities

It is the Company's policy to treat job applicants and all employees in the same way, regardless of their gender, sexual orientation, age, race, ethnic origin or disability. Further, the Company will monitor the composition of the workforce and introduce positive action if it appears that this policy is not fully effective.

Training and Development

The Company takes a systematic approach to the identification of training and development needs that are relevant to the achievement of business objectives, and produces, implements and reviews training and development plans for employees at both corporate and hotel levels. The Company has achieved the national Investor in People standard in all hotels.

Environment

Concern for the environment is, and for some years has been, integral and fundamental to the Company's business strategy. During 2001 the Company reviewed its environmental policy and its procedures for monitoring and measuring environmental impact and compliance. In 2002 the policy was further reviewed and the CO₂ emission figures now collated will allow the policy to be even more robust, with more stringent targets, in 2003.

The key features of the Company's environmental policy are a stated commitment to good environment management practice in its business operations (which is communicated to its employees and other stakeholders), and the setting of measured targets for (a) better use of energy; and (b) reduction of wastage and increased use of recycled materials. The Company regularly discusses environmental issues at the highest levels of management and has appointed an Environmental Committee, chaired by the Director of Property, which is accountable to the Board for delivery of the environmental policy objectives and for setting and measuring targets.

During 2002 there has been improved communication across the Company with good environmental practice being regularly discussed at all levels. Our commitment to the HCIMA Hospitable Climates programme will facilitate the measurement of the Company's environmental impact against industry norms. The Company is proud to have been listed on the FTSE4good index throughout 2002.

In the London hotels, wherever possible without compromising the service to customers, water meters have been downsized, generating recurring annual savings on standing charges in the region of £16,000.

The Company participates in the Valpak glass recycling scheme at 33 hotels, where glass waste is separated and then recycled.

Environmental concerns are also an issue for our bulk purchasing team who seek, wherever possible, to source products and materials from companies which themselves have sound and proven environmental policies. We pay particular attention to the sourcing of food and, wherever possible, we aim to source products that are free from genetically modified contents. The introduction of Centralised Distribution of food to our hotels has had the effect of significantly reducing transport and packaging and the impacts associated with these activities.

Training our staff in good environmental management is an important feature of our environmental policy, and is promoted and managed by the Environmental Committee. In 2003 the Environmental Committee will further promote good environmental management to all of our staff.

In future years we intend to develop further our procedures for measuring and monitoring our performance against environmental objectives, and to report on our progress regularly to employees and other stakeholders. Targets for waste, recycling and water usage will all be added to existing targets in 2003 and will be communicated at all levels within the Group.

This annual report has been printed on environmentally friendly paper, which is produced from fibre sourced from fully sustainable forests.

ANNUAL GENERAL MEETING

The notice convening the Annual General Meeting to be held at the Thistle Tower, St Katharine's Way, London E1W 1LD on Wednesday, 4 June 2003 at 2.30pm accompanies this report to shareholders. An explanation of the special business to be tabled to the Annual General Meeting is set out below.

Share Capital

The Companies Act 1985 prevents the allotment of unissued shares without shareholders' authority. The Company also requires the approval of its shareholders for the purchase of its own shares. In certain circumstances, these requirements could limit the ability of the Company to act promptly where the interests of its shareholders were concerned.

Accordingly, at its forthcoming Annual General Meeting the Company will be seeking renewal of the authority granted at the Annual General Meeting on 29 May 2002 to allot unissued shares up to the full extent of its authorised capital representing 102,413,234 shares or 21.2% of its issued capital (Resolution 8) and renewal of the authority granted at the Annual General Meeting on 29 May 2002 to disapply the pre-emption provisions applicable to the allotment of equity securities for cash contained in section 89 of the Companies Act 1985 (Resolution 9). The authority for the allotment of shares will, if passed, permit the allotment of up to an aggregate nominal amount of £26,268,995. Resolution 9 would provide the directors with the power to make issues of equity securities for cash otherwise than to existing shareholders up to a maximum aggregate nominal amount of £6,186,550 representing approximately 5% of the issued ordinary share capital of the Company. Each of these authorities will expire on the date of the Annual General Meeting of the Company to be held in 2004 or 3 September 2004, whichever is earlier. The directors have no present intention of exercising either of these authorities.

The Company is also seeking renewal of the authority granted at the Annual General Meeting on 29 May 2002 to make market purchases of its ordinary shares in certain circumstances and subject to certain limits, the details of which are set out in Resolution 10. The maximum number of shares which could be repurchased under this authority is 24,119,104 ordinary shares, representing approximately 5% of the issued ordinary share capital of the Company. The directors have no present intention of exercising this authority but will keep the matter under review. This authority will only be exercised if the directors believe that to do so would result in an increase in earnings per share and would be in the best interests of the shareholders generally. The authority will expire on the date of the Annual General Meeting of the Company to be held in 2004 or 3 September 2004, whichever is earlier.

AUDITORS

Following the conversion of the Company's auditors, PricewaterhouseCoopers, to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 5 February 2003 and the Board appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

Both the Company and the auditors have for many years had safeguards to avoid the possibility that the auditors' objectivity and independence could be compromised, and the Company is satisfied these have worked well. In respect of the 2002 audit PricewaterhouseCoopers LLP have reviewed their independence

and formally confirmed this to the Audit Committee. However, in light of current best practice, the Audit Committee and the Board have reviewed these safeguards and adopted the following policy as regards the appointment of auditors and their use for work other than the audit itself:

Appointment

In addition to the annual appointment of auditors by the shareholders, and the ongoing process of monitoring the auditors' performance, a formal review of the appointment of the auditors will be undertaken every five years and the first of these reviews will be in 2003.

Use of auditors for non-audit work

Audit related services – This is the work that the auditors, in their position as the auditors, must, or are best placed to, undertake. It includes, for example, formalities relating to borrowings, shareholder and other circulars, various other regulatory reports and work in respect of acquisitions and disposals.

Tax consulting – In cases where they are best suited, the auditors may be used. All other significant tax consulting work is put out to tender, for which the auditors may be considered.


Other accounting or consulting work – The auditors will not be used. In view of this, the Board has decided to reorganise the internal audit function. PricewaterhouseCoopers have stepped down from providing outsourced internal audit services and an in-house team has been formed.

Employment of staff previously employed by the auditors

The appointment at a senior level in the Group of any executive previously engaged on the audit assignment by the audit firm will require the prior agreement of the Audit Committee. Appointments of such staff at other levels will be notified to the Audit Committee.

These policies and procedures have been approved by the Board on the recommendation of the Audit Committee, and the Company believes that they will further safeguard the objectivity and independence of the auditors. However, they will be regularly reviewed by the Audit Committee in light of the development of best practice in this area.

By order of the Board


Ian Cattermole

Company Secretary

28 February 2003

Corporate governance

The Company and the Board support the general principles of good governance set out in the Combined Code on Corporate Governance issued by The London Stock Exchange plc ('the Code'). Furthermore, the Board is carefully studying the Higgs and Smith Reports, released in January 2003, and the Company's overall corporate governance policy will be reviewed in light of the Reports' recommendations.

The directors consider that throughout the financial year to 29 December 2002 the Company has complied with the provisions of Section 1 of the Code, with the exception of certain provisions relating to independent non-executive directors and directors' service agreements as set out below and in the Remuneration Report.

The structure of the Board and its various standing committees is as follows:

BOARD OF DIRECTORS

The Board currently comprises two executive and seven non-executive directors, four of whom (David Newbigging, Charles Mackay, Arthur Hayes and Baroness O'Cathain) are considered by the Board to be independent. Apart from the Chairman, the Deputy Chairman, Charles Mackay, is the senior independent non-executive director of the Company.

Section A of the Combined Code requires that a majority of non-executive directors should be independent from any business or other relationship which could materially interfere with the exercise of their independent judgment. Until the retirement of Greg Terry on 31 March 2002 the Company had eight non-executive directors, of whom four were considered to be independent according to the Code. However, the Chairman, who is independent, had a casting vote in the event of an equality of votes at Board Meetings. Since 31 March 2002 there has been a majority of independent non-executive directors.

The Board meets regularly throughout the year to review the Company's financial and operational performance and to consider those matters formally reserved for the decision of the Board. These include strategy, acquisition and divestment policy, approval of budgets and major capital expenditure, and general treasury and risk management policies. Directors are provided with timely and appropriate information in advance of each Board meeting regarding the trading and financial affairs of the Group.

The Company has a formal procedure for the appointment of directors by means of the Nomination Committee. New directors stand for re-election at the Annual General Meeting following their appointment. Every director is required to retire by rotation and may stand for re-election at least every third year. Schedule A of the Combined Code requires that non-executive directors be appointed for a fixed term. As disclosed in the Remuneration Report, the services of the Chairman, David Newbigging, are provided under a letter of appointment which is terminable by either party on six months' notice.

The directors have access to the advice and services of the Company Secretary, and may seek external independent professional advice where required.

The Board has delegated specific responsibilities to committees, each of which has written terms of reference, the key functions of which are described below.

THE AUDIT COMMITTEE

The Audit Committee comprises four non-executive directors, and is chaired by Charles Mackay. It met twice in 2002. Although executive directors attend Audit Committee meetings by invitation, the Committee also meets with the external auditors without any executive directors present.

The Audit Committee reviews the Group's interim and annual financial statements before submission to the Board for approval. It also reviews and approves the internal audit programme and resources. The Committee reviews regular reports from management and from the internal and external auditors on accounting and internal control matters and the progress of action taken in relation to such matters.

The Audit Committee reviews the appointment, scope and fees of the Company's external auditors, and keeps under review the nature and extent of any non-audit services which they may provide to the Group, with a view to ensuring that their independence and objectivity are not impaired by reason of this further work. The membership of the Committee is given on page 11.

THE REMUNERATION COMMITTEE

The Remuneration Committee comprises four non-executive directors and is chaired by David Newbigging. This Committee

met three times in 2002 including two times by telephone and correspondence. By invitation and on matters other than those concerning himself, the Chief Executive attends such meetings.

This Committee determines the Company's remuneration policy, the remuneration packages of executive directors and other senior management and makes recommendations to the Board. The Remuneration Report of the Board is set out on pages 19 to 25 and the membership of the Committee on page 19.

THE NOMINATION COMMITTEE

The Nomination Committee comprises four non-executive directors and is chaired by David Newbigging. This Committee meets as required to make recommendations to the Board regarding the appointment of executive and non-executive directors. The Committee met in December 2001 and February 2003. In 2002 it did not meet since there were no matters for specific consideration requiring the Committee to meet and certain other matters were covered in correspondence between the members.

GOING CONCERN

After making appropriate enquiries the directors consider that the Company and the Group have 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 financial statements.

INTERNAL CONTROL

The Board has overall responsibility for the Group's system of internal control and risk management and it is the Board's responsibility to review its effectiveness. The Group's systems are designed to manage rather than eliminate risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board confirms that the Company has established the necessary procedures to implement the Internal Control Guidance for Directors on the Combined Code published in September 1999. The procedures have been fully effective throughout the financial year to 29 December 2002 and up to the date on which this report was approved.

