

**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.** If you are in any doubt about the action you should take, you should consult your stockbroker, bank manager, solicitor, accountant or other independent professional adviser authorised pursuant to the Financial Services Act 1986 immediately.

If you have sold or otherwise transferred all of your Ordinary Shares in Scottish Highland Hotels plc (other than ex the entitlement to participate in the Open Offer), you should send this document, together with the accompanying document(s), to the purchaser or transferee, or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee, except that the enclosed application form should not be forwarded or transmitted by you to any person in any territory other than the United Kingdom unless the Open Offer can lawfully be made to such person or in such territory.

In connection with the Acquisition and the Placing and Open Offer, Bell Lawrie White & Co. is acting exclusively for Scottish Highland Hotels plc. Bell Lawrie White & Co. is not acting for any other persons and will not be responsible to such persons for providing the protections afforded to customers of Bell Lawrie White & Co. nor for advising them in relation to the transactions and arrangements set out in this document.

Copies of this document, which comprises a prospectus relating to Scottish Highland Hotels plc prepared in accordance with the Listing Rules made under Section 142 of the Financial Services Act 1986, have been delivered for registration to the Registrar of Companies in Scotland as required by Section 149 of that Act. Application has been made to the London Stock Exchange for the New Ordinary Shares to be admitted to the Official List. It is expected that admission will become effective and dealings will commence in the New Ordinary Shares at 8.30 a.m. on 20 October 1997.



## **SCOTTISH HIGHLAND HOTELS plc**

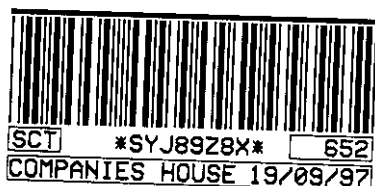
**Proposed Acquisition of  
Redworth Hall Hotel and Hellaby Hall Hotel  
Placing and Open Offer  
by  
Bell Lawrie White & Co.  
of**

**4,871,456 New Ordinary Shares of 5p each at 140p per share  
payable in full upon application**

The latest time for application and payment in full under the Open Offer will be at 3.00 p.m. on 13 October 1997. The procedure for application and payment is set out in Part II of this document and in the Application Form that accompanies this document.

Notice of an Extraordinary General Meeting, which is to be held at 10.00 a.m. on 9 October 1997, is set out at the end of this document. To be valid, the enclosed Form of Proxy for use at the Extraordinary General Meeting, completed in accordance with the instructions printed thereon, must be received by the Company's Registrars, The Royal Bank of Scotland plc, Registrar's Department, PO Box 457, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 0XG as soon as possible, but in any event not later than 10.00 a.m. on 7 October 1997.

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## Definitions

The following definitions apply throughout this document, unless the context requires otherwise:

"Act"	the Companies Act 1985 (as amended)
"Acquisition"	the proposed acquisition of the Hotels pursuant to the Acquisition Agreement
"Acquisition Agreement"	the conditional agreement dated 19 September 1997 among Wiggins Group PLC and Others and the Company relating to the purchase of the Hotels, the principal terms of which are summarised in Part VI of this document
"Application Form"	the application form relating to the Open Offer being sent to Qualifying Shareholders with this document
"Bell Lawrie White & Co."	Bell Lawrie White & Co. (a division of Brewin Dolphin Bell Lawrie Limited)
"Board" or "Directors"	the directors of Scottish Highland Hotels plc, whose names are set out on page 4 of this document
"Enlarged Group"	the Scottish Highland Hotels Group as enlarged by the Acquisition
"the Executive Scheme"	the Scottish Highland Hotels plc 1996 Executive Share Option Scheme
"Extraordinary General Meeting"	the extraordinary general meeting of the Company convened for 10.00 a.m. on 9 October 1997 pursuant to the notice set out at the end of this document
"Existing Use Value"	the meaning ascribed thereto in Practice Statement 4.3 of the Royal Institution of Chartered Surveyors Appraisal and Valuation Manual
"Flotation"	the listing of the Ordinary Shares on the Official List pursuant to a prospectus dated 29 October 1996 and a placing agreement dated 28 October 1996
"Form of Proxy"	the form of proxy accompanying this document for use in connection with the Extraordinary General Meeting
"Hotels"	Redworth Hall Hotel and Hellaby Hall Hotel together with the goodwill, business and certain assets relating thereto
"Hotel Operating Profit"	operating profit before depreciation, central costs and exceptional items
"London Stock Exchange"	London Stock Exchange Limited
"New Ordinary Shares"	the ordinary shares of 5p each in the capital of the Company to be allotted pursuant to the Placing and Open Offer
"Official List"	the daily official list of the London Stock Exchange
"Open Offer"	the conditional invitation by Bell Lawrie White & Co. to Qualifying Shareholders to subscribe for New Ordinary Shares on the terms and subject to the conditions set out in this document and in the Application Form
"Ordinary Shares"	the existing ordinary shares of 5p each in the capital of the Company
"Placing"	the conditional placing by Bell Lawrie White & Co. of the New Ordinary Shares pursuant to the Placing Agreement
"Placing Agreement"	the conditional agreement dated 19 September 1997 between the Company and Bell Lawrie White & Co. details of which are summarised in paragraph 9 of Part VIII of this document
"Placing Price"	the price of 140p per share at which New Ordinary Shares are being conditionally allotted in terms of the Placing
"the Plan"	the Scottish Highland Hotels plc 1996 Company Share Option Plan
"Qualifying Shareholder"	the holders of Ordinary Shares on the register of members of the Company on the Record Date (other than certain overseas shareholders as described in Part II of this document)
"the Savings Related Scheme"	the Scottish Highland Hotels plc 1996 Savings Related Share Option Scheme
"Record Date"	12 September 1997
"Redeemable Preference Shares"	the redeemable preference shares of £1 each in the capital of the Company
"Schemes"	the Executive Scheme, the Plan and the Savings Related Scheme
"Scottish Highland Hotels" or "Company"	Scottish Highland Hotels plc
"Scottish Highland Hotels Group" or "Group"	the Company and its subsidiary undertakings
"Shareholders"	the holders of Ordinary Shares

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## Expected Timetable of Principal Events

1997

Record Date for the Open Offer	close of business on 12 September
Latest time and date for receipt of Forms of Proxy for the Extraordinary General Meeting	10.00 a.m. on 7 October
Extraordinary General Meeting	10.00 a.m. on 9 October
Latest time and date for the splitting of Application Forms (only to satisfy <i>bona fide</i> market claims)	3.00 p.m. on 9 October
Latest time and date for receipt of completed Application Forms and payment in full under the Open Offer	3.00 p.m. on 13 October
Announcement of the results of the Open Offer	14 October
Completion of the Acquisition	20 October
Dealings in the New Ordinary Shares to commence	20 October
Despatch of definitive share certificates or CREST stock accounts credited	20 October

## PART I

### Letter from the Chairman of Scottish Highland Hotels

#### **Scottish Highland Hotels plc** (Incorporated and Registered in Scotland no. 55493)

**Directors:**

Hamish McLeod Grossart, Chairman\*  
William Alasdair Cameron, Deputy Chairman and Finance Director  
Paul Murray-Smith, Managing Director  
Franco Galgani, Marketing Director  
Tudor Griffith Davies\*  
Brian Maxwell Simmers\*

*\*Non-Executive*

**Registered Office:**

Regent Court  
70 West Regent Street  
Glasgow  
G2 2QZ

19 September 1997

*To the holders of Ordinary Shares and, for information only, to the holders of options under the Schemes and to the holders of Redeemable Preference Shares*

Dear Sir or Madam,

#### **Acquisition and Placing and Open Offer**

It was announced today that Scottish Highland Hotels had conditionally agreed to acquire two four star hotels in the North of England from Wiggins Group plc for a cash consideration of £12.825 million (excluding the value of stocks).

To assist with the financing of the Acquisition 4,871,456 New Ordinary Shares are being conditionally placed today with institutional investors at a price of 140 p per share to raise approximately £6.57 million (net of expenses). The New Ordinary Shares are subject to clawback at the Placing Price by Qualifying Shareholders under an Open Offer on a 1 for 5 basis. Shareholders who presently hold 5,147,520 Ordinary Shares representing approximately 21% of the existing issued Ordinary Share capital, have irrevocably agreed not to make application for any New Ordinary Shares under the Open Offer and their entitlements to such New Ordinary Shares are being conditionally placed firm with institutional investors as part of the Placing.

