

**GROSVENOR CASINOS LIMITED**

(Registered Number 877080)

**DIRECTORS' REPORT**

**AND**

**ACCOUNTS**

**31 DECEMBER 2006**

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**GROSVENOR CASINOS LIMITED**  
**DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2006**

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**DIRECTORS**

Mr I Burke  
Mr P McCann  
Mr P Gill

**DIRECTORS' REPORT**

The Directors present their Report and Statement of Accounts for the year ended 31 December 2006

**Directors**

The following were Directors of the Company during the year -

Mr D Boden  
Mr P McCann  
Mr D Walcott  
Mr I Burke  
Mr P Gill

Mr I Burke was appointed as a Director of the Company on 11 May 2006  
Mr P Gill was appointed as a Director of the Company on 1 November 2006  
Mr D Walcott resigned as a Director of the Company on 31 October 2006  
Mr D Boden resigned as a Director of the Company on 11 May 2006

**Business review and principal activities**

The Company operates a number of clubs in the UK, providing gaming and restaurant facilities for members

The results for the Company show a pre-tax profit of £57.4 million (2005: £19.3 million) for the year and sales of £204.4 million (2005: £195.0 million). The result for 2006 includes a net £24.1m exceptional profit on the sale and leaseback of 4 casinos and the transfer of liabilities relating to surplus leasehold properties. A further £12.9m exceptional profit arose on the disposal of the Clermont Club on 1 December 2006.

The directors do not recommend the payment of a dividend (2005: £nil)

**Research and development**

We continue to invest in the design and layout of our clubs, which included the launch of our G-Casino brand during the year, a concept designed specifically for the mainstream leisure gaming market. The directors regard the investment in research and development as integral to the continuing success of the business.

**Future outlook and risks and uncertainties**

The Company operates in a competitive market and the action of its competitors, particularly new or relocated casinos, can have an impact on the performance of the Company. The Company actively defends its position against new entrants to the market in existing locations.

The priorities for the business in 2007 are to continue to position both our product and our estate for the continued growth in mainstream casino gaming.

## **GROSVENOR CASINOS LIMITED**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2006**

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The full implementation of the Gambling Act 2005 in September 2007 will also provide opportunities in the shape of new regulations on casino advertising and promotions, the ability to test new games and a change to revenue generation from poker room activities. We are also mindful of the potentially negative effects of the introduction of smoking bans in England and Wales and the loss of Section 21 gaming terminals.

Performance in 2007 will also be impacted by the increase in Gaming Duty which came into effect from 1 April 2007. However, we remain confident that we will maintain our current level of performance in the future.

#### **Key performance indicators (KPI)**

The directors of The Rank Group PLC manage the group's operations on a divisional basis. For this reason, the company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company. The development, performance, and position of the Casino division of The Rank Group PLC, which includes the Company, is discussed in more detail on pages 14 and 15 of the group's 2006 annual report and financial statements which does not form part of this report.

#### **Personnel**

The Company recognises that the contribution made by its employees is crucial to the success of each of its businesses. Substantial investment is therefore made in the training, development and motivation of staff with particular attention to ensuring customer satisfaction through the consistent achievement of high standards of service and delivery of quality products.

Employee involvement in the direction and objectives of the business is encouraged through the use of incentive schemes to focus employees on the key performance indicators of each business. In addition, communication and consultation programmes exist at site, Company and group level.

The Company endorses the active application of equal opportunities policies and programmes to provide fair and equitable conditions for all employees regardless of sex, family status, religion, creed, colour, ethnic origin, age, disability or sexual orientation.

#### **Policy on payment of suppliers**

The Company agrees terms and conditions for its business transactions with its suppliers, and suppliers are made aware of these terms and conditions. Payment is then made on these terms, subject to the terms and conditions being met by the supplier. Trade creditors at the year-end represented 23 days (2005: 21 days) of purchases.

#### **Statement of Directors' responsibilities**

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations. Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. In preparing these financial statements, the directors have also elected to comply with IFRSs, issued by the International Accounting Standards Board (IASB). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

**GROSVENOR CASINOS LIMITED**  
**DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2006**

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In preparing these financial statements the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state that the financial statements comply with IFRSs as adopted by the European Union and IFRSs issued by IASB3, and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary

The directors confirm that they have complied with the above requirements in preparing the financial statements

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware

The directors have taken all steps that ought to be taken as directors in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

**Auditors**

In accordance with s386(2) of the Companies Act 1985, PricewaterhouseCoopers LLP will continue as auditors of the Company under the terms of an elective resolution passed by the Company

By order of the Board



Mr P Gill  
Director

Registered Office  
Statesman House  
Stafferton Way  
Maidenhead  
Berkshire  
SL6 1AY  
Date 26 June 2007

**GROSVENOR CASINOS LIMITED**  
**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF GROSVENOR**  
**CASINOS LIMITED**

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We have audited the financial statements of Grosvenor Casinos Limited for the year ended 31 December 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 into 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 have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

**Basis of audit opinion**

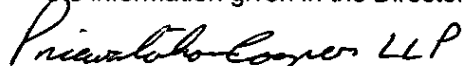
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.