The Company has an ongoing process for identifying, evaluating and managing key risks in the context of its business objectives.

The process is supported by the Company's Risk Management Committee which reported twice in 2002 to the Board on the effectiveness of the Company's risk management procedures. This Committee is chaired by the Chief Executive, and is attended by those members of senior management with day-to-day responsibility for key risk areas. The Risk Management Committee functions as a means of monitoring and testing the continuing effectiveness of the internal control systems, and reports to the Board on any control failings and corrective action.

Among the key areas of risk which are regularly reviewed are the following:

Health & Safety

The Company has a full-time Health & Safety Officer who is responsible for the supervision of compliance with Health & Safety legislation in hotels and support offices and for the control and management of incidents.

The Company provides training for relevant staff on statutory Health & Safety requirements, and written guidance is provided in the Company Health & Safety manual. The Health & Safety Officer visits operating sites regularly and receives a quarterly written report relating to Health & Safety in respect of each location. Exceptions are reviewed at senior level and major incidents are the subject of a written report to executive management and the Board. Independent bodies also carry out inspections from time to time. There were no prosecutions of the Group for failure to meet Health & Safety requirements in 2002.

Property

The Director of Property is responsible for the Group's property management. Properties are maintained and refurbished to meet established brand standards and in accordance with pre-approved capital budgets and timescales.

The Group's Buildings Managers undergo regular training on the regulatory requirements associated with refurbishment and repair works, assisted by internal guidance notes and checklists which are updated regularly and reviewed by the Director of Property. Regular training on Health & Safety is also undertaken.

In outsourcing building work, the Group seeks to appoint only accredited external contractors who, through the accreditation

Corporate governance

process, have established written safety procedures and satisfactory insurance cover which is checked by the Group's insurance advisers. Maintenance of plant is managed by means of a standard maintenance and refurbishment agreement with a reputable independent consultancy. The Group's property deeds and records are held centrally in secure storage safes. The Group carries buildings insurance to the full declared value of its buildings.

Brand Standards

Monthly guest satisfaction surveys, detailed audits and regular hotel visits ensure that adherence to brand standards is a clear focus for the hotels.

Staff training and communication programmes have been established to ensure the Company's brand standard objectives are recognised at all levels of the business.

Financial Controls and Reporting

The Company has a clearly defined organisational structure together with lines of responsibility and delegation of authority to relevant head office, area and hotel management. A Group accounting and controls manual is available to provide internal guidance and the Group's internal auditors monitor and report on compliance with internal financial controls. The internal auditors are accountable to the Audit Committee and work to a programme agreed bi-annually in advance. In addition, a system of self-assessment has been implemented to assist in the measurement of the level of compliance with the principal financial controls throughout the Group as set out in the manual.

The Group has formal procedures for the appraisal of major capital expenditure which must be approved by the Board. In addition, there are detailed procedures and authority levels relating to all other capital expenditure.

Each hotel and cost centre (each a 'unit') within the Group must prepare a detailed annual budget. Performance against both budget and preceding year figures is monitored through the preparation of management accounts on a four-weekly basis. These management accounts amalgamate the results for each unit and are reviewed by the relevant operations managers, the Finance Director and the Chief Executive. Reports analysing key statistics on a hotel, regional and Group basis are also prepared

and reviewed on a four-weekly basis. These reports, together with the management accounts, are summarised in the Finance Director's report which is discussed at Board meetings.

Treasury operations are intended to hedge liabilities and are not undertaken on a speculative basis. These operations are monitored by the Finance Director who provides regular reports to the Board.

Business Continuity (Disaster Planning)

Each hotel or site holds a written business continuity plan covering failure of systems as well as physical damage through incidents such as fire, explosion or flood. With regard to business systems restoration, the Group's main IT systems are supported by an agreement with a third party specialist disaster recovery company providing offsite facilities in the event of emergency. Plans are reviewed regularly and technical recovery tests of central systems are carried out twice a year.

The Group carries business interruption insurance cover at all its operating sites, in some cases for up to three years' loss of revenue. The Group's insurance cover is renewed annually at 31 March.

Legal and Compliance

Legal and regulatory compliance is monitored and managed by means of inspections, written procedures, handbooks and regular updates from the appropriate business unit. Litigation matters are referred to the Company Secretary who provides regular reports to the Chief Executive and, as appropriate, to the Board. External advice is sought as appropriate from the Company's professional advisers.

Competition law

In view of the Enterprise Act 2002, the Company has taken appropriate steps to ensure that management at support office and hotel level are aware of their obligations with regard to information exchange and contacts with competitors.

By order of the Board

Ian Cattermole

Company Secretary

28 February 2003

Remuneration report

THE REMUNERATION COMMITTEE

The Remuneration Committee is composed wholly of non-executive directors. The Committee's members are David Newbigging (who chairs the Committee), Tan Sri Quek Leng Chan, Lau Wing Tat and Baroness O'Cathain, none of whom has any business relationship with the Company which might interfere with the exercise of their independent judgment on remuneration matters. The Chief Executive is invited to attend Committee meetings in an advisory capacity but is not present during discussions relating to his own remuneration. The Committee also seeks advice as appropriate from external remuneration consultants, but no advice of a material nature was received in 2002.

REMUNERATION POLICY

Executive directors

The Committee reviews the Company's policy for the remuneration of the executive directors and makes recommendations to the Board. Hitherto and going forward, the Company's policy is to provide remuneration opportunities linked to and dependent upon the performance of the Company. In making its recommendations the Committee seeks to follow the principles and provisions set out in Section 1 Part B and Schedule A of the Combined Code. Within this framework total remuneration packages for the executive directors are intended to take account of:

- the size and nature of the Company's business and the particular duties and responsibilities of the role;
- conditions prevailing in the employment market generally;
- the remuneration of senior management of other public companies in the hotel and leisure industry (in relation to which the Company measures itself against the median level); and
- the qualifications and experience of the individual concerned.

The Committee believes that remuneration packages should strike a balance between fixed and performance-related elements of pay. However, it is not possible in advance to be more precise over what percentage of an individual's total remuneration package is represented by fixed and variable income. The latter is dependent to a large extent on the attainment of performance targets before options can be exercised or shares vest, and the market price of the Company's shares when and if shares vest or are exercised under the Long Term Performance Share Plan and Employee Share Option Schemes.

The policy is for executive directors to participate in an annual bonus plan and to be eligible for grants of share options under the Employee Share Option Schemes and awards under the Long Term Performance Share Plans described below. Each of these elements is tested by reference to criteria which are determined by the Board to be challenging and aligned with the delivery of shareholder value.

Non-executive directors

Non-executive directors are paid an annual fee which is set by the Board as a whole. Where additional services are provided, such as attending Board Committee meetings or devoting additional time and expertise for the benefit of the Company, an additional fee may be paid. Non-executive directors are not eligible for pension scheme membership and do not participate in any of the Group's bonus, share option or other incentive schemes.

Termination payments

In agreeing termination payments for directors, the Board would seek to ensure that payments are fair but not excessive and reflect, where applicable, a director's duty to mitigate.

DIRECTORS' SERVICE AGREEMENTS

Executive directors

The Company's policy is that executive directors should have rolling service agreements terminable on 12 months' notice. However, in certain cases exceptions have been made and these are described below.

Until 6 March 2002 Ian Burke had a service agreement terminable by the Company giving 24 months' notice or Ian Burke giving six months' notice. On 6 March 2002 Ian Burke entered into a new service agreement with the Company under which the notice period from the Company was reduced to 12 months. The new service agreement contains an explicit early termination compensation commitment equal to 67% of the aggregate of annual salary and certain benefits including a sum equal to the annual pension contributions payable by the Company. Such a commitment does not apply where termination is due to retirement at 60 or in circumstances of material breach by the executive of the provisions of his service agreement. The inclusion of such a commitment is consistent with the Combined Code, and recognises the executive's duty to mitigate.

Remuneration report

Ian Durant has a service agreement dated 18 December 2001 terminable by the Company giving 24 months' notice if notice is given before 18 December 2003, that is within two years of his appointment, and thereafter terminable by the Company giving 12 months' notice or Ian Durant giving the Company six months' notice. Ian Durant's service agreement does not contain a predetermined compensation amount on termination and the Committee would address any termination on an individual basis having regard to mitigation and the circumstances of termination.

Non-executive directors

The non-executive directors do not have service agreements with the Company.

The Company has entered into a letter of appointment with the Chairman with effect from 1 April 2000 which is terminable on six months' notice by either party. The letter of appointment has no predetermined compensation amount on termination. The Company also has an agreement with Kennedy Financial Services Limited ('Kennedy'), in which the Chairman has an interest, under which Kennedy provides secretarial and support services to the Chairman. This agreement is terminable by either party on six months' notice and has no predetermined compensation amount on termination.

The Company's policy is that non-executive directors should have letters of appointment, appointing them for a period of three years and independent non-executive directors would not normally expect to serve for more than three consecutive terms of three years each.

The dates of the letters of appointment, each of which contain provision for immediate termination by either party but no predetermined compensation amount on termination are as follows:

Arthur Hayes	13 December 2000
Arun Amarsi	18 December 2001
Baroness O'Cathain	13 December 2000
Charles Mackay	13 December 2000
Lau Wing Tat	27 February 2003
Tan Sri Quek Leng Chan	27 February 2003

SHARE PERFORMANCE GRAPH

A graph showing the Total Shareholder Return for Thistle Hotels Plc compared with the FTSE Leisure & Hotels index is given at Table 1 on page 23.

DIRECTORS' REMUNERATION

A detailed summary of the remuneration of the directors for the year is set out in Table 2 on page 24.

Annual Bonus Plan

The executive directors participate in an annual bonus plan. The plan involves payment of a bonus if demanding performance targets set by the Board are achieved over the relevant financial year. In addition, for truly exceptional performance in any financial year, an annual super-bonus may be awarded to executive directors. No bonuses were earned by executive directors under the annual or super-bonus plans for 2002.

Pensions

The Company has established an approved pension scheme for Ian Burke into which it makes contributions with the aim of providing a pension equal to two-thirds of his final salary up to the earnings cap on retirement at age 60. In respect of Ian Burke's salary in excess of the earnings cap, a Funded Unapproved Retirement Benefit Scheme ('FURBS') has been set up to provide equivalent pension benefits on this part of his salary.

The Company contributes to Ian Durant's personal pension plan at the maximum relevant percentage of salary allowed under Sections 640 and 640A of the Income and Corporation Taxes Act 1988 from time to time. In addition, to the extent contributions to the personal pension plan are lower than 30% of Ian Durant's basic salary, the Company contributes an amount equal to the difference between such contribution and 30% of salary to a FURBS.

For executive directors, bonuses, share awards and benefits in kind are not pensionable.