I am writing to explain the reasons for, and benefits of, the Acquisition and to give you further details of the Hotels and of the Placing and Open Offer. In view of the size of the Acquisition in relation to Scottish Highland Hotels, it is conditional, *inter alia*, on the approval of Shareholders. Accordingly, you will find set out at the end of this document a Notice convening an Extraordinary General Meeting for 10.00 a.m. on 9 October 1997 at which the necessary approval resolution will be proposed. The Acquisition is also conditional on the approval of shareholders of Wiggins Group plc.

#### **Information on the Hotels**

Redworth Hall Hotel, near Newton Aycliffe, Co. Durham is a 17th century manor house. It was developed as a hotel in 1990 and was recognised in 1996 by the award of the 'Best Hotel' from the Northumbrian Tourist Board.

Hellaby Hall Hotel, near Rotherham, South Yorkshire also dates from the 17th century, and has been operated by the current owner since August 1995. The hotel received the Yorkshire and Humberside Tourist Board's 'Hotel of the Year' award in 1996.

Both Hotels enjoy a four star rating from AA / RAC and a 5 crowns, highly recommended rating from the English Tourist Board.

Brief details of the Hotels' facilities are as follows:

	<i>Redworth Hall</i>	<i>Hellaby Hall</i>
Number of bedrooms	100	52
Number of meeting rooms	6	5
Capacity of largest meeting room	300 theatre 250 banquet	140 theatre 120 banquet
Number of restaurants	2	1
Leisure club	Yes	No

Your attention is drawn to the Accountants' Report on the Hotels which has been prepared by KPMG Audit Plc and is set out in Part IV of this document. The following information covering the three years to 30 March 1997 is extracted from that report:

	<i>Year ended</i>		
	<i>30 March 1997 £'000</i>	<i>31 March 1996 £'000</i>	<i>2 April 1995 £'000</i>
<b>Redworth Hall</b>			
Turnover	3,554	3,320	3,158
Hotel Operating Profit	1,076	921	811
<b>Hellaby Hall (since August 1995)</b>			
Turnover	1,241	456	-
Hotel Operating Profit/(Loss)	171	(250)	-

### **Valuation**

A valuation report on the Hotels, which has been prepared by Christie & Co., is set out in Part III of this document. In their opinion, the Existing Use Values of the Hotels amount in aggregate to £12.5 million.

### **Reasons for, and Benefits of, the Acquisition**

At the time of Flotation in November last year, the Board stated that Scottish Highland Hotels would continue to be developed as a hotel business by applying the Group's proven operating formula enhanced where appropriate by carefully selected acquisitions. The Hotels are both of award winning quality and in the Directors' view should bring a number of benefits to the Group:

- an increase in the number of bedrooms from 527 to 679
- a greater concentration of the Group's portfolio of hotels in the four star category
- a broader geographic spread of properties
- scope for margin improvement at the acquired Hotels

The Hotels can be managed within the Group's existing head office structure and no material increases in central costs are expected to result from the Acquisition. Subject to planning permission, the Company intends to develop Hellaby Hall Hotel by the addition of a leisure club, and consideration will be given to adding further bedrooms.

### **Acquisition Terms**

Under the Acquisition Agreement, Scottish Highland Hotels has conditionally agreed to pay £12.825 million in cash to acquire the freehold of the Hotels, together with the business, goodwill

and certain assets relating thereto, and to acquire stocks at an agreed valuation, expected to amount to approximately £50,000.

Further details of the terms of the Acquisition Agreement are set out in Part VI of this document.

### **Financing the Acquisition**

The Board proposes to issue 4,871,456 New Ordinary Shares, at a price of 140p per share, by way of the Placing and Open Offer, details of which are set out below and in the letter from Bell Lawrie White & Co. in Part II of this document. This will result in cash proceeds (net of the Placing and Open Offer expenses) of approximately £6.57 million.

The remaining cash consideration of £6.6 million (including the Acquisition expenses) will be funded by a newly agreed term facility with Bank of Scotland of £5 million and by £1.6 million from existing bank facilities.

### **Current Trading and Prospects**

In the six months to 30 April 1997, the Group reported record interim turnover, profit before tax and earnings per share and strong forward bookings for the remainder of the financial year. I am pleased to report that these bookings have translated into a good second half sales performance thus far. Unaudited management accounts show that sales for the 44 weeks to 4 September 1997 were some 5% ahead of the corresponding period last year and operating margins were usefully ahead of last year's levels. Bookings for the remainder of the year remain at high levels. The Board therefore remains confident of producing a strong performance for the year as a whole.

Based on unaudited management accounts for the 21 week period from 31 March 1997 to 24 August 1997, operating profits of the two Hotels to be acquired are well ahead of the corresponding period last year. As the acquisition of the Hotels is not expected to complete until 20 October 1997, it will be the financial year ending 31 October 1998 before the effect of the Acquisition is fully reflected in the results of the Enlarged Group.

### **Dividend Forecast**

In order to assist Shareholders in reaching a decision on whether or not to apply for their entitlements under the Open Offer, your Board felt it would be helpful to give an indication of the level of final dividend on the Ordinary Shares it expects to recommend in respect of the current financial year.

Your Directors intend, in the absence of unforeseen circumstances, to recommend a final dividend of 2.4p (net) per ordinary share on the increased issued Ordinary Share capital following the Placing and Open Offer. Together with the interim dividend of 1.2p (net) paid to Shareholders on the register on 20 June 1997, dividends would therefore total 3.6p (net) per Ordinary Share in respect of the financial year ending 31 October 1997.

### **Placing and Open Offer**

On behalf of the Company, Bell Lawrie White & Co. has conditionally agreed to place 4,871,456 New Ordinary Shares at a price of 140p per share. In order to provide Qualifying Shareholders with an opportunity to acquire New Ordinary Shares, Bell Lawrie White & Co. has agreed to invite applications from Qualifying Shareholders to subscribe for New Ordinary Shares at the same price free of all expenses, payable in full in cash, on the following basis:

#### **1 New Ordinary Share for every 5 Ordinary Shares**

held on the Record Date for the Open Offer and so in proportion for any other number of Ordinary Shares then held. Qualifying Shareholders may apply for any number of New Ordinary

Shares up to their maximum *pro rata* allocation, as indicated on the enclosed Application Form.

The New Ordinary Shares will be allotted, credited as fully paid, and will rank *pari passu* in all respects with the existing Ordinary Shares. Dealings in the New Ordinary Shares are expected to commence on 20 October 1997.

The Placing and Open Offer has been fully underwritten by Bell Lawrie White & Co. and is conditional on the Placing Agreement becoming unconditional on or before 20 October 1997 or such later date as Bell Lawrie White & Co. and the Company may agree, being not later than 5.00 p.m. on 31 October 1997. The Placing Agreement is conditional, *inter alia*, on Shareholders approving the ordinary resolution which will be put to the Extraordinary General Meeting to be held on 9 October 1997, notice of which is set out at the end of this document.

**Your attention is drawn to the letter from Bell Lawrie White & Co. in Part II of this document, setting out the terms of the Open Offer, the principal conditions to which it is subject and the procedure for application.** The attention of Qualifying Shareholders who have registered addresses outside the United Kingdom, or who are resident in, or citizens of, countries other than the United Kingdom, is drawn to the paragraph headed "Overseas Shareholders" in Part II. Information relating to United Kingdom capital gains tax, stamp duty, stamp duty reserve tax and the taxation of dividends is set out in paragraph 12 of Part VIII of this document.

### **Extraordinary General Meeting**

Set out at the end of this document is a notice convening an Extraordinary General Meeting to be held at Regent Court, 70 West Regent Street, Glasgow, G2 2QZ at 10.00 a.m. on 9 October 1997 to consider and, if thought fit, pass an ordinary resolution approving the acquisition of the Hotels.

### **Action to be Taken**

#### *Extraordinary General Meeting*

You will find enclosed a Form of Proxy for use at the Extraordinary General Meeting. The Form of Proxy should be completed in accordance with the instructions printed thereon and returned by post to the Company's Registrars, The Royal Bank of Scotland plc, Registrar's Department, PO Box 457, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 0XG as soon as possible but, in any event, **so as to be received not later than 10.00 a.m. on 7 October 1997.** Return of the completed Form of Proxy will not prevent you from attending the Extraordinary General Meeting and voting in person, if you so wish.