  
**PricewaterhouseCoopers LLP**  
**Chartered Accountants and Registered Auditors**  
**St Albans**

26 June 2007

**GROSVENOR CASINOS LIMITED****INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006**

	Note	2006 £'000	2005 £'000
Revenue		204,449	195,006
Cost of sales		(119,789)	(121,393)
<b>Gross profit</b>		84,660	73,613
Other operating costs		(65,866)	(54,486)
Exceptional items	3	36,991	-
<b>Operating profit</b>		55,785	19,127
Financing			
- Interest payable and similar charges		(304)	(228)
- Interest receivable		1,925	388
<b>Total net financing receivable</b>	4	1,621	160
<b>Profit before tax</b>	2	57,406	19,287
Taxation	5	3,781	(11,255)
<b>Profit for the year</b>		61,187	8,032

All results are from continuing operations

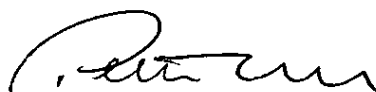
The notes on pages 9 to 29 are an integral part of these financial statements

**GROSVENOR CASINOS LIMITED**  
**BALANCE SHEET AS AT 31 DECEMBER 2006**

	Note	2006 £'000	2005 £'000
<b>Non-current assets</b>			
Intangible assets	6	70,788	87,788
Property plant and equipment	7,8	70,156	90,362
Investment in subsidiaries	9	14,785	14,785
Trade and other receivables	12	92	183
		<u>155,821</u>	<u>193,118</u>
<b>Current assets</b>			
Inventories	10	925	812
Trade and other receivables	12	85,339	4,442
Cash and cash equivalents	20	16,694	19,117
		<u>102,958</u>	<u>24,371</u>
<b>Total assets</b>		<u>258,779</u>	<u>217,489</u>
<b>Current liabilities</b>			
Financial liabilities - <i>Loan capital and borrowings</i>	14	(370)	(401)
Provisions for other liabilities and charges	16	(389)	(120)
Trade and other payables	13	(22,779)	(30,762)
		<u>(23,538)</u>	<u>(31,283)</u>
<b>Non-current liabilities</b>			
Financial liabilities - <i>Loan capital and borrowings</i>	14	(2,931)	(3,266)
Other non-current liabilities	15	(2,371)	(1,699)
Deferred tax	11	(16,078)	(29,404)
Provisions for other liabilities and charges	16	(1,017)	(490)
		<u>(22,397)</u>	<u>(34,859)</u>
<b>Total liabilities</b>		<u>(45,935)</u>	<u>(66,142)</u>
<b>Net assets</b>		<u>212,844</u>	<u>151,347</u>
<b>Shareholder's equity</b>			
Ordinary share capital	17	39,000	39,000
Other reserves	18	173,844	112,347
<b>Total equity</b>		<u>212,844</u>	<u>151,347</u>

The notes on pages 9 to 29 are an integral part of these financial statements

These accounts were approved by the Board on 26 June 2007 and signed on its behalf by



Mr P Gill

Director

**GROSVENOR CASINOS LIMITED****STATEMENT OF RECOGNISED INCOME AND EXPENSE FOR THE YEAR****ENDED 31 DECEMBER 2006**

	Note	2006 £'000	2005 £'000
Profit for the year		61,187	8,032
Deferred tax on business combinations	11	-	618
<b>Total recognised income for the year</b>		<b>61,187</b>	<b>8,650</b>



**GROSVENOR CASINOS LIMITED****CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006**

	Note	2006 £'000	2005 £'000
<b>Cash flows from operating activities</b>			
Cash generated from operations	19	27,489	33,456
Interest paid		(217)	(166)
Interest received		6	13
<b>Net cash from operating activities</b>		<u>27,278</u>	<u>33,303</u>
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		64,978	59
Purchase of property, plant and equipment		(23,754)	(7,175)
<b>Net cash from/(used in) investing activities</b>		<u>41,224</u>	<u>(7,116)</u>
<b>Cash flows from financing activities</b>			
New finance leases		-	707
Finance lease principal payment		(366)	(162)
Funding to other Rank Group subsidiaries		(70,559)	(24,610)
<b>Net cash used in financing activities</b>		<u>(70,925)</u>	<u>(24,065)</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<u>(2,423)</u>	<u>2,122</u>
Cash and cash equivalents at 1 January		19,117	16,995
<b>Cash and cash equivalents at 31 December</b>	20	<u>16,694</u>	<u>19,117</u>

**1 Accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**A Basis of preparation**

The financial statements have been prepared in accordance with EU Endorsed International Financial Reporting Standards (IFRS), IFRIC interpretations and the Companies Act 1985 applicable to companies reporting under IFRS. The financial statements have been prepared under the historic cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies. The areas requiring a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are set out in the relevant accounting policies below. The best estimate of the Directors may differ from the actual results.