INTERESTS IN SHARES AND SHARE SCHEMES

Interests in shares

The interests of the directors, all of which are beneficial, in the ordinary share capital of the Company at the beginning and end of the financial year were as follows:

	29 December 2002 Number of shares	30 December 2001 Number of shares
David Newbigging	22,222	22,222
Ian Burke	57,796	57,796
Ian Durant	—	—
Charles Mackay	22,930	22,930
Arthur Hayes	104,585	104,585
Lau Wing Tat	—	—
Baroness O'Cathain	3,668	3,668
Tan Sri Quek Leng Chan*	—	—
Arun Amarsi*	—	—

* It is the policy of BIL International Limited having nominated these directors that such persons should not hold shares as individuals in the Company.

In addition, the executive directors are interested in 925,000 shares in the Company held by the trustee of the Thistle Hotels Employee Benefits Trust. The interest arises as the respective directors are members of the class of beneficiaries under the trust.

There have been no further changes in directors' shareholdings since the year end as at the date of this report.

Interests in share options

The Company operates the following share option schemes for the benefit of executive directors and certain eligible employees:

- the Thistle Hotels (No.1) Executive Share Option Scheme (the 'No.1 Scheme');
- the Thistle Hotels (No.2) Executive Share Option Scheme (the 'No.2 Scheme'); and
- the Thistle Hotels Sharesave Scheme (the 'Sharesave Scheme').

The No.1 Scheme and the Sharesave Scheme have been approved by the Inland Revenue.

Details of options held by the executive directors, including those granted during the year, are set out in Table 3 on page 25.

No options were exercised by executive directors during the year. The market price of the Company's shares at 29 December 2002 was 108 pence. During the year, the market price ranged between 108 pence and 151 pence and the average market price was 127 pence.

During the financial year the Thistle Hotels Employee Benefits Trust (the 'Trust') was formed to acquire shares in the Company with which to fulfil future exercises of share options by directors and eligible employees. The Trust has acquired 925,000 shares in the Company and further details are given in Note 13 to the accounts on page 40.

The No.1 and No. 2 Schemes

Options may be granted under these schemes, at the discretion of the Board, subject to certain rules which are summarised below.

For grants made before 29 May 2002 the scheme rules prevent the grant of options to an employee where the total price payable for shares under grants in any ten year period exceeds a maximum of four times the higher of the employee's current annual remuneration and the total remuneration paid by the Group to the employee in any period of 12 months within the preceding three years. At the Annual General Meeting on 29 May 2002, shareholders approved an amendment to remove this condition to permit greater flexibility in the future.

The aggregate value of grants to an individual under the No.1 Scheme may not exceed £30,000.

The exercise price of shares under options granted may not be less than the market value of such shares on the date of grant.

Options may not normally be exercised unless performance conditions are satisfied. For grants made before 29 May 2002 the Scheme rules provide that, in the absence of other performance conditions being set by the Board at the time of grant, earnings per share over a three-year period following the date of grant must grow by an amount equal to the growth in the Retail Price Index plus 6% in order for options to become exercisable (the 'Default Condition'). The Default Condition was chosen as it requires substantial improvement in underlying financial performance before options may be exercised. All options granted to date are subject to the Default Condition.

There is provision for the Company's earnings per share growth in comparison with the Retail Price Index to be independently verified by the Company's auditors and verified by the Remuneration Committee to assess whether the performance conditions have been met.

Remuneration report

For grants made after 29 May 2002 the Scheme rules require the Board to determine performance conditions on each grant of options. No options have been granted to directors since 29 May 2002.

Options granted may not normally be exercised earlier than three or more than 10 years after the date of the grant. Early exercise is permitted in certain specific cases, such as retirement or redundancy, or the sale of the whole or a part of the business in which case satisfaction of performance conditions may be waived. Shares issued on exercise of options rank *pari passu* with existing shares.

Total options granted to employees under the No.1 and No. 2 Schemes during 2002 were as follows:

	No. of Shares under option	Exercise Price
8 March 2002	331,126	151.0 p
18 September 2002	1,244,982	127.5 p

Details of options outstanding at the end of the financial year are given in Note 20 to the accounts on page 44.

The Sharesave Scheme

All eligible employees, including executive directors, may participate in the Sharesave Scheme. The Scheme permits employees to enter into a savings contract, normally for three or five years. Subject to Inland Revenue limits on the maximum amount which may be saved, the proceeds may be applied at the expiry of the savings contract (or earlier in the case of retirement, redundancy or the sale of the whole or part of the business) for the acquisition of shares at the exercise price.

The exercise price is determined by the Board at the time of grant, and may not be less than 80% of the middle market value of the shares on the nearest appropriate dealing day to the date of grant as determined under the Sharesave Scheme rules. There are no performance criteria to be satisfied in respect of the Sharesave Scheme because it is an employee scheme where option exercise is dependent on making savings contributions and continued employment.

In 2002, options over a total of 174,560 shares were granted under the Sharesave Scheme at an exercise price of 111.2 pence per share. Details of options outstanding at the end of the financial year are given in Note 20 to the accounts on page 44.

Long term performance share plans

Chief Executive Officer and Finance Director Plans

Until 29 May 2002, long term performance share plan awards were granted to both Ian Burke and Ian Durant pursuant to the terms agreed on their respective appointments to the Company. The plans provide for an annual award of shares worth up to 50% and 35% of annual salary for Ian Burke and Ian Durant respectively.

Vesting of awards is conditional upon both (i) the Total Shareholder Return on the Company's shares when measured against that of a Hotel's Comparator Group over a three year period being above the median; and (ii) growth in earnings per share of no less than the growth in the Retail Price Index plus 3% per annum over the three-year period.

If the criteria are met and the Company ranks in the top four of the Comparator Group, 100% of the award will vest. If the criteria are met and the Company ranks at the median of the Comparator Group, 50% of the award will vest. A ranking of between the median and the top four will deliver an award on a sliding scale between these percentages.

The performance condition was chosen as it aligns the interests of the directors with shareholders by requiring superior Total Shareholder Return performance compared to comparator group hotel companies.

There is provision for the Company's earnings per share growth in comparison with the Retail Price Index and the comparator group rankings to be independently verified by the Company's auditors and verified by the Remuneration Committee to assess whether the performance conditions have been met.

No awards in respect of previous performance periods have vested during the year to 29 December 2002.

Awards outstanding at 29 December 2002 under the Chief Executive Officer and Finance Director plans are shown in Table 4 on page 25.

Thistle Long Term Performance Share Plan

A revised Long Term Performance Share Plan for future awards was approved at the Annual General Meeting on 29 May 2002. All future awards to executive directors will be made under this plan.

The new plan provides for an annual award of shares worth up to 100% of salary for each of Ian Burke and Ian Durant. However, it is not the Board's present intention to move away from the limits of 50% and 35% of annual salary for Ian Burke and Ian Durant respectively.

There were no awards outstanding at 29 December 2002 under the Thistle Long Term Performance Share Plan.

Vesting of 2003 awards will be conditional upon achieving a Return on Shareholders' Funds ('ROSF') of no less than 10% by the year ending December 2005. ROSF is defined as the profit after tax for the year (excluding the post-tax effect of exceptional items) as a proportion of Total Equity Shareholders' Funds.

The performance condition was chosen as it requires substantial improvement in underlying financial performance before vesting of awards.

There is provision for the Company's ROSF to be independently verified by the Company's auditors and verified by the Remuneration Committee to assess whether the performance conditions have been met.

AUDITABLE PARTS OF THE REPORT

The auditable parts of this Remuneration Report comprise:

- the fourth paragraph of the subsection 'Interests in Share Options' on page 21;
- the fifth paragraph of the subsection 'The No.1 and No.2 Schemes' on page 21;
- the second to fourth paragraphs of the subsection 'Chief Executive Officer and Finance Director Plans' on page 22;
- the fourth and fifth paragraphs of the subsection 'Thistle Long Term Performance Share Plan' on page 23; and
- Tables 2 to 4 on pages 24 and 25.

SHAREHOLDER APPROVAL

In accordance with the Directors' Remuneration Report Regulations 2002 an ordinary resolution to approve this Remuneration Report will be put to the Annual General Meeting on 4 June 2003.

Approved by the Board and signed on its behalf by

David Newbigging

David Newbigging

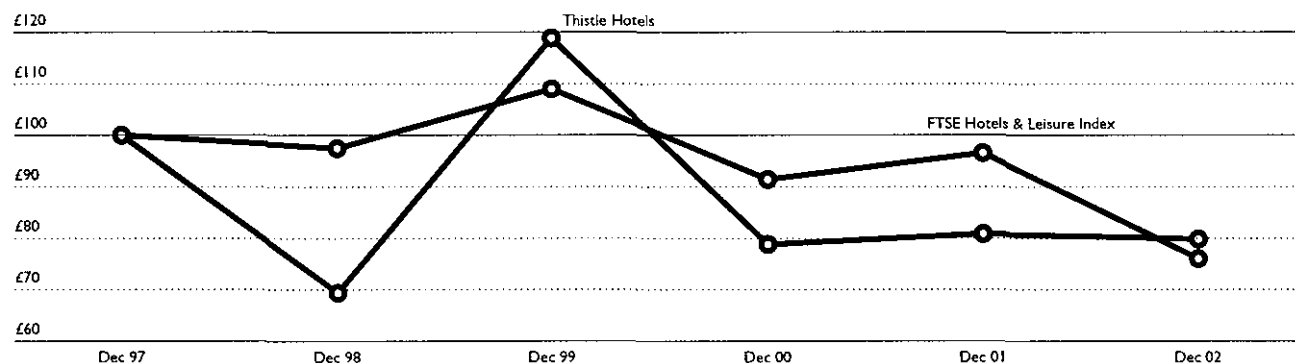
Chairman

28 February 2003

Table 1 – Share performance graph

Historical Total Shareholder Return Performance

Growth in the value of a hypothetical £100 holding over five years. FTSE Hotels & Leisure Index comparison based on spot values.



In the opinion of the directors, the FTSE Hotels & Leisure Index is the most appropriate index against which to measure the Total Shareholder Return for Thistle Hotels Plc because it is an index of public companies operating in the same sector.

Remuneration report

Table 2 – Directors' remuneration

	Current annual salary/fees £000	Salary/fees in the year £000	Bonus £000	Other benefits ¹ £000	Total 2002 £000	Total 2001 £000	Pensions 2002 ² £000	Pensions 2001 £000
CHAIRMAN								
David Newbigging ³	120	120	–	–	120	120	–	–
EXECUTIVE DIRECTORS								
Ian Burke	356	353	–	20	373	365	136	136
Ian Durant	253	251	–	17	268	10	56	2
Former executive directors	–	–	–	–	–	993	–	48
NON-EXECUTIVE DIRECTORS								
Charles Mackay ⁴	60	60	–	–	60	60	–	–
Arthur Hayes ⁵	25	27	–	–	27	27	–	–
Baroness O'Cathain ⁵	25	28	–	–	28	27	–	–
Tan Sri Quek Leng Chan ⁵	25	26	–	–	26	26	–	–
Greg Terry ⁵	–	6	–	–	6	25	–	–
Lau Wing Tat ⁵	25	26	–	–	26	25	–	–
Arun Amarsi ⁵	25	26	–	–	26	1	–	–
TOTALS	914	923	–	37	960	1,679	192	186

1 Other benefits consist of the provision of Company cars or a cash alternative and private medical insurance, the values of which are determined by reference to either the cash cost to the Company or the amount assessed to income tax on the director.