#### *Open Offer*

The procedure for application, should Qualifying Shareholders wish to take up any or all of their entitlement to New Ordinary Shares under the Open Offer, is contained in the letter from Bell Lawrie White & Co. in Part II of this document and also in the enclosed Application Form. The Application Form also specifies the maximum number of New Ordinary Shares for which each Qualifying Shareholder may apply.

**To be valid, Application Forms must be returned, together with payment in full, so as to reach the Company's receiving bankers, The Royal Bank of Scotland plc, Registrar's Department, New Issues Section, at either of the addresses set out under 'Procedure for Application' in Part II of this document, not later than 3.00 p.m. on 13 October 1997.**

### **Further Information**

Your attention is drawn to the further information set out in Parts II to VIII of this document.

### **Recommendation**

**Your Directors, who have been advised by Bell Lawrie White & Co., consider the proposed Acquisition and Placing and Open Offer to be in the best interests of the Company and its Shareholders as a whole. In providing their advice, Bell Lawrie White & Co. have relied on the Directors' commercial assessment of the proposals set out herein.**

**Accordingly, your Directors unanimously recommend you to vote in favour of the resolution to be proposed at the Extraordinary General Meeting, as they intend to do in respect of their own beneficial holdings, amounting in aggregate to 2,481,680 Ordinary Shares, representing approximately 10.2% of the current issued Ordinary Share capital of the Company.**

Yours faithfully,

**Hamish Grossart**  
*Chairman*



## PART II

### Letter from Bell Lawrie White & Co. relating to the Open Offer



**Bell Lawrie White & Co.**  
**(A division of Brewin Dolphin Bell Lawrie Limited)**  
48 St. Vincent Street  
Glasgow G2 5TS

19 September 1997

*To the holders of Ordinary Shares and, for information only, to the holders of options under the Schemes and to the holders of Redeemable Preference Shares*

Dear Sir or Madam,

#### **Open Offer to Qualifying Shareholders**

It was announced today that Scottish Highland Hotels is proposing to raise approximately £6.57 million (net of expenses) by way of a Placing and Open Offer to Qualifying Shareholders of 4,871,456 New Ordinary Shares. All of these New Ordinary Shares are being conditionally placed by Bell Lawrie White & Co. with institutional investors. Shareholders who presently hold 5,147,520 Ordinary Shares, representing approximately 21% of the existing issued Ordinary Share capital, have irrevocably agreed not to make application for any New Ordinary Shares under the Open Offer and their entitlements to such New Ordinary Shares are being conditionally placed firm with institutional investors as part of the Placing.

Your attention is drawn to the letter from your Chairman set out on pages 4 to 8 of this document.

#### **Details of the Open Offer**

We, on behalf of and as agent for the Company, hereby invite Qualifying Shareholders to apply for New Ordinary Shares at a price of 140p per share, free of expenses, payable in full in cash on application. The Open Offer is made on the terms, and subject to the conditions, set out in this Part II and in the Application Form enclosed with this document. Qualifying Shareholders may apply for as many New Ordinary Shares as they wish up to their maximum *pro rata* allocation calculated on the following basis:

#### **1 New Ordinary Share for every 5 Ordinary Shares**

held on the Record Date for the Open Offer and so in proportion for any other number of Ordinary Shares then held. Qualifying Shareholders' maximum entitlements are shown on the Application Form. Fractional entitlements to New Ordinary Shares will not be allotted pursuant to the Open Offer (but will be aggregated and included in the Placing for the benefit of the Company) and entitlements have been rounded down accordingly.

The New Ordinary Shares will be allotted fully paid and will rank *pari passu* in all respects with the existing Ordinary Shares. Application has been made to the London Stock Exchange for the New Ordinary Shares to be admitted to the Official List.

The Placing and Open Offer are conditional on the Placing Agreement becoming unconditional on or before 20 October 1997 or such later date as Bell Lawrie White & Co. and the Company may agree, being not later than 5.00 p.m. on 31 October 1997.

The Placing Agreement is conditional, *inter alia*, upon:

- (i) the passing of the ordinary resolution to be proposed at the Extraordinary General Meeting;
- (ii) the passing of an ordinary resolution at a general meeting of Wiggins Group plc approving the disposal of the Hotels;
- (iii) the Acquisition Agreement becoming unconditional in all respects save for any condition requiring admission of the New Ordinary Shares to the Official List to have become effective and such agreement not being terminated prior to such admission becoming effective; and
- (iv) the London Stock Exchange admitting the New Ordinary Shares to the Official List and such admission becoming effective.

Further details of the Placing Agreement are set out in paragraph 9(ii) of Part VIII of this document.

Qualifying Shareholders may only apply for New Ordinary Shares on the enclosed Application Form, which is personal to the Qualifying Shareholder named therein and may not be assigned, transferred, split or consolidated, except to satisfy *bona fide* market claims in relation to purchases of Ordinary Shares through the market prior to the date on which the Ordinary Shares are marked "ex" the entitlement to participate in the Open Offer. Qualifying Shareholders who have sold or otherwise transferred their Ordinary Shares are asked to consult their stockbroker, bank or other agent through whom the sale or transfer was effected as soon as possible, since the invitation to subscribe for New Ordinary Shares may represent a benefit which can be claimed from them by purchasers under the rules of the London Stock Exchange.

**Qualifying Shareholders should be aware that in an Open Offer, unlike a rights issue, New Ordinary Shares not applied for will not be sold in the market for the benefit of those who do not apply under the Open Offer. The Application Form represents only a right to apply for New Ordinary Shares. It is not a document of title and cannot be traded.**

Qualifying Shareholders who do not wish to apply for any New Ordinary Shares under the Open Offer should not complete or return the Application Form.

### **Procedure for Application**

The Application Form shows the number of Ordinary Shares on which the relevant Qualifying Shareholder's entitlement has been based and the maximum *pro rata* entitlement attributable to such Qualifying Shareholder's holding, on the basis described above.

Valid applications for more than a Qualifying Shareholder's maximum entitlement will not be accepted for such amounts and will be treated as a valid application for that Qualifying Shareholder's maximum entitlement. A Qualifying Shareholder may apply for less than his maximum allocation of New Ordinary Shares should he so wish.

Qualifying Shareholders wishing to apply for any of the New Ordinary Shares should complete and sign the enclosed Application Form in accordance with the instructions thereon and send it by post or deliver it, in the reply-paid envelope provided, together with a remittance for the full amount payable, to The Royal Bank of Scotland plc, Registrar's Department, New Issues Section, PO Box 859, Consort House, East Street, Bedminster, Bristol BS99 1XZ or, alternatively, lodge the same by hand only with The Royal Bank of Scotland plc, Registrar's Department, New Issues Section, PO Box 633, 5-10 Great Tower Street, London EC3R 5ER so as to arrive as soon as possible

and in any event not later than 3.00 p.m. on 13 October 1997, at which time the Open Offer will close. Application Forms received after this time will not be accepted. Applications, once made, will be irrevocable. If an Application Form is sent by post, Qualifying Shareholders are recommended to allow at least four working days for delivery.

All payments must be made by cheque or bankers draft in pounds sterling, drawn on a bank or building society in the United Kingdom or the Channel Islands which is either a member of the Cheque & Credit Clearing Company Limited or the CHAPS Clearing Company Limited or which has arranged for its cheques and bankers drafts to be cleared through the facilities provided for the members of either of those companies and must bear the appropriate sorting code in the top right-hand corner. Any application which does not comply with these requirements will be treated as invalid.

Cheques or bankers drafts should be made payable to "The Royal Bank of Scotland plc A/C Scottish Highland Hotels plc" and should be crossed "A/C payee only". Any interest earned on payments made before they are due will be retained for the benefit of the Company.

The Company reserves the right to have cheques presented on receipt and to instruct The Royal Bank of Scotland plc to seek special clearance of cheques to allow the Company to obtain value for remittances at the earliest opportunity. Any person returning an Application Form with a remittance in the form of a cheque thereby warrants that the cheque will be honoured on first presentation. If cheques or bankers drafts are presented for payment before the conditions of the Open Offer are fulfilled the monies will be kept in a separate bank account. In the event that the Open Offer does not become unconditional by 20 October 1997 or such later date as Bell Lawrie White & Co. and the Company may agree, being not later than 5.00 p.m. on 31 October 1997, all application monies will be returned to applicants as soon as practicable thereafter.

The Company may (at its sole discretion) treat an application as valid and binding on the person(s) by whom or on whose behalf it is lodged even if not completed in accordance with the relevant instructions or not accompanied by a valid power of attorney where required.