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2006 but they are not material or relevant to the Company's operations.

- IAS 19 (Amendment), Employee benefits,
- IAS 39 (Amendment), The fair value option,
- IAS 39 (Amendment), Financial guarantee contracts,
- IAS 39 (Amendment), Cash flow hedge accounting of forecast intragroup transactions,
- IAS 21 (Amendment), Net investment in a foreign operation,
- IFRS 1 (Amendment), First-time adoption of IFRS,
- IFRS 6, Exploration for and evaluation of mineral resources,
- IFRIC 4, Determining whether an arrangement contains a lease,
- IFRIC 5, Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds, and
- IFRIC 6, Liabilities arising from participating in a specific market – Waste electrical and electronic equipment

**GROSVENOR CASINOS LIMITED****NOTES TO THE ACCOUNTS AT 31 DECEMBER 2006**

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**1 Accounting policies (continued)****B New standards and interpretations not applied**

The IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements

		Effective date
IFRS 7	Financial instruments Disclosures	1 January 2007
IAS 1	Presentation of financial statements Capital disclosures (amendment)	1 January 2007

Upon adoption of IFRS 7 the company will be required to make additional disclosures about its financial instruments, including credit risk on financial assets. The amendment to IAS 1 will require disclosure of the Company's objectives, policies and processes for managing capital.

In addition, the IASB and IFRIC have issued the following standards and interpretations that are not applicable to the company.

IFRS 8	Operating segments
IFRIC 7	Applying the restatement approach under IAS 29
IFRIC 8	Scope of IFRS 2
IFRIC 9	Re-assessment of embedded derivatives
IFRIC 10	Interim financial reporting and impairment
IFRIC 11	IFRS 2 Group and treasury share transactions
IFRIC 7	Service concession arrangements

The Directors do not anticipate that the adoption of the above standards and interpretations will have a material impact on the financial statements in the period of initial application.

**C Revenue recognition**

Revenue consists of casino gaming win, gaming machine income before deduction of gaming duty, membership fees, guest fees and catering revenue and is stated net of value added tax. The Company's business operates solely in the United Kingdom. Although disclosed as revenue, gaming win meets the definition of a gain under IAS 39.

**1 Accounting policies (continued)**

**D Leases**

Leases are tested to determine whether the lease is a finance or operating lease and treated accordingly. Property leases comprising a lease of land and a lease of buildings within a single contract are split into its two component parts before testing.

(i) *Finance leases* - Leases of property, plant and equipment where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property, plant and equipment or the present value of minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant periodic rate of interest on the remaining balance of the liability for each period. The corresponding rental obligations, net of finance charges, are included in other long-term borrowings. The interest element of the finance cost is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

(ii) *Operating leases* - Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of lease incentives or premiums, are charged to the income statement on a straight-line basis over the period of the lease.

**E Provisions**

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Where the obligation is expected to be settled over a period of years, e.g. onerous contracts, the provision is discounted using a discount rate appropriate to the nature of the provision.

(i) *Onerous contracts* - The Company is party to a number of leasehold property contracts. Provision has been made against those leases where the property is now vacant and the unavoidable costs under the lease exceed the economic benefit expected to be derived from potential sub-letting arrangements. Provision has also been made against leases where impairment testing has indicated that, after recognising an impairment charge, the estimated discounted cash flows derived from the property and its associated operations are insufficient to cover the unavoidable lease costs.

**F Property, plant and equipment**

On conversion to IFRS the carrying value of property, plant and equipment under previous GAAP was taken as deemed cost. All subsequent expenditure on property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

**1 Accounting policies (continued)**

**F Property, plant and equipment (continued)**

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives, as follows:

Freehold and leasehold property 50 years or their useful life if less,

Property enhancements 3 - 15 years,

Equipment and others 3 - 20 years.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

**G Intangible assets**

(i) *Computer software and other development costs* - Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the employee costs for software development.

Computer software development costs recognised as assets are amortised over their estimated useful lives.

(ii) *Casino licences* - The Company capitalises purchased casino licences. The amount capitalised is the difference between the price paid for a casino property and the associated licence and the fair value of a similar property without a casino licence. Management believes that casino licences have indefinite lives as based on all relevant factors there is no foreseeable limit to the period over which the licences are expected to generate net cash inflows. Each licence is reviewed annually for impairment.

Any costs incurred to obtain a 'cold' casino licence or renewing casino licences annually are expensed as incurred.

**1 Accounting policies (continued)**

**H Impairment of property, plant, equipment and intangible assets**

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

The expected cash flows generated by the assets are discounted using appropriate discount rates, which reflect the risks associated with the groups of assets.

Where an impairment loss subsequently reverses the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount.