2 Company contributions payable to each director's defined contribution pension plan in 2002.

3 David Newbigging's services as Chairman are provided under a letter of appointment which provides for a fee of £90,000 per annum. In addition, by an agreement between the Company and Kennedy Financial Services Limited ('Kennedy') a fee of £30,000 per annum (plus VAT) is payable to Kennedy for secretarial and support services provided to David Newbigging.

4 Charles Mackay, as Deputy Chairman, receives a fee of £60,000 per annum inclusive of attendance at all Board and Committee meetings.

5 These non-executive directors receive an annual fee of £25,000. An additional fee is payable for each Board Committee meeting attended. The fee is £1,000 for Audit Committee meetings and £500 for meetings of the Nomination and Remuneration Committees.

Table 3 – Directors' interests in share options

	Relevant scheme	At beginning of year	Granted during year	At end of year	Exercise price per share	Earliest date from which exercisable	Expiry date
Ian Burke	No.1 Scheme	17,241	–	17,241 ¹	174.0p	Apr 01	Apr 08
	No.2 Scheme	614,942	–	614,942 ¹	174.0p	Apr 01	Apr 05
	No.2 Scheme	138,801	–	138,801 ¹	158.5p	Mar 02	Mar 06
	No.2 Scheme	33,138	–	33,138 ¹	119.5p	Sep 03	Sep 07
	Sharesave Scheme	8,573	–	8,573	113.0p	Jul 04	Dec 04
	No.2 Scheme	10,594	–	10,594 ¹	87.5p	Sep 04	Sep 08
Ian Durant	No.1 Scheme	25,974	–	25,974 ¹	115.5p	Dec 04	Dec 11
	No.2 Scheme	406,926	–	406,926 ¹	115.5p	Dec 04	Dec 08
	No.2 Scheme	–	331,126	331,126 ¹	151.0p	Mar 05	Apr 09

¹ Exercise of options is dependent upon the achievement of the Default Condition as described on page 21.

² There were no exercises of options during the year and no options lapsed.

³ No consideration is payable for the grant of options.

Table 4 – Directors' interests in long term performance share plans

	Relevant plan	At beginning of year	Shares awarded	At end of year	3 Year Cycle ending	Vesting date
Ian Burke	CEO plan	90,667	–	90,667	Dec 2002	Mar 2003
	CEO plan	149,858	–	149,858	Dec 2003	Mar 2004
	CEO plan	–	157,522 ¹	157,522	Dec 2004	Mar 2005
Ian Durant	FD plan	–	78,208 ¹	78,208	Dec 2004	Mar 2005

¹ The market value of the Company's shares at the date of award was 113 pence. The performance conditions in respect of the awards are set out on page 22.

² The companies currently included in the Comparator Group are De Vere Group plc, Hanover International plc, Hilton Group plc, Jarvis Hotels plc, Jurys Doyle Hotel Group plc, MacDonald Hotels plc, Queens Moat Houses plc, Six Continents plc and Whitbread plc.

Independent auditors' report

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THISTLE HOTELS PLC

We have audited the financial statements which comprise the Group profit and loss account, balance sheets, the Group cash flow statement, Group reconciliation of net cash and debt, Group statement of total recognised gains and losses, Group note of historical cost profits and losses, Group reconciliation of movements in equity shareholders' funds, the statement of accounting policies and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ('the auditable part').

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the annual report, the directors' remuneration report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for, and only for, the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Chairman's statement, the Chief Executive's review, the Finance Director's review, the Directors' report, the Corporate

Governance statement and the unaudited part of the directors' remuneration report.

We review whether the Corporate Governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the auditable part of the directors' remuneration report. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the auditable part of the directors' remuneration report are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group at 29 December 2002 and of the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Leeds

28 February 2003

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Group profit and loss account

for the financial year ended 29 December 2002

	Note	2002 £m	2001 as restated £m
TURNOVER			
Owned or leased hotels		151.1	162.2
Disposed hotels		33.0	143.1
Management fee income		5.9	–
		190.0	305.3
Cost of sales		(119.7)	(198.4)
GROSS PROFIT			
Owned or leased hotels		55.4	63.8
Disposed hotels		9.0	43.1
Management fee income		5.9	–
		70.3	106.9
Administrative expenses		(21.1)	(24.0)
OPERATING PROFIT	2	49.2	82.9
Profit on sale of tangible fixed assets	3	1.0	3.6
Loss on disposal of businesses	4	(4.0)	–
Interest receivable	5	10.5	–
Interest payable and similar charges	6	(28.8)	(37.4)
PROFIT BEFORE TAXATION		27.9	49.1
Taxation	9	(6.1)	(11.7)
PROFIT FOR THE FINANCIAL YEAR		21.8	37.4
Dividends	10	(24.6)	(24.6)
TRANSFER TO RESERVES	21	(2.8)	12.8
EARNINGS PER SHARE			
	11	4.5p	7.7p
DILUTED EARNINGS PER SHARE			
	11	4.5p	7.7p
ADJUSTED EARNINGS PER SHARE			
	11	5.2p	7.0p

Adjusted earnings per share is based on the Group's profit for the financial year before the exceptional profit on disposal of fixed assets and the exceptional loss on disposal of businesses and on the weighted average number of shares in issue.

The above results all arise from continuing operations.

Balance sheets

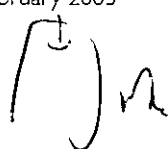
at 29 December 2002

	Note	Group		Company	
		2002	2001 as restated	2002	2001 as restated
		£m	£m	£m	£m
FIXED ASSETS					
Tangible assets	12	999.4	1,627.3	5.2	7.9
Investments	13	1.1	–	28.0	35.3
		1,000.5	1,627.3	33.2	43.2
CURRENT ASSETS					
Stocks	14	0.4	1.2	–	–
Debtors: amounts falling due within one year	15	38.7	28.1	1,080.1	437.2
Debtors: amounts falling due after more than one year	15	46.7	–	46.7	1,020.0
Cash at bank and in hand		367.0	3.1	361.4	1.4
		452.8	32.4	1,488.2	1,458.6
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	16	(52.9)	(69.9)	(103.2)	(286.7)
NET CURRENT ASSETS/(LIABILITIES)		399.9	(37.5)	1,385.0	1,171.9
TOTAL ASSETS LESS CURRENT LIABILITIES		1,400.4	1,589.8	1,418.2	1,215.1
Creditors: amounts falling due after more than one year	17	(306.0)	(433.3)	(306.0)	(259.3)
Provisions for liabilities and charges	18	(78.3)	(133.3)	(0.2)	(0.2)
NET ASSETS		1,016.1	1,023.2	1,112.0	955.6
EQUITY SHARE CAPITAL AND RESERVES					
Called up share capital	20	123.7	123.6	123.7	123.6
Share premium account	21	398.9	398.5	398.9	398.5
Revaluation reserve	21	290.9	441.5	–	–
Other reserves	21	13.4	50.8	–	–
Profit and loss account	21	189.2	8.8	589.4	433.5
TOTAL EQUITY SHAREHOLDERS' FUNDS		1,016.1	1,023.2	1,112.0	955.6

Approved by the Board on 28 February 2003

Ian Burke Director

Ian Durant Director




Group cash flow statement

for the financial year ended 29 December 2002

	Note	2002 £m	2001 £m
NET CASH INFLOW FROM OPERATING ACTIVITIES	22	61.9	112.4
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid		(31.5)	(40.6)
Interest received		10.2	—
TAXATION PAID		(9.7)	(24.0)
CAPITAL EXPENDITURE			
Purchase of tangible fixed assets		(8.5)	(38.3)
Sale of tangible fixed assets		1.6	13.8
Purchase of investments		(1.1)	—
FREE CASH FLOW		22.9	23.3
DISPOSALS			
Disposal of businesses	4	539.1	—
EQUITY DIVIDENDS PAID		(24.6)	(24.6)
CASH INFLOW/(OUTFLOW) BEFORE MANAGEMENT OF LIQUID RESOURCES AND FINANCING		537.4	(1.3)
Net increase in seven day deposits		(351.0)	—
FINANCING			
Issue of share capital		0.5	—
Loans repaid		(174.0)	—
INCREASE/(DECREASE) IN CASH		12.9	(1.3)

Group reconciliation of net cash and debt

for the financial year ended 29 December 2002

	Note	2002 £m	2001 £m
Increase/(decrease) in cash in the year		12.9	(1.3)
Cash flow from increase in liquid resources		351.0	—
Cash flow from repayment of loans		174.0	—
MOVEMENT IN NET CASH AND DEBT IN THE YEAR		537.9	(1.3)
Net debt at the beginning of the year	23	(430.2)	(428.9)
NET CASH/(DEBT) AT THE END OF THE YEAR	23	107.7	(430.2)

Group statement of total recognised gains and losses

for the financial year ended 29 December 2002

	Note	2002 £m	2001 as restated £m
Profit for the financial year		21.8	37.4
Impairment provision	12	(4.8)	—
Total recognised gains and losses relating to the year		17.0	37.4
Prior year adjustment	1	(133.3)	—
TOTAL GAINS AND LOSSES RECOGNISED SINCE LAST ANNUAL REPORT		(116.3)	

Group note of historical cost profits and losses

for the financial year ended 29 December 2002

	2002 £m	2001 as restated £m
Profit before taxation as reported	27.9	49.1
Difference between historical cost and actual depreciation charges	1.0	1.4
Realisation of property revaluation gains of previous years	144.8	3.1
HISTORICAL COST PROFIT BEFORE TAXATION	173.7	53.6
HISTORICAL COST PROFIT AFTER TAXATION AND DIVIDENDS	143.0	17.3

Group reconciliation of movements in equity shareholders' funds

for the financial year ended 29 December 2002

	Note	2002 £m	2001 as restated £m
Total recognised gains and losses relating to the year		17.0	37.4
Dividends		(24.6)	(24.6)
Issue of share capital		0.5	—
NET CHANGE IN THE YEAR		(7.1)	12.8
Opening equity shareholders' funds as previously reported		1,156.5	1,141.0
Prior year adjustment	1	(133.3)	(130.6)
OPENING EQUITY SHAREHOLDERS' FUNDS AS RESTATED		1,023.2	1,010.4
CLOSING EQUITY SHAREHOLDERS' FUNDS		1,016.1	1,023.2

Statement of accounting policies

BASIS OF ACCOUNTING

The accounts have been prepared under the historical cost convention as modified by the revaluation of certain properties and in accordance with applicable accounting standards.

A summary of the more important Group accounting policies, which have been applied consistently except as stated in Note 1, is set out below.

BASIS OF CONSOLIDATION

The Group accounts consolidate the accounts of the holding company and its subsidiaries all of which are prepared to the same date as the holding company. Uniform accounting policies are adopted by all companies in the Group. Results of subsidiaries acquired or disposed of during the year are consolidated from or until the date on which control passes.