All enquiries in connection with the procedure for application and completion of the Application Form should be addressed to The Royal Bank of Scotland plc, Registrar's Department, New Issues Section, PO Box 859, Consort House, East Street, Bedminster, Bristol BS99 1XZ (telephone number 0117 937 0672).

### **Money Laundering Regulations 1993**

It is a term of the Open Offer that, to ensure compliance with the Money Laundering Regulations 1993 (the "Money Laundering Regulations"), The Royal Bank of Scotland plc ("RBS") may at its absolute discretion require verification of identity from any person by whom or on whose behalf an Application Form is lodged with payment (which requirements are referred to below as the "verification of identity requirements"). The person (the "applicant") who, by lodging an Application Form with payment as described above, applies for the allotment of New Ordinary Shares (the "relevant shares") and any agent lodging such Application Form on his behalf shall thereby be deemed to agree to provide RBS with such information and other evidence as it may require to satisfy the verification of identity requirements.

If RBS determines that the verification of identity requirements apply to an applicant and the verification of identity requirements have not been satisfied (which RBS shall in its absolute discretion determine) by 3.00 p.m. on the latest date for application and payment under the Open Offer, the Company may, in its absolute discretion, and without prejudice to any other rights of the Company, treat the application as invalid or may confirm the allotment of the relevant shares to the applicant but (notwithstanding any other term of the Open Offer) such shares will not be issued to him or registered in his name until the verification of identity requirements have been

satisfied (which RBS shall in its absolute discretion determine). If the application is not treated as invalid and the verification of identity requirements are not satisfied within such period, being not less than fourteen days after a request for evidence of identity is despatched to the applicant, as the Company may in its absolute discretion allow, the Company will be entitled to make arrangements (in its absolute discretion as to manner, timing and terms) to sell the relevant shares and for that purpose the Company will be expressly authorised to act as agent of the applicant or to cancel the allotment. Any proceeds of sale (net of expenses) of the relevant shares which shall be issued to and registered in the name of the purchaser(s) or an amount equivalent to the original payment, whichever is the lower, will be held by the Company on trust for the applicant, subject to the requirements of the Money Laundering Regulations. RBS is entitled in its absolute discretion to determine whether the verification of identity requirements apply to any applicant and whether such requirements have been satisfied.

**If the verification of identity requirements apply, failure to provide the necessary evidence of identity may result in your applications being treated as invalid or in delays in the despatch of share certificates or the crediting of CREST stock accounts.**

The verification of identity requirements will not usually apply:

- (a) if the applicant is an organisation required to comply with the Money Laundering Directive (the Council Directive on prevention of the use of the financial system for the purpose of money laundering, no. 91/308/EEC);
- (b) if the applicant (not being an applicant who delivers his application in person) makes payment by way of a cheque drawn on an account in the name of such applicant; or
- (c) if the aggregate subscription price for the relevant shares is less than £12,000.

In other cases the verification of identity requirements may apply. Satisfaction may be facilitated in the following ways:

- (i) if payment is made by building society cheque (not being a cheque drawn on an account of the applicant) or bankers draft, by the building society or bank endorsing on the cheque or draft the applicant's name and the number of an account held in the applicant's name at such building society or bank, such endorsement being validated by a stamp and authorised signature;
- (ii) if payment is not made by cheque drawn on an account in the name of the applicant and (i) above does not apply, the applicant should enclose with the Application Form evidence of the applicant's name and address from an appropriate third party, for example, the original of a recent bill from a gas, electricity or telephone company or of a bank statement bearing the applicant's name and address, which will be returned in due course; and
- (iii) if the Application Form is lodged with payment by an agent which is an organisation of the kind referred to in (a) above or which is subject to anti-money laundering regulation in a country which is a member of the Financial Action Task Force (the non-European Union members of which are Australia, Bahrain, Canada, Hong Kong, Iceland, Japan, Kuwait, New Zealand, Norway, Oman, Qatar, Saudi Arabia, Singapore, Switzerland, Turkey, the United Arab Emirates and the United States), the agent should provide with the Application Form written confirmation that it has that status and written assurance that it has obtained and recorded evidence of the identity of the persons for whom it acts and that it will on demand make such evidence available to RBS or the relevant authority.

In order to confirm the acceptability of any written assurances referred to in (iii) above or in any other case the applicant should contact The Royal Bank of Scotland plc, Registrar's Department, New Issues Section, PO Box 859, Consort House, East Street, Bedminster, Bristol BS99 1XZ.

If (an) Application Form(s) in respect of the relevant shares with an aggregate subscription price of £12,000 or more is/are lodged by hand by the applicant in person, he should ensure that he has with him evidence of identity bearing his photograph (for example his passport) and evidence of his address.

Neither the Company, RBS nor Bell Lawrie White & Co. shall be responsible or have any liability for loss or damage arising from any determination by RBS as to whether the verification of identity requirements apply to any applicant or whether such requirements have been satisfied or from the election by the Company to treat an Application Form lodged by any applicant as invalid or to terminate the applicant's right in respect of the relevant shares, as a result of RBS not having received from the applicant evidence as to identity reasonably satisfactory to it by no later than 3.00 p.m. on 13 October 1997 or as a result of any sale of the relevant shares.

### **Overseas Shareholders**

No person receiving a copy of this document and/or an Application Form in any territory other than the United Kingdom, or who is, by virtue of residence, nationality or otherwise, prohibited or restricted by any regulatory or legal requirements of any jurisdiction(s) from so doing, may treat the same as constituting an invitation or offer to him, nor should he in any event use the Application Form unless, in the relevant territory or in accordance with the regulations or laws of such jurisdiction(s), such an invitation or offer can lawfully be made to him and the Application Form can lawfully be used without contravention of any regulatory or other legal requirements. It is the responsibility of any such person receiving a copy of this document and/or an Application Form and wishing to make an application for New Ordinary Shares to satisfy himself as to full observance of the laws or relevant regulatory requirements of the relevant territory or jurisdiction, as the case may be, including obtaining any governmental or other consents which may be required, observing any other formalities needing to be observed and paying any issue, transfer or other taxes due in such territory or jurisdiction, as the case may be.

Shareholders resident in, or who are nationals of, any territory other than the United Kingdom should consult their professional advisers as to whether they require any governmental or other consents or need to observe any other formalities to enable them to apply for New Ordinary Shares pursuant to the Open Offer.

The Company reserves the right to treat an application as invalid if it believes the application may violate applicable legal or regulatory requirements. The Company reserves the right to make the New Ordinary Shares available to overseas Shareholders notwithstanding any statement contained herein if it is advised to its satisfaction that any such Shareholder can properly accept the invitation comprised in the Open Offer without observance by the Company of any requirement which the Company (in its absolute discretion) regards as unduly burdensome.

Application under the Application Form will constitute a representation and warranty that, *inter alia*, the applicant can lawfully apply for New Ordinary Shares pursuant to the Open Offer.

As a result of the laws and/or regulatory requirements applicable in those countries, no Application Form is being sent to Shareholders with registered addresses in the United States of America, Canada, Australia or Japan.

### **United Kingdom Taxation**

Your attention is drawn to paragraph 12 of Part VIII of this document which gives information in relation to United Kingdom taxation. **If Qualifying Shareholders are in any doubt as to their tax position they should consult their professional adviser without delay.**

### **Settlement and Dealings**

It is expected that admission of the New Ordinary Shares to the Official List will become effective and that dealings in the New Ordinary Shares will commence on 20 October 1997. Qualifying

non-CREST Shareholders will be allotted New Ordinary Shares in certificated form. Definitive share certificates for New Ordinary Shares are expected to be despatched on 20 October 1997. Qualifying CREST Shareholders may be allotted New Ordinary Shares in uncertificated form to the extent that their entitlement to the New Ordinary Shares arises as a result of holding Ordinary Shares in uncertificated form and they complete Box 13 on the Application Form. Notwithstanding any provision of this document or the Application Form, the Company reserves the right to allot and/or issue any New Ordinary Shares in certificated form. In normal circumstances, this right is only likely to be exercised in the event of any interruption, failure or breakdown of CREST, or of any part of CREST, or on the part of the facilities and/or system operated by the Royal Bank of Scotland plc, as the Company's Registrars, in connection with CREST. This right may also be exercised if the correct details (such as Member Account ID and Participant ID details) are not provided in Box 13 as requested on the Application Form. No temporary documents of title will be issued, and pending despatch of share certificates transfers will be certified against the share register.