**I Employee benefit costs**

(i) *Pensions* - The Company participates in group pension schemes operated by The Rank Group Plc. The group has two pension schemes for UK employees, both of which are contracted in to the State Earnings Related Pension arrangements. The schemes are externally funded under separate trusts and the funds' assets are held separately from group assets.

The group (headed by The Rank Group Plc) operates a defined benefit scheme, The Rank Group Pension Plan which is funded by both employer's and employee's contributions. The scheme is closed to new entrants. It is not possible for the Company to separately identify its share of the underlying assets and liabilities of these schemes. Therefore, in accordance with IAS 19, the schemes are treated as defined contribution schemes. A charge is made to operating profit for contributions payable to the schemes. The pension costs for the Company, which equate to the contributions payable, are assessed annually by an independent, qualified actuary.

(ii) *Share-based compensation* - The Company operates an equity-settled, share-based compensation plan relating to its ultimate parent, The Rank Group Plc. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

## **GROSVENOR CASINOS LIMITED**

### **NOTES TO THE ACCOUNTS AT 31 DECEMBER 2006**

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

##### **I Employee benefit costs (continued)**

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised

(iii) *Termination benefits* - Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(iv) *Bonus plans* - The Company recognises a liability and an expense for bonuses based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(v) *Holiday pay* - The Company recognises an appropriate liability for the cost of holiday entitlements not taken at the balance sheet date.

##### **J Inventories**

Inventories are valued at the lower of cost and net realisable value. Cost of inventory is determined on a "first in – first out" basis.

Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses. When necessary, provision is made for obsolete and slow moving inventories.

##### **K Taxation**

Current tax is applied to taxable profits at the rates ruling in the UK.

Deferred tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if deferred tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

## **GROSVENOR CASINOS LIMITED**

### **NOTES TO THE ACCOUNTS AT 31 DECEMBER 2006**

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

##### **L Cash and cash equivalents**

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

##### **M Trade receivables**

Trade receivables are carried at original invoice amount, including value added tax, less an estimate made for doubtful receivables based on a review of all outstanding amounts at the period end and on historical performance. Bad debts are written off during the period in which they are identified. Management assess the maturity of the trade receivables and consequently report them as current, if falling due within one year, or non current, as appropriate.

##### **N Borrowings**

Borrowings are recognised at cost, which is deemed to be materially the same as the fair value, net of transaction costs incurred. Any difference between proceeds and redemption value is recognised in the income statement using the effective interest method.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months at the balance sheet date.

##### **O Exceptional items**

The Company defines exceptional items as those non-recurring items which by their nature or size would distort the comparability of the Company's result from year to year.



**GROSVENOR CASINOS LIMITED****NOTES TO THE ACCOUNTS AT 31 DECEMBER 2006****2 Profit for the year**

The following items have been included in arriving at profit for the year

	Note	2006 £'000	2005 £'000
Staff costs	21	72,698	72,507
Cost of inventories recognised as expense		3,704	3,309
Depreciation of property, plant and equipment			
- Owned assets	7	8,352	8,445
- Under finance leases	7	80	80
Redundancy costs		173	105
Amortisation of intangibles	6	103	198
Profit on disposal of fixed assets		(248)	(19)
Profit on disposal of fixed assets as part of sale and leaseback		(29,659)	-
Profit on disposal of business (see note 3)		(12,939)	-
Operating lease rentals payable			
- Minimum lease payments		11,313	9,997
- Sub lease income		(399)	(415)
Repairs and maintenance expenditure on property, plant and equipment		1,532	1,341
Impairment of property, plant and equipment	7,8	-	3,212

Audit fees have been borne by the immediate parent company Rank Group Gaming Division Limited

**3 Exceptional items**

During the year the Company completed the sale and leaseback of 4 of its properties and the transfer of obligations relating to a number of surplus leasehold properties to Earth Estates Limited and Solarus Estates Limited. The Company recognised an exceptional profit of £24,052k on the transaction.

The Company also recorded a £12,939k exceptional profit on the sale of the Clermont Club on 1 December 2006.

	2006 £'000
<b>Exceptional items</b>	
Sale and leaseback – profit on fixed assets disposal	(29,659)
Sale and leaseback – transfer lease obligations	3,850
Sale and leaseback – other associated costs	1,757
Sale and leaseback - total	(24,052)
Profit on sale of Clermont	(12,939)
<b>Total exceptional items</b>	<b>(36,991)</b>

**GROSVENOR CASINOS LIMITED****NOTES TO THE ACCOUNTS AT 31 DECEMBER 2006****4 Financing**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Interest expense		
Interest payable on finance leases	(217)	(166)
Preference dividends payable	(68)	(35)
Unwinding of discounts in provisions	(19)	(27)
<b>Total interest and similar charges payable</b>	<b>(304)</b>	<b>(228)</b>
Interest income		
Interest receivable on bank and other balances	6	13
Interest receivable from Group companies	1,919	375
<b>Total interest receivable</b>	<b>1,925</b>	<b>388</b>
<b>Total net financing receivable</b>	<b>1,621</b>	<b>160</b>