TURNOVER

Turnover comprises amounts receivable for goods supplied and management services provided (excluding VAT) during the financial year.

TANGIBLE FIXED ASSETS

a) Cost and Valuation

All freehold and long leasehold land and buildings were revalued as at 14 July 1996 by Christie & Co., surveyors, valuers and agents, on an existing use basis. On 11 July 1999, 11 hotels were revalued by Christie & Co., on an existing use basis in accordance with the Group's previous policy of undertaking a rolling five year valuation of the fixed asset base. On adoption of FRS 15, the Group followed the transitional provisions to retain the book value of land and buildings which were revalued in 1996 and 1999, but not to adopt a policy of revaluation in the future. These values are retained subject to the requirement to test assets for impairment in accordance with FRS 11. Impairment provisions in respect of previously revalued fixed assets are firstly charged against any attributable revaluation reserve and thereafter to the profit and loss account.

All other fixed assets are carried at cost.

b) Depreciation and amortisation

Depreciation and amortisation are provided to write off the cost of tangible fixed assets by equal annual instalments to their estimated residual value over their estimated remaining useful economic lives as follows:

Freehold land	not depreciated
Core elements of freehold and long leasehold land and buildings (more than 20 years to run)	remaining useful economic life (up to 100 years)
Short leasehold land and buildings (less than 20 years to run)	remaining life of lease
Integral plant and the non-core elements of buildings (comprising surface finishes and surfaces) – 'Fit out costs'	15 to 30 years
Moveable plant and equipment	15 years
Furniture, including fitted furniture, furnishings and bathroom equipment	10 years
Soft furnishings	5 years
Motor vehicles and computer equipment	5 years

STOCKS

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

INVESTMENTS

Fixed asset investments are stated at cost less any provision for diminution in value.

DEFERRED TAXATION

Deferred tax is provided in full on timing differences at rates expected to apply when they crystallise based on current and known future tax rates. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax balances are not discounted.

BORROWINGS

Borrowings are carried at their net issue proceeds plus finance costs less amounts paid. Finance costs, which comprise interest and issue costs, are allocated over the period of the borrowing to achieve a constant rate on the carrying amount.

FINANCIAL INSTRUMENTS

Receipts and payments from interest rate swaps used to manage interest on borrowings or deposits are accrued to match the income or expense of the underlying borrowing or deposit.

LEASES

Rentals due under operating leases are charged to the profit and loss account as incurred.

PENSION COSTS

The cost of providing pension benefits under defined benefit schemes is charged to the profit and loss account over the period benefiting from the employees' services. The cost of providing pension benefits under defined contribution schemes is charged to the profit and loss account in the year in which they are payable.

Notes to the accounts

1 PRIOR YEAR ADJUSTMENT

Financial Reporting Standard 19 'Deferred Tax' has been adopted for the first time in these financial statements and full provision for deferred tax has been made. In previous years the Group's accounting policy was not to provide for deferred tax unless there was a reasonable probability that a liability would arise in the foreseeable future. The change in policy has been accounted for by means of a prior year adjustment as at 1 January 2001 and the previously reported figures for the 52 weeks ended 30 December 2001 have been restated accordingly. The effect of the change in policy was to increase the tax charge for the year ended 30 December 2001 by £2.7 million. The effect of the change in policy on the results for the 52 weeks ended 29 December 2002 has been to contribute £53.8 million to the net loss on disposal of businesses and to decrease the tax charge for the year by £1.2 million.

2 OPERATING PROFIT

	2002 £m	2001 £m
This is stated after charging:		
Depreciation and amortisation	22.7	32.6
Repairs and renewals	5.6	8.4
Operating lease rentals		
– land and buildings	6.7	8.5
– hire of plant and machinery	1.7	2.4
Auditors' remuneration		
– audit fees	0.1	0.1
– other services	0.3	0.4

Repairs and renewals include amounts attributable to maintenance wages which are also included in staff costs. Other fees payable to the auditors comprised internal audit services £0.1 million (2001: £0.3 million) and taxation fees £0.2 million (2001: £0.1 million). In addition, fees of £0.4 million in respect of taxation services and work in connection with the Shareholders' Circular payable to the auditors are included in the costs of the disposal of businesses. The whole of the auditors' remuneration was borne by the Company.

3 PROFIT ON SALE OF TANGIBLE FIXED ASSETS

	2002 £m	2001 £m
Profit on sale of tangible fixed assets	1.0	3.6

During the year the Group realised an aggregate net profit of £1.0 million (2001: £3.6 million) on the disposal of one ancillary property (2001: one hotel). There was no tax charge attributable to this profit (2001: £nil). The sale proceeds net of selling costs were £1.4 million (2001: £10.4 million).

Notes to the accounts

4 DISPOSAL OF BUSINESSES

On 4 April 2002 the Group disposed of a number of subsidiary companies, as described in Note 29, to effect the disposal of 37 hotel businesses to Gamma Four Limited, a wholly owned subsidiary of Euro & UK Property Limited.

A) LOSS ON DISPOSAL OF BUSINESSES	2002 £m	2001 £m
Net assets disposed		
Tangible fixed assets	607.7	--
Cash at bank and in hand	2.0	--
Other working capital balances	(2.3)	--
Provision for deferred tax	(53.8)	--
	553.6	--
Consideration		
Cash receivable	553.6	--
Deferred consideration	--	--
	553.6	--
Excess of consideration over net assets disposed	--	--
Disposal costs	(4.0)	--
Profit on disposal of businesses	(4.0)	--

On 4 November 2002, the Company issued proceedings against Gamma Four Limited and certain other members of the Orb Group to seek recovery of amounts due in connection with that disposal. The amount being sought by the Company is approximately £14.6 million plus interest and costs and the principal sum is included in debtors at 29 December 2002. On 17 January 2003, the relevant members of the Orb Group served a defence against the Company's claims, together with a counterclaim, which the Company is defending. The amount of the counterclaim is asserted to be £54 million. No provision has been made in respect of the counterclaim as, having taken legal advice, the directors are of the opinion that the counterclaim can be successfully resisted.

Deferred consideration in the form of a £45.0 million loan note is receivable on or before 1 January 2005. Interest accrues at a rate of 5% per annum and is receivable when the principal is repaid. At 29 December 2002 the interest accrued was £1.7 million. There is no dispute with the Orb Group over this loan note. Payment has been guaranteed by various members of the Orb Group and, in addition, Thistle holds a second legal charge over the shares in the Jersey-based parent of the Orb Group company which owns the managed hotels as security of the loan note.

In view of the litigation noted above and other matters recently reported in the press in respect of the Orb Group, the Board has decided to defer recognition of the deferred consideration and associated interest receivable until there is either increased certainty of recovery or the amounts are realised in cash. The income has been included within accruals and deferred income and, accordingly, the exceptional profit on disposal previously reported in the Interim Report has been restated to a £4.0 million loss on disposal, and interest income to 29 December 2002 of £1.7 million has not yet been recognised in the Profit and Loss Account.

4 DISPOSAL OF BUSINESSES (CONTINUED)

	2002 £m	2001 £m
B) CASH FLOWS		
Cash consideration receivable	553.6	—
Less: amounts receivable during 2003	(8.5)	—
	545.1	—
Cash balances disposed	(2.0)	—
Disposal costs	(4.0)	—
NET CASH INFLOW ON DISPOSAL OF BUSINESSES	539.1	—

The 37 hotel businesses sold contributed £11.4 million (2001: £52.7 million) to the Group's net cash inflow from operating activities and utilised cash of £1.0 million (2001: £17.2 million) in respect of the purchase of tangible fixed assets. It is not practicable to quantify the amounts in respect of returns on investments and servicing of finance and taxation paid for the 37 hotel businesses sold.

5 INTEREST RECEIVABLE

	2002 £m	2001 £m
Bank interest receivable	10.5	—

6 INTEREST PAYABLE AND SIMILAR CHARGES

	2002 £m	2001 £m
Interest on long term loans	26.2	27.4
Interest on bank overdrafts and loans repayable within five years	2.5	9.9
Bank charges	0.1	0.1
	28.8	37.4

Notes to the accounts

7 STAFF COSTS	2002 £m	2001 £m
Agency wages	9.6	12.5
Employee wages and salaries	39.0	65.7
	48.6	78.2
Employer's social security costs	3.1	4.7
Employer's other pension costs (see Note 24)	1.7	2.0
	53.4	84.9
	2002 number	2001 number
Average monthly number of people employed under contracts of service:		
Hotel operating staff	2,592	5,828
Management, administration and support staff	320	309
	2,912	6,137

8 DIRECTORS	2002 £000	2001 £000
AGGREGATE EMOLUMENTS		
Fees	289	281
Amounts payable to third parties	30	30
Salaries and benefits	641	886
Performance related bonuses	–	–
Compensation for loss of office	–	482
Pension contributions to defined contribution plans	192	186
	1,152	1,865
HIGHEST PAID DIRECTOR		
Salary and benefits	373	365
Performance related bonus	–	–
Pension contributions to defined contribution plan	136	136
	509	501

During the year, the Company made pension contributions on behalf of two (2001: three) directors to defined contribution plans.

Details of each director's remuneration are disclosed in the Remuneration Report on page 24.

9 TAXATION

	2002 £m	2001 as restated £m
UK corporation tax at 30% (2001: 30%)		
Current year charge	9.3	11.0
Adjustments in respect of previous years	(2.0)	(2.0)
	7.3	9.0
Deferred tax		
Current year charge	0.5	2.7
Adjustments in respect of previous years	(1.7)	–
	6.1	11.7

The corporation tax charge on the profit before taxation is lower (2001: lower) than the standard UK rate of 30%. The differences are explained below:

Profit on ordinary activities before taxation	27.9	49.1
Expected tax charge at 30%	8.4	14.7
Profit on disposal of fixed assets not subject to tax	(0.3)	(1.1)
Loss on disposal of businesses not subject to tax	1.2	–
Expenses not deductible for tax purposes	0.5	0.1
Capital allowances in excess of depreciation	(0.5)	(2.7)
Adjustments in respect of previous years	(2.0)	(2.0)
Current corporation tax charge	7.3	9.0

10 DIVIDENDS

	pence	2002 £m	pence	2001 £m
Interim dividend paid	1.70	8.2	1.70	8.2
Final dividend proposed	3.40	16.4	3.40	16.4
	5.10	24.6	5.10	24.6

11 EARNINGS PER SHARE

	2002 £m	2001 as restated £m
Earnings per share has been calculated as follows:		
Basic earnings	21.8	37.4
Exceptional items (net of attributable taxation)	3.0	(3.6)
Adjusted earnings	24.8	33.8

Notes to the accounts

11 EARNINGS PER SHARE (CONTINUED)

2002 2001
as restated

Earnings per share has been calculated as follows:

	millions	millions
Weighted average number of shares	482.0	481.9
Dilutive potential ordinary shares arising from employee share options	0.4	0.3
Diluted weighted average number of shares	482.4	482.2

	pence	pence
Basic earnings per share	4.5	7.7
Exceptional items (net of attributable taxation)	0.7	(0.7)
Adjusted earnings per share	5.2	7.0

	pence	pence
Diluted earnings per share	4.5	7.7

The calculation of adjusted earnings per share is based on the profit before exceptional items (net of taxation) and is included as it provides a better understanding of the underlying trading performance of the Group.