Yours faithfully,  
for and on behalf of

**Bell Lawrie White & Co.**

**Elizabeth A. Kennedy**  
*Director*

**A division of Brewin Dolphin Bell Lawrie Limited.**  
A Member of The London Stock Exchange. Regulated by The Securities and Futures Authority Limited.  
Registered Office: 5 Giltspur Street London EC1A 9BD. Registered in England No. 2135876.

## PART III

### Valuation Report on the Hotels

The following is the text of a report on the valuation of Redworth Hall Hotel and Hellaby Hall Hotel, carried out by Chartered Surveyors from the Professional Services Division of Christie & Co:-

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**CHRISTIE & CO**

**SURVEYORS, VALUERS & AGENTS**

---

5 Logie Mill  
Beaverbank Business Park  
Logie Green Road  
Edinburgh EH7 4HG

The Directors  
Scottish Highland Hotels plc  
Regent Court  
70 West Regent Street  
Glasgow G2 2QZ

The Directors  
Bell Lawrie White & Co.  
(a division of Brewin Dolphin Bell Lawrie Ltd)  
48 St Vincent Street  
Glasgow  
G2 5TS

19 September 1997

Dear Sirs

In accordance with the instructions of the Directors of Scottish Highland Hotels plc (the Company) we have undertaken valuations of the freehold interests in Redworth Hall Hotel, Redworth, Newton Aycliffe, County Durham, DL5 6NL and Hellaby Hall Hotel, Old Hellaby Lane, Rotherham, South Yorkshire S66 8SN as listed in the attached Schedule and intended to be acquired by the Company, (hereinafter referred to as the "Properties"). We now advise you as to our opinions of their Existing Use Values as at 19 September 1997, for the purpose of a Prospectus prepared in accordance with the rules of the London Stock Exchange.

This Valuation Report is for the stated purpose and for the sole and exclusive use of the parties to whom it is addressed. This Valuation Report shall not be published or reproduced in any way without our consent, is governed by English law and any dispute thereon shall be adjudicated upon only in the English Courts. This Valuation Report has been prepared in accordance with the Practice Statements in the Royal Institution of Chartered Surveyors' Appraisal and Valuation Manual (the "Manual") and with the listing rules published by the London Stock Exchange.

The Properties were inspected on 28 August 1997 and all inspections and valuations have been carried out in accordance with Practice Statement 5.1. contained in the Manual.

We have ascribed the Existing Use Values to the Properties as fully operational individual trading entities, not part of a group or portfolio.

Existing Use Value is defined in Practice Statement 4.3. of the Manual as follows:

"An opinion of the best price at which the sale of an interest in property would have been completed unconditionally for cash consideration on the date of valuation, assuming:

- (a) a willing seller;
- (b) that, prior to the date of valuation, there had been a reasonable period (having regard to the nature of the property and the state of the market) for the proper marketing of the interest, for the agreement of price and terms and for the completion of the sale;

- (c) that the state of the market, level of values and other circumstances were, on any earlier assumed date of exchange of contracts, the same as on the date of valuation;
- (d) that no account is taken of any additional bid by a prospective purchaser with a special interest;
- (e) that both parties to the transaction had acted knowledgeably, prudently and without compulsion;
- (f) the property can be used for the foreseeable future only for the existing use; and
- (g) that vacant possession is provided on completion of the sale of all parts of the property occupied by the business."

## **ASSUMPTIONS AND EXCLUSIONS**

### **Trade Furnishings, Fixtures, Fittings, Plant and Equipment**

Properties of the type as the two hotels normally change hands in the open market as fully operational business units. Our valuations include all plant, equipment, fixtures, fittings, furniture and moveable items except in a few minor instances where the Company has advised us to the contrary. No additional allowance has been made for individual items of furniture, fine art or articles with antique or rarity values. We have assumed that the plant, machinery and services are in good working order.

### **Services**

We were not instructed to arrange for any services or installations to be tested and therefore this Report does not express any opinion as to their adequacy or condition. We have valued on the basis that the services and installations are adequate for the businesses being undertaken at the time of our inspections.

### **Statutory Requirements**

We have not made enquiries of the appropriate statutory authorities and have therefore assumed, save where the contrary is revealed by the reports on title provided to us by Anthony Murray & Laing, Solicitors (together hereinafter referred to as the "reports on title") or by information supplied by the Company, that the Properties comply in all material respects with all statutory requirements, including the Fire Precautions Act 1971 and the Food Safety Act 1990.

### **Structural Condition**

We were not instructed to carry out structural surveys of the Properties and therefore in preparing this Report we have assumed the Properties to be of sound design and construction, free from any inherent defect or defects. Furthermore, we did not inspect woodwork or other parts of the Properties which were covered, unexposed or inaccessible and such parts have been assumed to be in good repair and condition. This Report does not therefore express any opinion about, or advise upon the condition of, uninspected parts nor does this Report in any way constitute, nor could this Report be construed as constituting, any representation or warranty actual or implied regarding such parts.

### **Site Investigations**

We have not carried out or commissioned site investigations or geographical or geophysical surveys, and therefore can give no opinion or assurance or guarantee that the grounds have sufficient load bearing strength to support the existing constructions, or any other constructions that may be erected upon them in the future. We also cannot give any opinion or assurance or guarantee that there are no underground mineral or other workings beneath the sites, or in their vicinity, or that there is not any fault or disability underground which could or might affect the Properties or any construction thereon.

### **Environmental Factors**

We are not aware of the contents of any environmental audits or other environmental investigations or soil surveys which may have been carried out on the Properties and which may draw attention to any contamination or the possibility of any such contamination which might adversely affect stated values. We have not carried out any investigations into past or present uses either of the Properties or of any neighbouring land to establish whether there is any potential for contamination from these uses or sites to the Properties (save for matters disclosed to us by the Company which we consider do not materially or adversely affect stated values) and have therefore assumed that none exists.



However, should it be established subsequently that contamination exists at the Properties or on any neighbouring land or that the premises have been or are being put to a contaminative use (further to the reports and matters disclosed to us by the Company) this might reduce the values now reported.

### **Licences and Planning**

We have assumed, based on the information supplied, that all consents, licences and permissions have been obtained, that the businesses are being operated in accordance with those consents, licences and permissions and that they will continue to hold them. We have also assumed that they can be transferred to the Company and/or their nominee. We have assumed that there are no outstanding conditions or works required by the appropriate authorities and therefore that there are no proposals likely detrimentally to affect the Properties.

We have valued the Properties on the basis of existing use on the assumption that it is the lawful or permitted use, that there are no onerous proposals affecting the Properties and that the Properties and their stated values are unaffected by matters which would be revealed by local authority searches and replies to legal enquiries except where revealed in the reports on title or where we have been otherwise made aware of them.

### **Tenure**

We have reviewed the reports on title and save as revealed by them we have assumed that the Properties are free from any unusual or especially onerous restrictions, encumbrances or outgoing, and that good titles can be shown and that all covenants (including leasehold covenants), restrictions and stipulations affecting the Properties have been strictly complied with.

Furthermore, we have assumed the areas and boundaries of the Properties are correct as indicated to us at the time of our inspections. Where tenancies have been created these have been taken into account in arriving at our valuations.

### **Exclusions**

Our valuations do not take into consideration the values of stock-in trade, motor vehicles, trade debtors or creditors, other assets or liabilities or contingent liabilities.

We have not allowed for the costs of realising the asset values on the open market including professional fees, possible tax liabilities and redundancy or other compensation payments that could be incurred in the event of sales.

We have valued each of the Properties as being clear and free of all debentures, mortgages or other forms of secured lending and any other charges which may be secured thereon.

### **Information**

We have relied upon the trading information supplied to us by the Company and have assumed that such information is correct and complete and can be substantiated by independent audit. We stress that in the event of a future change in trading potential or actual level of trade from that indicated by such information and assumptions, the open market values for existing use could also vary. We can take no responsibility for any misstatement, omission, or misrepresentation made to us.

Information about the tenure of the Properties, licences, environmental health matters and fire certificates has been supplied by the Company. We have also had regard to the reports on title.