**5 Taxation**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Current tax		
UK corporation tax on profits of the period	8,650	10,061
Exceptional items	(1,215)	-
Adjustment in respect of prior years	2,110	4,903
<b>Total current tax</b>	<b>9,545</b>	<b>14,964</b>
Deferred tax		
Origination and reversal of timing differences	(2,334)	(2,785)
Exceptional items	(9,913)	-
Adjustment in respect of prior years	(1,079)	(924)
<b>Total deferred tax</b>	<b>(13,326)</b>	<b>(3,709)</b>
<b>Total taxation (credit)/charge</b>	<b>(3,781)</b>	<b>11,255</b>

Current tax on exceptional items includes a tax credit of £1,215k relating to transferred lease liabilities in respect of surplus properties

Deferred tax on exceptional items includes a tax credit of £9,913k relating to the sale and leaseback of properties

**GROSVENOR CASINOS LIMITED****NOTES TO THE ACCOUNTS AT 31 DECEMBER 2006****5 Taxation (continued)**

The tax on the Company's profit before tax differs from the standard rate of UK corporation tax (30%) The differences are explained below

	<b>2006</b> <b>£'000</b>	<b>2005</b> <b>£'000</b>
Profit before tax	57,406	19,287
Profit before tax at 30% (2005 – 30%)	17,222	5,786
Effects of		
Expenses not deductible for tax purposes	414	1,490
Profit on disposals	(12,336)	-
Timing differences	(10,112)	-
Adjustment in respect of prior years	1,031	3,979
<b>Total taxation charge</b>	<b>(3,781)</b>	<b>11,255</b>

**6 Intangible assets**

	<b>Computer software £'000</b>	<b>Casino licences £'000</b>	<b>Total £'000</b>
<b>Cost</b>			
<b>At 1 January 2005</b>	1,215	95,055	96,270
Additions	128	-	128
<b>At 31 December 2005</b>	<b>1,343</b>	<b>95,055</b>	<b>96,398</b>
Additions	103	-	103
Disposals	(57)	(17,000)	(17,057)
<b>At 31 December 2006</b>	<b>1,389</b>	<b>78,055</b>	<b>79,444</b>
<b>Aggregate amortisation and impairment</b>			
<b>At 1 January 2005</b>	961	7,451	8,412
Charge for the period	198	-	198
<b>At 31 December 2005</b>	<b>1,159</b>	<b>7,451</b>	<b>8,610</b>
Disposals	(57)	-	(57)
Charge for the period	103	-	103
<b>At 31 December 2006</b>	<b>1,205</b>	<b>7,451</b>	<b>8,656</b>
<b>Net book value at 31 December 2005</b>	<b>184</b>	<b>87,604</b>	<b>87,788</b>
<b>Net book value at 31 December 2006</b>	<b>184</b>	<b>70,604</b>	<b>70,788</b>

All amortisation charges in the year have been charged through cost of sales

**GROSVENOR CASINOS LIMITED**
**NOTES TO THE ACCOUNTS AT 31 DECEMBER 2006**
**7 Property, plant and equipment**

	Freehold land and buildings £'000	Leasehold land and buildings £'000	Fixtures, fittings, plant and machinery £'000	Total £'000
<b>Cost</b>				
<b>At 1 January 2005</b>	44,647	24,262	58,852	127,761
Inter-group transfers	307	1	28	336
Transfers	434	(434)	-	-
Additions	70	761	5,395	6,226
Disposals	(529)	-	(699)	(1,228)
<b>At 31 December 2005</b>	<u>44,929</u>	<u>24,590</u>	<u>63,576</u>	<u>133,095</u>
Inter-group transfers	472	1	(28)	445
Transfers	(4,326)	(1,098)	5,424	-
Additions	9,171	4,695	10,011	23,877
Disposals	(37,648)	(1,718)	(8,909)	(48,275)
<b>At 31 December 2006</b>	<u>12,598</u>	<u>26,470</u>	<u>70,074</u>	<u>109,142</u>
<b>Aggregate depreciation</b>				
<b>At 1 January 2005</b>	2,862	6,124	22,640	31,626
Inter-group transfers	7	-	1	8
Transfers	48	(48)	-	-
Charge for the year	644	1,613	6,268	8,525
Provisions for impairment	-	589	2,623	3,212
Disposals	-	-	(638)	(638)
<b>At 31 December 2005</b>	<u>3,561</u>	<u>8,278</u>	<u>30,894</u>	<u>42,733</u>
Inter-group transfers	85	-	(13)	72
Transfers	(238)	246	(8)	-
Charge for the year	338	995	7,099	8,432
Disposals	(3,426)	(1,500)	(7,325)	(12,251)
<b>At 31 December 2006</b>	<u>320</u>	<u>8,019</u>	<u>30,647</u>	<u>38,986</u>
<b>Net book value at 31 December 2005</b>	<u>41,368</u>	<u>16,312</u>	<u>32,682</u>	<u>90,362</u>
<b>Net book value at 31 December 2006</b>	<u>12,278</u>	<u>18,451</u>	<u>39,427</u>	<u>70,156</u>