12 TANGIBLE FIXED ASSETS

	Land and buildings £m	Fit out costs, furniture, furnishings, equipment and motor vehicles £m	Group total £m	Company total £m
A) TANGIBLE FIXED ASSETS				
COST OR VALUATION				
At beginning of year	1,397.4	441.7	1,839.1	15.6
Additions	3.0	4.9	7.9	1.5
Impairment provision	(4.8)	—	(4.8)	—
Disposals	(0.4)	(0.2)	(0.6)	(0.2)
Disposal of businesses	(507.4)	(200.0)	(707.4)	(1.2)
At end of year	887.8	246.4	1,134.2	15.7
ACCUMULATED DEPRECIATION				
At beginning of year	12.5	199.3	211.8	7.7
Provision for the year	1.7	21.0	22.7	3.6
Disposals	—	—	—	—
Disposal of businesses	(2.8)	(96.9)	(99.7)	(0.8)
At end of year	11.4	123.4	134.8	10.5

12 TANGIBLE FIXED ASSETS (CONTINUED)

	Land and buildings £m	Fit out costs, furniture, furnishings, equipment and motor vehicles £m	Group total £m	Company total £m
A) TANGIBLE FIXED ASSETS (CONTINUED)				
Net book amount at end of year	876.4	123.0	999.4	5.2
Net book amount at beginning of year	1,384.9	242.4	1,627.3	7.9

The impairment provision relates to the London Ryan Hotel. Following an internal review which indicated that an impairment might exist, an independent professional valuation was obtained and used in determining the amount provided.

The Company's tangible fixed assets comprise furniture, furnishings, equipment and motor vehicles.

	Group	
	2002 £m	2001 £m
B) ANALYSIS OF LAND AND BUILDINGS		
ANALYSIS OF NET BOOK VALUE OF LAND AND BUILDINGS:		
Freehold	410.3	756.3
Long leasehold	445.9	597.6
Short leasehold	20.2	31.0
	876.4	1,384.9

	Group	
	2002 £m	2001 £m
ANALYSIS OF LAND AND BUILDINGS AT COST OR VALUATION:		
At cost	64.8	121.4
At valuation – 1996	508.0	904.5
At valuation – 1999	315.0	371.5
	887.8	1,397.4

All freehold and long leasehold land and buildings were revalued as at 14 July 1996. On 11 July 1999 eleven hotels were revalued in accordance with the Group's previous policy of undertaking a rolling five year valuation of the fixed asset base. Of these eleven hotels, six were disposed of during the year. All the valuations were performed by Christie & Co. on an existing use basis and in accordance with the requirements of the RICS Appraisal and Valuation Manual.

	Group	
	2002 £m	2001 £m
ANALYSIS OF LAND AND BUILDINGS AT HISTORIC COST:		
At cost	598.9	1,048.1
Accumulated depreciation	(6.3)	(11.1)
Net book amount based on historic cost	592.6	1,037.0

Notes to the accounts

13 INVESTMENTS

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Shares in subsidiary undertakings	–	–	26.9	35.3
Own shares	1.1	–	1.1	–
	1.1	–	28.0	35.3

Shares in subsidiary undertakings

	Cost £m	Provisions £m	Book value £m
Company			
At beginning of year	55.5	(20.2)	35.3
Additions	13.4	(0.6)	12.8
Disposals	(39.9)	18.7	(21.2)
At end of the year	29.0	(2.1)	26.9

Details of the principal subsidiaries are given in Note 29.

Own shares

The Thistle Hotels Employee Benefits Trust ('the Trust') was established during the year and holds shares in the Company which may subsequently be transferred to executive directors and senior employees under the Thistle Executive Share Option Schemes. In accordance with accounting requirements the Trust is deemed to be controlled by the Company and its assets and liabilities are included in the balance sheets of both the Company and the Group. During the year the Trust purchased 925,000 shares in the Company at a cost of £1.1 million and representing 0.2% of the issued share capital. At 29 December 2002 the market value of the shares held was £1.0 million. The Trust has waived the right to dividends on the shares held. Costs of administering the Trust are charged to the profit and loss account.

14 STOCKS

Stocks mainly comprise food and beverage stocks and other goods for resale.

15 DEBTORS

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Amounts falling due within one year				
Trade debtors	14.0	22.9	2.5	2.6
Amounts owed by Group undertakings	–	–	1,052.1	433.5
Other debtors	16.5	–	23.6	–
Prepayments and accrued income	8.2	5.2	1.9	1.1
	38.7	28.1	1,080.1	437.2
Amounts falling due after more than one year				
Amounts owed by Group undertakings	–	–	–	1,020.0
Other debtors	45.0	–	45.0	–
Prepayments and accrued income	1.7	–	1.7	–
	46.7	–	46.7	1,020.0

Amounts falling due after more than one year consist of the deferred consideration and interest explained in Note 4.

16 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Bank loans and overdrafts	–	–	–	4.1
Trade creditors	11.5	16.1	2.7	1.5
Amounts owed to group undertakings	–	–	73.0	247.5
Tax and social security	3.2	7.3	1.5	1.8
Corporation tax	7.4	9.9	1.6	6.8
Other creditors	1.1	3.5	0.6	7.2
Accruals and deferred income	13.3	16.7	7.4	1.4
Dividend proposed	16.4	16.4	16.4	16.4
	52.9	69.9	103.2	286.7

17 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Bank loans	–	174.0	–	–
10.75% Debenture stock 2014	200.0	200.0	200.0	200.0
7.875% Debenture stock 2022	59.3	59.3	59.3	59.3
Accruals and deferred income	46.7	–	46.7	–
	306.0	433.3	306.0	259.3

The above bank loans and debenture stocks are repayable as follows:

One to two years	–	–	–	–
Two to five years	–	154.0	–	–
Beyond five years	259.3	279.3	259.3	259.3
	259.3	433.3	259.3	259.3

As at 29 December 2002 the mortgage debenture stock (2001: the mortgage debenture stock and one bank loan) totalling £259.3 million (2001: £279.3 million) were secured on eight (2001: nineteen) hotels owned by the Group. At 29 December 2002 one hotel was charged as security for a £45.0 million bank letter of credit given in favour of the owner of 37 managed hotels. The letter of credit backs up the Group's obligations as described in Note 27.

Notes to the accounts

	Group		Company	
	2002	2001 as restated	2002	2001 as restated
	£m	£m	£m	£m
18 PROVISIONS FOR LIABILITIES AND CHARGES				
Deferred tax				
At beginning of year as restated	133.3	130.6	0.2	0.2
Disposal of businesses	(53.8)	—	—	—
(Release)/charge to profit and loss account	(1.2)	2.7	—	—
At end of year	78.3	133.3	0.2	0.2
Analysis of deferred tax provision				
Capital allowances in excess of depreciation	78.3	133.3	0.2	0.2

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

No provision has been made for deferred tax on gains recognised on the revaluation of properties. Any taxation arising on disposals would be dependant upon the structure of the transaction but the directors estimate that were all the hotels to be sold at book values as at 29 December 2002 then the taxation charge arising would be less than £70 million.

19 FINANCIAL INSTRUMENTS**INTEREST RATE RISK**

The Group's debt comprises fixed rate debenture stock and, until 4 April 2002, floating rate bank loans. The Group uses interest rate swaps to manage interest rates wherever there is a perceived foreseeable long term cash benefit. No swaps were used during the two years ended 29 December 2002. There were no unrecognised gains or losses in respect of hedging instruments at 29 December 2002 (2001: £nil) as there were no such instruments in place. Further details of the Group's treasury policy are given in the Finance Director's review on page 10.

LIQUIDITY RISK

As at 29 December 2002, the Group had undrawn overdraft facilities of £25.0 million (2001: £50.0 million). These facilities are rolled over on an annual basis. There were no other facilities at 29 December 2002 (2001: all facilities fully drawn down).

FINANCIAL ASSETS

The Group's financial assets as at 29 December 2002 comprised long term debtors of £45.0 million (2001: £nil) plus accrued interest of £1.7 million (2001: £nil) at a rate of 5%, cash at bank of £4.7 million (2001: £1.7 million), £362.0 million of short term deposit balances (2001: £1.0 million) and hotel cash floats of £0.3 million (2001: £0.4 million). Cash at bank does not earn interest and is repayable on demand. Short term deposit balances have earned interest at variable rates ranging between 3% and 5%. Short term debtors have been excluded from all disclosures other than currency profile.

FINANCIAL LIABILITIES

The Group's financial liabilities as at 29 December 2002 comprised accruals and deferred income of £46.7 million (2001: £nil), floating rate bank loans of £nil (2001: £174.0 million) and fixed rate debenture stock of £259.3 million (2001: £259.3 million). Short term creditors have been excluded from all disclosures other than currency profile.

19 FINANCIAL INSTRUMENTS (CONTINUED)

The interest rate profile of the Group's bank loan and debenture stock financial liabilities as at 29 December 2002 was:

	2002			2001		
	Floating rate	Fixed rate	Total	Floating rate	Fixed rate	Total
Sterling amount (£m)	–	259.3	259.3	174.0	259.3	433.3
Weighted average interest rate (%)	–	10.1	10.1	5.4	10.1	8.2
Weighted average period for which rate is fixed (years)	n/a	13.7	n/a	n/a	14.7	n/a

The floating rate liabilities comprised sterling denominated bank borrowings which bore interest at rates based on LIBOR.

FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The book and fair values of the Group's primary financial instruments as at 29 December 2002 were as follows:

	2002		2001	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Cash at bank and in hand	367.0	367.0	3.1	3.1
Long term borrowings – floating rate	–	–	(174.0)	(174.0)
Long term borrowings – fixed rate	(259.3)	(319.9)	(259.3)	(299.6)

As at 29 December 2002, the fair value of the 2014 debenture stock was £256.5 million (2001: £240.7 million) and the fair value of the 2022 debenture stock was £63.4 million (2001: £58.9 million). For this purpose, market values have been used to determine fair values. It is not practicable to determine the fair values of the long term debtors of £46.7 million and the accruals and deferred income creditor of £46.7 million. In the case of other financial instruments, the fair value is considered to approximate to the carrying value in the balance sheet.

CURRENCY PROFILE

The Group's net monetary assets and liabilities at 29 December 2002 and 30 December 2001 were all denominated in sterling.