# **VALUATION CERTIFICATE**

We are of the opinion that the **Existing Use Values** on the basis previously described of the two hotels listed in the attached Schedule, as at **19 September, 1997** is as follows:

**Redworth Hall Hotel, Redworth, Newton Aycliffe, County Durham, DL5 6NL**

**£10,000,000**

**(Ten Million Pounds)**

**Hellaby Hall Hotel, Old Hellaby Lane, Rotherham, South Yorkshire S66 8SH**

**£2,500,000**

**(Two Million, Five Hundred Thousand Pounds)**

**Yours faithfully**

**Christie & Co**

## SCHEDULE OF PROPERTIES

	<i>Existing Use Value</i>
<i>Freehold Properties</i>	
<b>Redworth Hall Hotel, Redworth, Newton Aycliffe, County Durham, DL5 6NL</b>	£10,000,000
A converted 1693 mansion house which has been substantially extended, situated within its own grounds, and located 4 miles west of Junction 58 of the A1(M). The hotel has 100 letting bedrooms, and public rooms comprising 2 restaurants, bar and lounges, 6 function/meeting rooms including the Great Hall, and a Leisure Club with extensive facilities such as a swimming pool, squash courts and gymnasium. The hotel is situated on a site of 11.39 hectares.	
<b>Hellaby Hall Hotel, Old Hellaby Lane, Rotherham, South Yorkshire S66 8SN</b>	£2,500,000
An early 1990s purpose built hotel incorporating the "shell" of the 1692 Hellaby Hall former mansion house, situated within its own grounds, and located on the outskirts of the village of Hellaby just off Junction 1 of the M18. The hotel has 52 letting bedrooms, and public rooms comprising a restaurant, bar and lounge, drawing room and library, and 5 function/meeting rooms. Plans have been prepared by the present proprietors to develop extensive outbuildings, presently in an improved "shell state", to a leisure club with additional bedrooms. The hotel is situated on a site of 2.97 hectares.	

## PART IV

### Accountants' Report on the Hotels

The following is a copy of a report by KPMG Audit Plc, Chartered Accountants, on the Hotels:

The Directors  
Scottish Highland Hotels plc  
Regent Court  
70 West Regent Street  
Glasgow  
G2 2QZ



KPMG Audit Plc  
24 Blythswood Square  
Glasgow  
G2 4QS

The Directors  
Bell Lawrie White & Co  
(a division of Brewin Dolphin Bell Lawrie Limited)  
48 St Vincent Street  
Glasgow  
G2 5TS

19 September 1997

Dear Sirs

We report in connection with the proposed acquisition by Scottish Highland Hotels plc of Redworth Hall Hotel ("Redworth") and Hellaby Hall Hotel ("Hellaby") from Norham Investments Limited ("Company A") and Norham Multi-Leisure Limited ("Company B") respectively, subsidiaries of Wiggins Group plc.

During the three years ended 30 March 1997 Redworth did not trade as a separate legal entity, but formed part of a portfolio of businesses owned and operated by Company A. For the period from August 1995 (date of commencement of business) to 30 March 1997 Hellaby did not trade as a separate entity, but formed part of a portfolio of businesses owned and operated by Company B. Separate statutory financial information in respect of Redworth and Hellaby was not prepared during the periods ("reporting period") mentioned above. Consequently, separate audited financial statements of Redworth and Hellaby have not been prepared for any part of the reporting period.

Price Waterhouse have audited the statutory financial statements of Company A for the years ended 2 April 1995, 31 March 1996 and 30 March 1997 and Company B for the years ended 31 March 1996 and 30 March 1997. In respect of each of the above periods the auditors issued unqualified reports. No audited accounts of Company A or Company B have been made up in respect of any period subsequent to 30 March 1997.

The financial information set out at paragraphs 1 to 11 is based on an aggregation of the following unaudited management accounts after making such adjustments as we consider necessary:

- the unaudited management accounts of Redworth for the three years ended 2 April 1995, 31 March 1996 and 30 March 1997; and
- the unaudited management accounts of Hellaby for the period ended 31 March 1996 and the year ended 30 March 1997.

The management accounts of Redworth and Hellaby referred to above formed part of the basis of the audited accounts of Company A and Company B respectively.

During the reporting period certain central costs, interest and taxation were not allocated by Company A and Company B to Redworth and Hellaby respectively. It is not possible to identify the proportion of these charges which was attributable to Redworth and Hellaby and accordingly no information relating to these charges is shown. For the purposes of reporting on the operating profits of the Hotels under the proposed ownership of Scottish Highland Hotels plc we do not consider this information to be relevant. Similarly because it is not possible to identify all creditors specific to Redworth and Hellaby, it is not possible to show in the cash flow statement all movements in working capital.

We have examined the financial information referred to above; our examination has been carried out in accordance with the Auditing Guideline: Prospectuses and the reporting accountant.

In our opinion, the financial information gives, for the purposes of the Prospectus, a true and fair view of the consolidated operating profit and operating cash flows (excluding movements in operating creditor balances) of Redworth and Hellaby for the years ended 2 April 1995, 31 March 1996 and 30 March 1997 and of the statement of hotel assets of Redworth and Hellaby as at the dates stated.

## 1. Statement of operating profit

		<i>Year ended</i>		
	<i>Note</i>	<i>2 April 1995</i>	<i>31 March 1996</i>	<i>30 March 1997</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Turnover	5	3,158	3,776	4,795
Cost of sales		(2,347)	(3,105)	(3,548)
Hotel operating profit	5	811	671	1,247
Administrative expenses		(26)	-	(81)
Depreciation		(142)	(127)	(98)
Operating profit	6	643	544	1,068

### Notes:

- (1) During the reporting period certain central costs, interest and taxation were not allocated by Company A and Company B to Redworth and Hellaby respectively. It is not possible to identify the proportion of these charges which was attributable to Redworth and Hellaby and accordingly no information relating to these charges is shown.
- (2) Hellaby commenced trading in August 1995 and accordingly the results for the year ended 2 April 1995 relate to Redworth only and for the year ended 31 March 1996 include Hellaby's results for eight months from August 1995.

## 2. Statement of hotel assets

	<i>Note</i>	<i>2 April 1995</i>	<i>31 March 1996</i>	<i>30 March 1997</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Tangible fixed assets	8	9,357	11,497	11,487
Current assets				
Stocks	9	20	45	43
Debtors	10	273	338	365
Cash in hand and hotel floats		2	3	3
		295	386	411
Hotel assets		9,652	11,883	11,898
Liabilities and capital employed	11	9,652	11,883	11,898

Under the terms of an agreement dated 19 September 1997, Scottish Highland Hotels plc is to acquire the assets of Redworth and Hellaby with the exception of debtors and cash in hand and hotel floats. The net book value of assets not being acquired at 30 March 1997 is approximately £368,000.

**3. Statement of hotel operating cash flows (excluding movements in operating creditor balances)**

	<i>Note</i>	<i>Year ended</i>		
		<i>2 April</i>	<i>31 March</i>	<i>30 March</i>
		<i>1995</i>	<i>1996</i>	<i>1997</i>
		<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Operating profit		643	544	1,068
Depreciation on tangible fixed assets		142	127	98
(Increase)/decrease in stocks		11	(25)	2
(Increase)/decrease in debtors		(5)	(65)	(27)
Net cash inflow from operating activities (excluding movements in operating creditor balances)		791	581	1,141
Purchase of tangible fixed assets		(66)	(2,267)	(88)
		725	(1,686)	1,053
Movement in cash and hotel floats		-	(1)	-
Movement in creditors including inter-company funding balances and operating creditors		725	(1,687)	1,053

**4. Accounting policies**

**4.1 Basis of accounting**

The financial information is prepared in accordance with applicable accounting standards under the historical cost convention.

**4.2 Tangible assets**

Freehold properties and all other fixed assets are stated at cost.

**4.3 Depreciation**

As freehold properties are continually maintained in a sound state of repair it is considered that the lives and residual values of these properties are such that their depreciation is not significant. As such no depreciation is provided on freehold land and buildings.

Depreciation is provided on other fixed assets at rates calculated to write off the cost less estimated residual value of each asset on a straight line basis over its expected useful life as follows:

Soft furnishings	- 5 years
Computer and electrical equipment	- 5 years
Office equipment	- 5 years
Other fixtures, fittings and equipment	- 15 years

A base stock of operating assets is held within fixtures, fittings and equipment and is not depreciated. The cost of replacement of operating assets is charged against profits in the year in which it is incurred.

**4.4 Stocks**

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

**4.5 Leasing**

Assets held under finance leases and similar hire purchase agreements are capitalised in the balance sheet and are depreciated over their useful lives.

The interest element of the lease and hire purchase payments is charged to the profit and loss account over the period of the agreements.