## GROSVENOR CASINOS LIMITED

### NOTES TO THE ACCOUNTS AT 31 DECEMBER 2006

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#### 7 Property, plant and equipment (continued)

Assets held under finance leases are capitalised and included above

	2006 £'000	2005 £'000
Cost	2,577	2,577
Aggregate depreciation	(1,325)	(1,245)
<b>Net book value</b>	<b>1,252</b>	<b>1,332</b>

Land with a net book value of £1,190,000 (2005 £12,738,000) is not depreciated

#### 8 Impairments

##### *Licences*

The inherent value of casino licences is deemed to be an intrinsic part of the value of the operation of casinos as a whole and is therefore not split out from total casino assets in an impairment review. The cost of casino licences as at 31 December 2006 was £70,604,000 (2005 - £87,604,000) and management does not believe there is any impairment.

Each Grosvenor casino has been treated as a separate cash-generating unit, and tested for impairment on that basis. The recoverable amount of each Grosvenor casino including the licence has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the Board for the next financial year along with projections for the following four years from the Strategic Plan. A long-term growth rate of 2% was applied thereafter. The pre-tax discount rate applied to cash flow projections is 11.3% (2005 10.6%).

The calculation for the value in use of a casino licence is most sensitive to the following assumptions:

- admissions,
- spend per head,
- competition, and
- discount rate

Admissions are the number of discrete visits by members to the casino and have been based on historic trends adjusted for the introduction of advertising from September 2007. Admissions levels could vary as the exact rules governing the advertising of casinos have not been finalised.

Spend per head comprises the average amount of money (net of winnings) spent by a member on gaming tables, machines and food and beverages. This has been determined by historic trends. Spend per head may be impacted by the number of new members, changes in gaming legislation and macro economic conditions.

Competition comprises other casinos located in the same geographic area. The impact of this has been assessed by individual location. Competition from licences granted under the Gambling Act 2005 and Gaming Act 1968 could vary depending upon the number and location of new casinos as well as the date of opening.

## GROSVENOR CASINOS LIMITED

### NOTES TO THE ACCOUNTS AT 31 DECEMBER 2006

#### 8 Impairments (continued)

Discount rate reflects management's estimate of the Group's pre-tax weighted average cost of capital. Management believes that the Group's weighted average cost of capital is an appropriate measure as there is no funding directly attributable to that group of assets.

In all cases the value in use calculation exceeded the carrying value and there was no impairment. Management does not believe that there are any reasonably possible changes to the key assumptions that would result in an impairment of a casino licence at present.

#### *Property, plant and equipment*

As stated in the accounting policies note (section H) if the carrying value of the Group's property, plant and equipment is higher than the estimated recoverable amount the value of those assets is written down.

There was no impairment charged in 2006 (2005 – a charge of £3,212,000).

#### 9 Investment in subsidiaries

	2006 £'000	2005 £'000
Shares in group undertakings	14,785	14,785

Investments in subsidiary undertakings are stated at cost. As permitted by section 133 of the Companies Act 1985, where the relief afforded under section 131 of the Companies Act 1985 applies, cost is the aggregate of the nominal value of the relevant number of the Company's shares and the fair value of any other consideration given to acquire the share capital of the subsidiary undertakings. A list of subsidiary undertakings is given below.

At 31 December 2006, the Company held the following interests in subsidiary undertakings, which are all incorporated in Great Britain and registered in England and Wales.

Subsidiary undertaking	Class of shares held	Proportion of voting rights and shares held
Society Club (Swansea) Limited	Ordinary	100%
Kingsway Casinos Limited	Ordinary	100%
Casino Royale Club (Newcastle) Limited	Ordinary	100%
Zealcastle Limited	Ordinary	100%

**GROSVENOR CASINOS LIMITED**  
**NOTES TO THE ACCOUNTS AT 31 DECEMBER 2006**

**10 Inventories**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Raw materials	925	812

**11 Deferred tax**

Deferred tax is included in the balance sheet as follows

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
<b>Deferred tax liability</b>		
Accelerated capital allowances	-	-
Business combinations	(331)	(5,446)
Casino licences	(23,185)	(28,285)
	<u>(23,516)</u>	<u>(33,731)</u>
<b>Deferred tax asset</b>		
Accelerated capital allowances	4,819	3,018
Share based payments	14	98
Other temporary differences	2,605	1,211
	<u>7,438</u>	<u>4,327</u>
<b>Net deferred tax liability</b>	<u>(16,078)</u>	<u>(29,404)</u>

The movement in the net deferred tax liability during the year is as follows

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
At 1 January	(29,404)	(33,731)
Origination and reversal of timing differences	12,247	2,785
Adjustment in respect of prior years	1,079	924
Deferred tax credit	13,326	3,709
Movement in reserves	-	618
<b>At 31 December</b>	<u>(16,078)</u>	<u>(29,404)</u>