20 CALLED UP SHARE CAPITAL

	Number of shares million	Amount £m
A) SHARE CAPITAL		
AUTHORISED		
Ordinary shares of 25 ¹³ / ₂₀ pence each at the beginning and end of the year	584.8	150.0
ALLOTTED AND FULLY PAID		
Ordinary shares of 25 ¹³ / ₂₀ pence each at the beginning of the year	481.9	123.6
Issued during the year	0.5	0.1
Ordinary shares of 25 ¹³ / ₂₀ pence each at the end of the year	482.4	123.7

Notes to the accounts

20 CALLED UP SHARE CAPITAL (CONTINUED)

B) SHARE OPTIONS

Options were granted during the year under the Company's No. 1 and No. 2 Executive Share Option Schemes and under the Sharesave Scheme as disclosed in the Remuneration Report on page 22. Details of options outstanding as at 29 December 2002 (including options held by directors reported on page 25) are as follows:

Executive Share Option Schemes	Exercise price	Number of options outstanding		Earliest exercise date Both Schemes	Latest exercise date No 1 Scheme	Latest exercise date No 2 Scheme
		No 1 Scheme	No 2 Scheme			
	170.0p	576,464	550,578	Oct 1999	Oct 2006	Oct 2003
	138.0p	36,230	–	Sep 2000	Sep 2007	n/a
	175.5p	29,715	115,669	Apr 2001	Apr 2008	Apr 2005
	174.0p	17,241	614,942	Apr 2001	Apr 2008	Apr 2005
	121.5p	71,604	403,743	Oct 2001	Oct 2008	Oct 2005
	158.5p	244,560	712,728	Mar 2002	Mar 2009	Mar 2006
	167.0p	131,436	87,634	Sep 2002	Sep 2009	Sep 2006
	141.0p	370,698	830,154	Mar 2003	Mar 2010	Feb 2007
	119.5p	251,040	444,106	Sep 2003	Sep 2010	Sep 2007
	146.0p	581,577	1,188,402	Mar 2004	Mar 2011	Mar 2008
	122.5p	24,489	187,755	Apr 2004	Apr 2011	Apr 2008
	87.5p	482,142	310,704	Sep 2004	Sep 2011	Sep 2008
	115.5p	25,974	406,926	Dec 2004	Dec 2011	Dec 2008
	151.0p	–	331,126	Mar 2005	n/a	Mar 2009
	127.5p	707,067	537,915	Sep 2005	Sep 2012	Sep 2009
		3,550,237	6,722,382			

Sharesave Schemes	Exercise price	Number of options outstanding		Earliest exercise date Both Schemes	Latest exercise date 3 Year Scheme	Latest exercise date 5 Year Scheme
		3 Year Scheme	5 Year Scheme			
	138.0p	–	17,750	July 2002	n/a	Dec 2004
	127.0p	1,219	13,285	July 2003	Dec 2003	Dec 2005
	113.0p	147,622	62,116	July 2004	Dec 2004	Dec 2006
	117.0p	81,113	21,340	July 2005	Dec 2005	Dec 2007
	111.2p	110,866	63,694	July 2006	Dec 2006	Dec 2008
		340,820	178,185			

For the Sharesave Schemes the Company has taken advantage of the exemption from the accounting requirements of Urgent Issues Task Force Abstract 17 which would otherwise require a profit and loss account charge in respect of options issued at a discount to market value.

21 RESERVES

	Share premium account £m	Revaluation reserve £m	Capital reserve £m	Profit and loss account £m
GROUP				
At beginning of year – as previously reported	398.5	441.5	50.8	142.1
Prior year adjustment – Note 1	–	–	–	(133.3)
At beginning of year – as restated	398.5	441.5	50.8	8.8
Loss for the financial year	–	–	–	(2.8)
Issue of share capital	0.4	–	–	–
Impairment provision	–	(4.8)	–	–
Transfer of depreciation on revaluation reserve	–	(1.0)	–	1.0
Realised on disposals	–	(144.8)	(37.4)	182.2
At end of year	398.9	290.9	13.4	189.2

COMPANY

At beginning of year – as previously reported	398.5	–	–	433.7
Prior year adjustment – Note 1	–	–	–	(0.2)
At beginning of year – as restated	398.5	–	–	433.5
Profit for the financial year	–	–	–	155.9
Issue of share capital	0.4	–	–	–
At end of year	398.9	–	–	589.4

The Company has not presented its own profit and loss account as permitted by section 230 of the Companies Act 1985.

	2002 £m	2001 £m
The profit for the financial year dealt with in the accounts of the Company was	180.5	268.8

Notes to the accounts

22 RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES	2002 £m	2001 £m
Operating profit	49.2	82.9
Depreciation	22.7	32.6
Profit on disposal of fixed assets	—	(0.2)
Decrease in stocks	0.2	0.2
(Increase)/decrease in debtors	(14.9)	2.9
Increase/(decrease) in creditors	4.7	(6.0)
Net cash inflow from operating activities	61.9	112.4

23 ANALYSIS OF NET CASH AND DEBT	At beginning of year £m	Cash flows £m	At end of year £m
Cash at bank and in hand	3.1	363.9	367.0
Debt due after one year	(433.3)	174.0	(259.3)
Total	(430.2)	537.9	107.7

24 PENSIONS**A) DEFINED BENEFIT PENSION SCHEMES**

The Group operates two schemes covering 236 employees (2001: 408). The schemes, both of which are closed to new members, are of the funded defined benefit type and their assets are held in separate funds administered by Trustees.

The latest actuarial assessments of the schemes were carried out as at 1 May 1999 using the 'projected unit' method. Under this method the current service cost will increase as the members of the schemes approach retirement. An investment return 2% higher than the rate of annual salary increase was assumed. The level of funding on the MFR basis was 93% and 119% and the employer contribution rates over the average remaining service lives of the schemes' members take account of the deficit and the surplus respectively. At the date of the actuarial assessment the aggregated market value of the schemes' assets was £29.9 million.

Costs in respect of the schemes are charged to the profit and loss account so as to spread them over employees' working lives with the Group. The cost in the year, which has been assessed in accordance with the advice of qualified actuaries, was £1.2 million (2001: £1.6 million). There is also a pension commitment to a past director amounting to £4,000 per annum, and pensions to the widows of former directors amounting to £13,000 per annum.

24 PENSIONS (CONTINUED)

For FRS17 purposes the actuarial valuations carried out as at 1 May 1999 have been updated to 29 December 2002 by a qualified independent actuary.

The main assumptions used were:

	2002 Per annum	2001 Per annum
Salary increases	4.50%	4.50%
Pensions in payment increases	2.50%	2.50%
Discount rate	5.50%	5.75%
Inflation rate	2.50%	2.50%

The fair value of the assets of the schemes and their expected rates of return were:

	Expected long term rate of return		Fair values	
	2002 %	2001 %	2002 £m	2001 £m
Equities	7.75%	7.75%	18.0	21.0
Bonds	5.00%	5.00%	7.5	8.0
			25.5	29.0
Present value of the schemes' liabilities			(37.7)	(33.9)
Deficit in schemes			(12.2)	(4.9)
Related deferred tax asset			3.7	1.5
Net pensions liability			(8.5)	(3.4)

If the above amounts had been recognised the effect on the presentation within the financial statements would have been as follows:

	2002 £m	2001 as restated £m
--	------------	---------------------------

Balance Sheet

Net assets before pensions liability	1,016.1	1,023.2
Pensions liability	(8.5)	(3.4)
Net assets including pensions liability	1,007.6	1,019.8

	2002 £m	2001 as restated £m
--	------------	---------------------------

Profit and Loss Reserves

Profit and loss reserves before pensions liability	189.2	8.8
Pensions liability	(8.5)	(3.4)
Profit and loss reserves including pensions liability	180.7	5.4

Notes to the accounts

24 PENSIONS (CONTINUED)	2002 £m
Charges to operating profit	
Current service cost	(1.1)
Past service cost	-
Total operating charge	(1.1)
	2002 £m
Charges to interest payable	
Expected return on pension schemes' assets	2.0
Interest on pension schemes' liabilities	(2.0)
Net return	-
	2002 £m
Statement of total recognised gains and losses (STRGL)	
Actuarial return less expected return on pension scheme assets	(5.4)
Experience gains and losses arising on scheme liabilities	-
Changes in assumptions underlying present value of schemes' liabilities	(2.0)
Actuarial loss recognised in STRGL	(7.4)
Movement in schemes' deficit during the year	
Schemes' deficit at beginning of year (excluding deferred tax)	(4.9)
Current service cost	(1.1)
Contributions in the year	1.2
Other finance income	-
Actuarial loss	(7.4)
Schemes' deficit at end of year (excluding deferred tax)	(12.2)
History of experience gains and losses	
Difference between expected and actual return on Schemes' assets	(5.4)
Percentage of Schemes' assets at year end	-21%
Experience gains and losses on Schemes' liabilities	-
Percentage of Schemes' liabilities at year end	-
Total recognised in statement of total recognised gains and losses	(7.4)
Percentage of Schemes' liabilities at year end	-20%

The Company is a participating employer within the Group schemes. Contributions to the schemes are set as a whole rather than reflecting the actuarial characteristics of the employees of the individual participating employers and as such the Company cannot identify its share of the schemes' underlying assets and liabilities.

24 PENSIONS (CONTINUED)

B) DEFINED CONTRIBUTION PENSION SCHEMES

The Group operates defined contribution pension schemes for certain employees. The Schemes have a membership of 322 employees (2001: 143 employees). Costs are charged to the profit and loss account in the year in which they are payable and amounted to £0.5 million (2001: £0.4 million) for the year.

	Group	
	2002	2001
	£m	£m
Contracted for but not provided in the accounts	0.5	1.3

The Company had no significant capital commitments at 29 December 2002 (2001: £nil).

	Group	
	2002	2001
	£m	£m
26 LEASE COMMITMENTS		
Commitments under non-cancellable operating leases to pay rentals during the next year:		
LAND AND BUILDINGS		
Expiring within two to five years	3.2	2.9
Expiring after five years	3.2	5.6
	6.4	8.5
PLANT AND MACHINERY		
Expiring within two to five years	1.7	2.1
	8.1	10.6

The Company had no significant operating lease commitments at 29 December 2002 (2001: £nil).

27 CONTINGENT LIABILITIES

As explained in Note 4 the Group is involved in litigation with the Orb Group in respect of the disposal of the 37 hotel businesses in April 2002.

The Group has given a guarantee to the owner of the 37 hotel businesses sold during the year that the aggregate Earnings before Interest, Tax, Depreciation and Amortisation ('EBITDA') of the businesses will not be less than £34.6 million from the date of disposal to 29 December 2002 and £45.0 million per calendar year (or pro rata amount) thereafter until 4 April 2012. The maximum liability in any one year under the guarantee is £45.0 million and the maximum aggregate liability under the guarantee is £90.0 million. At 29 December 2002 no amounts had been paid or were payable under the guarantee as the 37 hotel businesses sold had generated EBITDA in excess of the guaranteed amount.

Thistle Hotels Plc is party to cross guarantee and set-off arrangements with subsidiary companies in respect of certain of those companies' bank overdrafts and, until 4 April 2002, bank loans. The potential liability as at 29 December 2002 amounts to £nil (2001: £174.0 million).