Rentals paid under operating leases are charged to the profit and loss account evenly over the period of the leases.

#### 4.6 Turnover

Turnover represents the invoiced amount of goods sold and services provided within the UK, stated net of value added tax. The turnover and pre-tax profit relate to the one continuing activity, that of hoteliers.

#### 5. Analysis of results by hotel

	<i>Year ended</i>		
	<i>2 April 1995 £'000</i>	<i>31 March 1996 £'000</i>	<i>30 March 1997 £'000</i>
Turnover			
Redworth Hall	3,158	3,320	3,554
Hellaby Hall	-	456	1,241
	<u>3,158</u>	<u>3,776</u>	<u>4,795</u>
Hotel operating profit/(loss)			
Redworth Hall	811	921	1,076
Hellaby Hall	-	(250)	171
	<u>811</u>	<u>671</u>	<u>1,247</u>

#### 6. Operating profit

	<i>Year ended</i>		
	<i>2 April 1995 £'000</i>	<i>31 March 1996 £'000</i>	<i>30 March 1997 £'000</i>
Operating profit is stated after charging:			
Depreciation	142	127	98
Staff costs (note 7)	<u>926</u>	<u>1,277</u>	<u>1,447</u>

#### 7. Employee remuneration

	<i>Year ended</i>		
	<i>2 April 1995 £'000</i>	<i>31 March 1996 £'000</i>	<i>30 March 1997 £'000</i>
Staff costs			
Wages and salaries (including social security costs)	919	1,255	1,420
Other pension costs	<u>7</u>	<u>22</u>	<u>27</u>
	<u>926</u>	<u>1,277</u>	<u>1,447</u>

## 8. Tangible fixed assets

	<i>Freehold land and buildings £'000</i>	<i>Fixtures, fittings and equipment £'000</i>	<i>Total £'000</i>
<i>Cost</i>			
At 31 March 1994	8,263	1,637	9,900
Additions	2	64	66
At 2 April 1995	8,265	1,701	9,966
Additions	2,027	240	2,267
At 31 March 1996	10,292	1,941	12,233
Additions	35	53	88
At 30 March 1997	10,327	1,994	12,321
<i>Depreciation</i>			
At 31 March 1994	-	467	467
Charge for year	-	142	142
At 2 April 1995	-	609	609
Charge for year	-	127	127
At 31 March 1996	-	736	736
Charge for year	-	98	98
At 30 March 1997	-	834	834
<i>Net book value</i>			
At 2 April 1995	8,265	1,092	9,357
At 31 March 1996	10,292	1,205	11,497
At 30 March 1997	10,327	1,160	11,487

## 9. Stocks

	<i>2 April 1995 £'000</i>	<i>31 March 1996 £'000</i>	<i>30 March 1997 £'000</i>
Goods for resale and consumables	20	45	43

## 10. Debtors

	<i>2 April 1995 £'000</i>	<i>31 March 1996 £'000</i>	<i>30 March 1997 £'000</i>
Trade debtors	230	260	252
Other debtors	18	27	35
Prepayments and accrued income	25	51	78
	273	338	365



# **11. Movement in liabilities and capital employed**

*Changes during the period were as follows:*

	<i>2 April 1995 £'000</i>	<i>31 March 1996 £'000</i>	<i>30 March 1997 £'000</i>
Opening liabilities and capital employed	9,906	9,652	11,883
Movement in period	(254)	2,231	15
Closing liabilities and capital employed	<u>9,652</u>	<u>11,883</u>	<u>11,898</u>

Yours faithfully

KPMG Audit Plc

## PART V

### Pro Forma Statement of Net Assets of the Enlarged Group

#### Basis of preparation

The pro forma financial information set out below has been prepared to illustrate the effect on the net assets of Scottish Highland Hotels of the Acquisition and Placing and Open Offer as if the Acquisition and Placing and Open Offer had occurred at 30 April 1997. As indicated above, the pro forma financial information has been prepared for illustrative purposes only. Because of its nature it cannot give a true picture of the financial position of the Enlarged Group which would have been reported if the Acquisition and Placing and Open Offer had occurred at 30 April 1997. The pro forma statement of net assets is based on the unaudited interim consolidated accounts of Scottish Highland Hotels for the six months ended 30 April 1997 contained in Part VII of this document and the Accountants' Report in Part IV of this document adjusted for the matters referred to in notes 1 to 5 below.

	<i>Scottish Highland Hotels Group £'000</i>	<i>Hotels £'000</i>	<i>Adjustment £'000</i>	<i>Pro forma £'000</i>
<b>Fixed assets</b>				
Tangible assets	37,182	11,487	1,013	49,682
<b>Current assets</b>				
Stocks	193	43	7	243
Debtors	1,044	365	(365)	1,044
Cash at bank and in hand	20	3	(3)	20
	1,257	411	(361)	1,307
<b>Creditors: amounts falling due within one year</b>	(4,331)	-	(1,605)	(5,936)
<b>Net current (liabilities)/assets</b>	(3,074)	411	(1,966)	(4629)
Total assets less current liabilities	34,108	11,898	(953)	45,053
<b>Creditors: amounts falling due after more than one year</b>	(10,070)	-	(5,000)	(15,070)
Provision for liabilities and charges	(935)	-	-	(935)
<b>Net assets</b>	23,103	11,898	(5,953)	29,048
<b>Net debt</b>	(11,084)	-	(6,605)	(17,689)

#### Notes:

1. The proceeds of the Placing and Open Offer of approximately £6.57 million (net of expenses) will be used to assist the funding of the cash consideration for the Acquisition of £12.825 million plus expenses of £0.3 million plus approximately £50,000 in respect of stocks resulting in a net cash outflow of £6.605 million in respect of the Acquisition.
2. Tangible assets have been adjusted to reflect the valuation of the Hotels included in Part III of this document.
3. Debtors and cash have been excluded as they are not to be acquired by Scottish Highland Hotels in terms of the Acquisition Agreement.
4. Net debt is based on the unaudited interim consolidated accounts of Scottish Highland Hotels contained in Part VII of this document and has been adjusted to reflect the increase in bank borrowings as a result of the Acquisition.
5. No account has been taken of any profit or loss of the Scottish Highland Hotels Group or the Hotels since 30 April 1997 or 30 March 1997 respectively.

The following is a letter from KPMG Audit Plc in connection with the Pro Forma Statement of Net Assets of the Enlarged Group:

The Directors  
Scottish Highland Hotels plc  
Regent Court  
70 West Regent Street  
Glasgow G2 2QZ

The Directors  
Bell Lawrie White & Co.  
(a division of Brewin Dolphin Bell Lawrie Limited)  
48 St Vincent Street  
Glasgow G2 5TS



KPMG Audit Plc  
24 Blythswood Square  
Glasgow  
G2 4QS

19 September 1997

Dear Sirs

**Scottish Highland Hotels plc**

We have reviewed the calculations and basis of preparation of the pro forma statement of net assets ("the pro forma statement") of the Scottish Highland Hotels Group and the Hotels ("the Enlarged Group") for which the Directors of Scottish Highland Hotels plc are solely responsible. The pro forma statement, which has been prepared for illustrative purposes only, is set out in Part V of the Prospectus dated 19 September 1997.

In our opinion:

- the pro forma statement has been properly compiled on the basis of preparation set out therein;
- such basis is consistent with the accounting policies of Scottish Highland Hotels plc; and
- the adjustments are appropriate for the purposes of the pro forma statement as disclosed pursuant to paragraph 12.29 of the Listing Rules.

Yours faithfully

KPMG Audit Plc

## PART VI

### Summary of the Acquisition Agreement

By an Agreement dated 19 September 1997 among the Company and Wiggins Group plc ("Wiggins") and certain of its subsidiaries, the Company has agreed to purchase Redworth Hall Hotel and Hellaby Hall Hotel, together in each case with the goodwill of the businesses carried on therefrom and certain assets relating thereto, for an aggregate cash consideration of £12.825 million. In addition, the Company has agreed to purchase certain stocks at the Hotels at agreed valuation.

The Acquisition Agreement is conditional, inter alia, upon the passing of ordinary resolutions at general meetings of each of Wiggins and the Company and on the admission of the New Ordinary Shares to the Official List becoming effective.

Wiggins has granted certain warranties to the Company and has also given certain undertakings to the Company relating to the conduct of the business of the Hotels pending completion of the Acquisition.