Deferred tax is included in the income statement as follows

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Accelerated capital allowances	(1,801)	(3,132)
Share based payments	84	(21)
Other temporary differences	(11,609)	(556)
<b>Deferred tax credit</b>	<u>(13,326)</u>	<u>(3,709)</u>

**GROSVENOR CASINOS LIMITED****NOTES TO THE ACCOUNTS AT 31 DECEMBER 2006**

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**11 Deferred tax (continued)**

On 21 March 2007 it was announced that the UK standard rate of corporation tax will reduce from 30% to 28% with effect from 1 April 2008. The legislation to enact this change was not in place at the balance sheet date and in accordance with the IFRS provisions the rate of 30% is still used as a basis for the calculation of the deferred taxes stated. The impact of the change in the calculation of the deferred tax assets is not considered to be material.

**12 Trade and other receivables**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
<b>Amounts falling due within one year</b>		
Amounts owed by subsidiary undertakings	79,870	-
Other receivables	799	196
Prepayments and accrued income	4,670	4,246
	<u>85,339</u>	<u>4,442</u>
	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
<b>Amounts falling due after one year</b>		
Prepayments and accrued income	<u>92</u>	<u>183</u>

Amounts due from subsidiary undertakings are unsecured, repayable on demand and incur interest at 5.57%.

**13 Trade and other payables – current**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Trade payables	5,071	4,055
Amounts owed to subsidiary undertakings	-	8,898
Capital creditors	471	245
Other tax and social security payable	9,445	10,512
Preference dividends payable	68	70
Accruals and deferred income	7,724	6,982
	<u>22,779</u>	<u>30,762</u>

Amounts owed to subsidiary undertakings are unsecured, repayable on demand and incur interest at 5.57%.



**GROSVENOR CASINOS LIMITED****NOTES TO THE ACCOUNTS AT 31 DECEMBER 2006****14 Financial liabilities – loan capital and borrowings**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
<b>Current</b>		
Finance lease obligations	370	401
	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
<b>Non-current</b>		
Preference shares	1,000	1,000
Finance lease obligations	1,931	2,266
	2,931	3,266
	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
<b>Preference shares - authorised, issued and fully paid</b>		
1m ordinary shares of 100p each	1,000	1,000

Dividends on preference shares are payable at LIBOR plus 1 5%

**15 Other non-current liabilities**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Finance lease obligations	2,371	1,699

**16 Provisions**

	<b>Total</b>
	<b>£'000</b>
<b>At 1 January 2006</b>	610
Charged to profit and loss account	1,451
Utilised in year	(674)
Amortisation of discount	19
<b>At 31 December 2006</b>	<b>1,406</b>

**GROSVENOR CASINOS LIMITED**  
**NOTES TO THE ACCOUNTS AT 31 DECEMBER 2006**

**16 Provisions (continued)**

Provisions have been analysed between current and non-current as follows

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Current	389	120
Non-current	1,017	490
	<u>1,406</u>	<u>610</u>

The provision above is in respect of an onerous lease relating to a surplus property where the unavoidable lease costs exceed the economic benefits expected to be derived from the property. The provision is due to be utilised over the unexpired term of the lease which is 9 years.

**17 Ordinary share capital**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
<b>Authorised, issued and fully paid</b>		
39m ordinary shares of 100p each	<u>39,000</u>	<u>39,000</u>

**18 Shareholders' funds and statement of changes in equity**

	<b>Ordinary share capital £'000</b>	<b>Other reserves £'000</b>	<b>Total £'000</b>
<b>Balance as at 1 January 2005</b>	39,000	103,360	142,360
Profit for the year	-	8,032	8,032
Share based payments	-	337	337
Deferred tax on business combinations	-	618	618
<b>Balance as at 31 December 2005</b>	<u>39,000</u>	<u>112,347</u>	<u>151,347</u>
Profit for the year	-	61,187	61,187
Share based payments	-	310	310
<b>Balance as at 31 December 2006</b>	<u>39,000</u>	<u>173,844</u>	<u>212,844</u>

Other reserves include an amount of undistributable reserves related to a previous revaluation of properties. The Company adopted a policy of revaluing these fixed assets under UK GAAP, and, in accordance with IFRS 1, these values have been frozen and treated as deemed cost on transition to IFRS.