Notes to the accounts

28 RELATED PARTY TRANSACTIONS

Arthur Hayes was an executive director of Royal & Sun Alliance Insurance Group Plc until his retirement from that company's board on 30 June 2001. The Group insured certain categories of risk with Royal & Sun Alliance Insurance Group Plc on arm's length commercial terms at a cost of £1.0 million during 2001.

29 PRINCIPAL SUBSIDIARIES

Highlife Value Breaks Limited
Thistle Barbican Limited
Thistle Bloomsbury Park Limited
Thistle Charing Cross Limited
Thistle Edinburgh Limited
Thistle Euston Limited
Thistle Heathrow Limited
Thistle Horseguards Limited
Thistle Hotels & Restaurants Limited
Thistle Hotels (Management) Limited
Thistle Hyde Park Limited
Thistle Islington Limited
Thistle Kensington Gardens Limited
Thistle Marble Arch Limited
Thistle Piccadilly Limited
Thistle Ryan Limited
Thistle Tower Limited
Thistle Trafalgar Limited
Thistle Victoria Limited
Thistle Westminster Limited

Thistle Hotels Plc owns 100% of the share capital of all the above subsidiaries with the exception of Thistle Victoria Limited which is 100% owned by subsidiary undertakings. All the above subsidiaries operate in Great Britain and are registered in England other than Thistle Hotels (Management) Limited which is registered in Scotland.

The principal activity of Highlife Value Breaks Limited is the operation of tours and leisure breaks. The principal activity of Thistle Hotels (Management) Limited is the provision of hotel management contract services. The principal activity of the remaining companies is the ownership and operation of hotels.

In addition, the following companies impacted the results of the Group during the year until their disposal on 4 April 2002: Arden Hotel (Stratford-upon-Avon) Limited, Gale Six Limited, Kingsmead Hotels Limited, LPH Angus Limited, LPH London Park Limited, Mount Charlotte Hotels Limited and Pinewood Hotel Limited.

Five year record

	2002 £m	2001 £m	2000 £m	1999 £m	1998 £m
TURNOVER	190.0	305.3	324.6	304.7	328.6
OPERATING PROFIT BEFORE EXCEPTIONAL ITEMS	49.2	82.9	105.4	103.0	120.3
Exceptional items charged to operating profit	—	—	—	—	(19.1)
OPERATING PROFIT AFTER EXCEPTIONAL ITEMS	49.2	82.9	105.4	103.0	101.2
Profit/(loss) on sale of tangible fixed assets	1.0	3.6	1.2	2.4	(17.7)
Provision for loss on sale of tangible fixed assets	—	—	—	—	(3.0)
Loss on disposal of businesses	(4.0)	—	—	—	—
Net interest payable	(18.3)	(37.4)	(38.4)	(37.7)	(33.7)
PROFIT BEFORE TAXATION	27.9	49.1	68.2	67.7	46.8
Taxation	(6.1)	(11.7)	(13.4)	(13.3)	(16.3)
PROFIT FOR THE FINANCIAL YEAR	21.8	37.4	54.8	54.4	30.5
Dividends	(24.6)	(24.6)	(24.6)	(115.5)	(25.5)
TRANSFER TO/(FROM) RESERVES	(2.8)	12.8	30.2	(61.1)	5.0
EBITDA	71.9	115.5	134.7	128.8	134.8
CAPITAL EXPENDITURE (CASH FLOW)	8.5	38.3	66.3	63.0	55.7
NET ASSETS	1,016.1	1,023.2	1,141.0	1,110.3	1,226.8
EARNINGS PER SHARE	4.5p	7.7p	11.4p	10.8p	5.0p
ADJUSTED EARNINGS PER SHARE	5.2p	7.0p	11.1p	10.4p	11.9p

The results for 2002 and 2001 are after the implementation of FRS 19 Deferred Tax which (decreased)/increased the tax charge by £(1.2) million and £2.7 million respectively.

The results for 2002, 2001, 2000 and 1999 are after charging additional depreciation under FRS 15 of £8.1 million, £12.0 million, £10.8 million and £9.0 million respectively.

The results for 1998 are as previously reported.

EBITDA is defined as earnings before interest, tax, depreciation and amortisation and exceptional items.

Adjusted earnings per share is based on the Group's profit for the financial year before exceptional items (which include the profit/(loss) on sale of tangible fixed assets, the provision for loss on sale of tangible fixed assets and the loss on disposal of businesses) and on the weighted average number of shares in issue.

Shareholder information

FINANCIAL CALENDAR

Results announced:

Interim	September 2003
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Final	March 2004
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Dividends paid:

Interim	November 2003
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Final	May 2004
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ANNUAL GENERAL MEETING

The Annual General Meeting will be held at 2.30pm on Wednesday, 4 June 2003 at:

The Thistle Tower
St Katherine's Way
London E1W 1LD

SHARE PRICE INFORMATION

Share price information is available via the Thistle Hotels website (www.thistlehotels.com) by clicking on the About Thistle link. The share price is also published in most newspapers and in the UK on Ceefax and Teletext.

REGISTRAR

Enquiries concerning holdings of the Company's shares and notification of a holder's change of address should be addressed to:

Computershare Services PLC
Registrar's Department
PO Box 82
The Pavilions
Bridgwater Road
Bristol BS99 7NH

REGISTERED OFFICE OF THE COMPANY

2 The Calls
Leeds LS2 7JU
Tel 0113 243 9111
Fax 0113 244 5555

Registered Number 262958

WEBSITE ADDRESS

www.thistlehotels.com

INTERNATIONAL SALES OFFICES

UK

Tel 020 7895 2000
Fax 0870 902 0345

Germany

Tel 00 49 661 778 700
Fax 00 49 611 714 8768

USA, Los Angeles

Tel 001 714 256 8328
Fax 001 714 256 8329

USA, New York

Tel 001 212 220 8595
Fax 001 212 271 9944

USA, Chicago

Tel 001 312 867 8801
Fax 001 312 867 8803

RESERVATIONS

www.thistlehotels.com

UK Reservations

Rooms, Meetings & Events
Tel 0870 414 1516

Travel Trade Groups

Tel 0870 333 9182

Leisure Breaks

Tel 0870 414 4141

INTERNATIONAL RESERVATIONS

USA and Canada

Rooms, Meetings & Events
Tel 1 800 847 4358

Travel Trade Groups

Tel 1 800 868 7285

Global Distribution
Systems Access Code T1

Australia

Tel 1 800 221 176

Austria

Tel 0800 220016

Belgium

Tel 0800 84142

Brazil

Tel 0800 119 131

Denmark

Tel 45 800 10171

France

Tel 33 1702 00021

Germany

Tel 069 668 01000

Ireland

Tel 1 872 3300

Italy

Tel 39 0272 3131

Japan

Tel (813) 3475 3434

Malaysia

Tel 1 800 801 018

Mexico

Tel 800 9039500

Netherlands

Tel 31 205 174717

Norway

Tel 800 35088

Singapore

Tel (65) 260 8880

South Africa

Tel 0800 995393

Spain

Tel 091 594 94 94

Sweden

Tel 46 8 7513659

Switzerland

Tel 00 41 22 310 0849

THISTLE HOTELS

London	Hotel	Telephone	Rooms
Bayswater	Thistle Kensington Gardens	0870 333 9102	175
Bloomsbury	Thistle Bloomsbury	0870 333 9103	138
City	Thistle City Barbican	0870 333 9101	463
City	Thistle Tower	0870 333 9106	801
Euston	Thistle Euston	0870 333 9107	362
Hendon	Hendon Hall	0870 333 9109	57
Kensington	Thistle Kensington Palace	0870 333 9111	285
Kensington	Thistle Kensington Park	0870 333 9112	353
King's Cross	Thistle Islington	0870 333 9113	375
Lancaster Gate	Thistle Hyde Park	0870 333 9110	54
Lancaster Gate	Thistle Lancaster Gate	0870 333 9115	390
Marble Arch	Thistle Marble Arch	0870 333 9116	692
Oxford Street	Selfridge	0870 333 9117	294
Piccadilly	Thistle Piccadilly	0870 333 9118	92
Strand	Thistle Charing Cross	0870 333 9105	239
Trafalgar Square	Thistle Trafalgar Square	0870 333 9119	116
Victoria	Thistle Victoria	0870 333 9120	364
Westminster	Thistle Westminster	0870 333 9121	134
Whitehall	Royal Horseguards	0870 333 9122	280
Wimbledon	Cannizaro House	0870 333 9124	45

Rest of England

Basingstoke	Audleys Wood	0870 333 9125	72
Birmingham	New Hall	0870 333 9147	60
Birmingham	Thistle Birmingham City	0870 333 9126	133
Birmingham	Thistle Birmingham Edgbaston	0870 333 9127	151
Brands Hatch	Thistle Brands Hatch	0870 333 9128	121
Brighton	Thistle Brighton	0870 333 9129	208
Bristol	Thistle Bristol	0870 333 9130	182
Cheltenham	Thistle Cheltenham	0870 333 9131	122
East Midlands Airport	Thistle East Midlands Airport	0870 333 9132	164
Exeter	Thistle Exeter	0870 333 9133	90
Gatwick Airport	Thistle Gatwick	0870 333 9134	104
Grasmere	Thistle Grasmere	0870 333 9135	72
Haydock	Thistle Haydock	0870 333 9136	138
Heathrow Airport	Thistle London Heathrow	0870 333 9108	314
Liverpool	Thistle Liverpool	0870 333 9137	226
Luton	Thistle Luton	0870 333 9138	152
Manchester	Thistle Manchester	0870 333 9139	205
Manchester Airport	Thistle Manchester Airport	0870 333 9140	58
Middlesbrough	Thistle Middlesbrough	0870 333 9141	132
Newcastle upon Tyne	Thistle Newcastle	0870 333 9142	115
Poole	Thistle Poole	0870 333 9143	70
St Albans	Thistle St Albans	0870 333 9144	111
Stevenage-Hitchin	Thistle Stevenage	0870 333 9145	82
Stratford-upon-Avon	Thistle Stratford-upon-Avon	0870 333 9146	63
Swindon	Thistle Swindon	0870 333 9148	94

Scotland

Aberdeen	Thistle Aberdeen Caledonian	0870 333 9151	77
Aberdeen Airport	Thistle Aberdeen Airport	0870 333 9149	147
Aberdeen Altens	Thistle Aberdeen Altens	0870 333 9150	206
Edinburgh	Thistle Edinburgh	0870 333 9153	143
Glasgow	Thistle Glasgow	0870 333 9154	300
Inverness	Thistle Inverness	0870 333 9155	118
Irvine	Thistle Irvine	0870 333 9156	128

Wales

Cardiff	Thistle Cardiff	0870 333 9157	136
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ASSOCIATE HOTELS

London	Hotel	Telephone	Rooms
Bloomsbury	Bloomsbury Park	0870 333 9104	95
King's Cross	London Ryan	0870 333 9114	211

Scotland

Aberdeen Dyce	Skean Dhu	0870 333 9152	209
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