**GROSVENOR CASINOS LIMITED****NOTES TO THE ACCOUNTS AT 31 DECEMBER 2006****19 Cash flow from operating activities**

Reconciliation of operating profit to net cash inflow from operating activities

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Operating profit	55,785	19,127
Exceptional items	(36,991)	-
Cash payments in respect of exceptional items and provisions	(268)	(19)
Depreciation and amortisation	8,535	8,723
Impairment	-	3,212
Working capital movement	785	2,082
Other items	(357)	331
<b>Cash generated from operations</b>	<b>27,489</b>	<b>33,456</b>

**20 Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
Cash at bank and in hand	16,694	19,117

**21 Employees and directors**

	<b>2006</b>	<b>2005</b>
	<b>£'000</b>	<b>£'000</b>
<b>Staff costs for the Company during the year</b>		
Wages and salaries	65,710	63,772
Social security costs	5,991	5,834
Other pension costs	657	2,554
Share based payments	340	347
	<b>72,698</b>	<b>72,507</b>
	<b>2006</b>	<b>2005</b>
<b>Average monthly number of people employed</b>	<b>3,283</b>	<b>3,415</b>

**GROSVENOR CASINOS LIMITED****NOTES TO THE ACCOUNTS AT 31 DECEMBER 2006****21 Employees and directors (continued)**

	<b>2006</b>	<b>2005</b>
<b>Directors</b>	<b>£'000</b>	<b>£'000</b>
Aggregate emoluments	813	485
Aggregate amounts receivable under long-term incentive schemes	-	127
Company contributions to money purchase pension schemes	191	67
<b>Total</b>	<b>1,004</b>	<b>679</b>

**Highest paid director**

Aggregate emoluments	315	212
Aggregate amounts receivable under long-term incentive schemes	-	55
Company contributions to pension schemes	111	34
<b>Total</b>	<b>426</b>	<b>301</b>

Directors are not paid directly by Grosvenor Casinos Limited. The figures shown represent the proportion of directors' emoluments relevant to the time allocated to Grosvenor Casinos Limited.

Retirement benefits are accruing to three Directors under the defined benefit pension scheme operated by The Rank Group Plc.

There are no key management other than the Directors of the Company.

**22 Pension commitments**

The Company and its subsidiary undertakings participate in group pension schemes operated by The Rank Group Plc. The group has two pension schemes for UK employees, both of which are contracted in to the State Earnings Related Pension arrangements. The schemes are externally funded under separate trusts and the funds' assets are held separately from group assets.

The group (headed by The Rank Group Plc) operates a defined benefit scheme, The Rank Group Pension Plan which is funded by both employer's and employee's contributions. The scheme is closed to new entrants. It is not possible for the Company to separately identify its share of the underlying assets and liabilities of these schemes. Therefore, in accordance with IAS 19, the schemes are treated as defined contribution schemes. A charge is made to operating profit for contributions payable to the schemes. The pension costs for the Company, which equate to the contributions payable, are assessed annually by an independent, qualified actuary.

The contributions paid to the scheme Company in 2006 totalled £1,866,000 (2005 £1,985,000). Contributions outstanding at 31 December 2006 were £nil (2006 £nil).

**GROSVENOR CASINOS LIMITED****NOTES TO THE ACCOUNTS AT 31 DECEMBER 2006**

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**22 Pension commitments (continued)**

The Rank Money Purchase Pension Scheme is a defined contribution scheme with benefits which depend on the contribution levels and the emerging investment performance. Company contributions to this scheme in the year to 31 December 2006 totalled £124,000 (2005 £451,000).

The company also operates Stakeholder pensions for some members of staff. Company contributions in the year to 31 December 2006 totalled £330,000 (2005 £nil).

**23 Lease commitments****Operating lease agreements where the Company is lessee**

The Company has entered into commercial leases on certain properties and items of machinery. These leases have an average duration of between 2 and 75 years.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	<b>2006</b> <b>£'000</b>	<b>2005</b> <b>£'000</b>
Not later than one year	11,581	9,029
After one year but not more than five years	36,159	26,513
After five years	96,807	55,708
	<b>144,547</b>	<b>91,250</b>

Total future minimum sub-lease payments expected to be received under non-cancellable sub-leases

<b>1,805</b>	<b>3,053</b>
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**Finance leases where the Company is a lessee**

The minimum lease payments under finance leases fall due as follows:

	<b>2006</b> <b>£'000</b>	<b>2005</b> <b>£'000</b>
Not later than one year	370	401
Later than one year but not more than five	335	575
More than five years	1,596	1,691
	<b>2,301</b>	<b>2,667</b>

**24 Capital and other financial commitments**

	<b>2006</b> <b>£'000</b>	<b>2005</b> <b>£'000</b>
Contracts placed for future capital expenditure not provided in the financial information	<b>774</b>	<b>196</b>

## **GROSVENOR CASINOS LIMITED**

### **NOTES TO THE ACCOUNTS AT 31 DECEMBER 2006**

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#### **25 Related party transactions**

The Company's current trade and other payables balance is due to fellow subsidiaries of The Rank Group Plc in respect of various liabilities that have been settled on its behalf. This amount is unsecured and payable on demand.

The Company's immediate parent undertaking is Rank Group Gaming Division Limited. The ultimate parent undertaking and controlling party is The Rank Group Plc, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. Copies of The Rank Group Plc consolidated financial statements can be obtained from the Company Secretary at Statesman House, Stafferton Way, Maidenhead, Berkshire, SL6 1AY.