If Wiggins or its directors refuse to give or withdraw their recommendation to shareholders of the transaction provided for in the Acquisition Agreement ("the Disposal") or if the ordinary resolution to approve the Disposal ("the Disposal Resolution") is not put to an extraordinary general meeting of Wiggins for any reason before 12 noon on 17 October 1997 or if the Disposal Resolution is defeated the Company may terminate the Acquisition Agreement, whereupon Wiggins shall be liable to pay the Company's costs in connection with the Acquisition and the Placing and Open Offer.

If the Company or the Directors refuse to give or withdraw their recommendation to Shareholders of the Acquisition or if the ordinary resolution set out at the end of this document ("the Purchase Resolution") is not put to the Extraordinary General Meeting for any reason before 12 noon on 17 October 1997 or if the Purchase Resolution is defeated or if the Placing Agreement does not become unconditional (other than in respect of the conditions relating to the Acquisition Agreement and the Disposal Resolution) before 5.00 p.m. on 31 October 1997, Wiggins may terminate the Acquisition Agreement, whereupon the Company shall be liable to pay Wiggins' costs in connection with the Acquisition.

## **PART VII**

### **Interim Results of the Scottish Highland Hotels Group**

The following is the text of the unaudited interim results of the Group for the six months ended 30 April 1997 announced on 9 June 1997:

#### **Chairman's statement**

During the half year, good progress was achieved towards the targets set by the board for the year as a whole; additional equity capital was raised to strengthen the balance sheet and facilitate expansion; the ordinary share capital was successfully listed on The London Stock Exchange; record half year profits and earnings were achieved; and forward bookings for the second half are strong.

#### **Results**

Turnover rose 1.4 per cent. on a like for like basis to a record £7.38 million in the seasonally quieter six months to 30 April 1997. Hotel operating profit reached £1.72 million, up 3.4 per cent. and operating profit £1.22 million, up 2.6 per cent. This is most encouraging at this stage of the year set against a change in the pattern of refurbishment expenditure designed to maximise revenues in the seasonally busier second six months.

Profit before taxation was over 2½ times higher at £0.75 million and after a tax charge of 16.8 per cent., fully diluted earnings per share rose 86 per cent. to 2.6 pence.

#### **Financial position**

At the last year end, net assets amounted to £14.3 million and net indebtedness to £19.8 million, a balance sheet gearing ratio of 138 per cent. Approximately £8.5 million of new equity capital was raised in November 1996, and this, combined with net cash inflows from trading, resulted in net assets increasing £23.1 million and net indebtedness reducing to £11.1 million as at 30 April 1997. This represents a much healthier balance sheet gearing ratio of 48 per cent.

#### **Trading and operations**

Room yield rose 3.2 per cent. to £30.53 per room and achieved room rate 5.7 per cent. to £46.41 per room, as a result of increased pricing. Occupancy was slightly lower at 65.8 per cent., partly as a result of concentrating room refurbishment in the first half.

The year's capital expenditure programme was mostly completed in the first six months, with a total of £632,000 spent principally on room refurbishment and restaurant re-theming. This resulted in the temporary closure of restaurants at three hotels and in bedrooms being out of service but as a result of this programme of expenditure, the group should enjoy uninterrupted trading throughout its hotels in the second half. Similarly, some maintenance expenditure was brought forward to the first six months.

#### **Dividends**

At the time of listing, the board indicated that it intended to pay or recommend dividends twice yearly, split approximately one third interim and two thirds final, and that, had the ordinary shares been listed throughout last year, the board would have paid or recommended total dividends of 3.0 pence (net) per share.

In view of the good half year performance, and more particularly the encouraging outlook for the remainder of the year, the board has resolved to pay an interim dividend of 1.2 pence (net) per ordinary share, 20 per cent. higher than last year's indicative interim. The dividend payment date has been brought forward this year to 1 July 1997 with the dividend being paid to shareholders on the register on 20 June 1997.

The fixed dividend of 5.5 per cent. (net) on the redeemable preference shares has been paid in respect of the six months to 30 April 1997.

#### **Outlook**

Trading since the half year end has been good, with an improving sales performance and margins continuing to strengthen on last year's healthy levels. Throughout the group, forward bookings are usefully ahead of last

year. The Open Championship commences at Troon next month, and this will give a helpful extra boost to sales.

As a result of bringing forward capital and maintenance expenditure to the first half, the group will be able to trade uninterrupted during the busier second half. We therefore remain confident of producing a strong performance for the year as a whole.

**Hamish Grossart**  
Chairman

9 June 1997

**Group profit and loss account**  
for the six months ended 30 April 1997

	<i>6 months ended 30 April 1997 £'000</i>	<i>6 months ended 30 April 1996 £'000</i>	<i>Year ended 31 October 1996 £'000</i>
<b>Turnover</b>	7,382	7,282	16,604
Cost of sales	(5,662)	(5,619)	(11,593)
<b>Hotel operating profit</b>	1,720	1,663	5,011
Administrative expenses	(283)	(274)	(671)
Depreciation	(216)	(199)	(408)
<b>Operating profit</b>	1,221	1,190	3,932
Interest	(472)	(915)	(1,800)
<b>Profit on ordinary activities before taxation</b>	749	275	2,132
Taxation	(126)	(40)	(359)
<b>Profit on ordinary activities after taxation</b>	623	235	1,773
Dividends - equity	(292)	-	(122)
- non equity	(28)	-	-
<b>Retained profit for the financial period</b>	303	235	1,651
<b>Earnings per ordinary share</b>	2.6p	2.0p	14.8p
Dilution effect of share options	-	(0.6p)	(4.5p)
<b>Fully diluted earnings per ordinary share on adjusted share capital</b>	2.6p	1.4p	10.3p

**Group Balance Sheet**  
at 30 April 1997

	<i>30 April 1997 £'000</i>	<i>30 April 1996 £'000</i>	<i>31 October 1996 £'000</i>
<b>Fixed assets</b>			
Tangible assets	37,182	36,478	36,768
<b>Current assets</b>			
Stocks	193	196	188
Debtors	1,044	1,079	1,473
Cast at bank and in hand	20	20	20
	1,257	1,295	1,681
<b>Creditors: amounts falling due within one year</b>	(4,331)	(6,078)	(5,116)
<b>Net current liabilities</b>	(3,074)	(4,783)	(3,435)
<b>Total assets less current liabilities</b>	34,108	31,695	33,333
<b>Creditors: amounts falling due after more than one year</b>	(10,070)	(18,050)	(18,060)
<b>Provision for liabilities and charges</b>	(935)	(721)	(933)
<b>Net assets</b>	23,103	12,924	14,340
<b>Capital and reserves</b>			
Called up share capital	2,218	1,300	1,300
Share premium account	8,285	743	743
Revaluation reserve	11,208	11,208	11,208
Capital reserve	180	180	180
Capital redemption reserve	15	15	15
Profit and loss account	1,197	(522)	894
	23,103	12,924	14,340
<b>Shareholders' funds</b>			
Equity	22,103	11,924	13,340
Non-equity	1,000	1,000	1,000
	23,103	12,924	14,340

**Group Cash Flow Statement**  
for the six months ended 30 April 1997

	<i>6 months ended 30 April 1997 £'000</i>	<i>6 months ended 30 April 1996 £'000 (restated: note 5)</i>	<i>Year ended 31 October 1996 £'000</i>
<b>Cash inflow from operating activities</b>	<b>1,465</b>	<b>891</b>	<b>4,347</b>
<b>Returns on investments and servicing of finance</b>			
Interest paid	(422)	(1,011)	(1,888)
<b>Taxation paid</b>	<b>(30)</b>	<b>-</b>	<b>-</b>
<b>Capital expenditure</b>			
Purchase of tangible fixed assets	(632)	(104)	(642)
Sale of tangible fixed assets	-	115	194
<b>Net cash (outflow)/inflow for capital expenditure</b>	<b>(632)</b>	<b>11</b>	<b>(448)</b>
<b>Equity dividends paid</b>	<b>(122)</b>	<b>-</b>	<b>-</b>
<b>Cash inflow/(outflow) before financing</b>	<b>259</b>	<b>(109)</b>	<b>2,011</b>
<b>Financing</b>			
Issue of ordinary share capital	8,460	-	-
Decrease in debt and lease financing	(8,000)	(405)	(405)
<b>Increase/(decrease) in cash in the period</b>	<b>719</b>	<b>(514)</b>	<b>1,606</b>

**Reconciliation of net cash flow to movement in net debt**

<b>Increase/(decrease) in cash in the period</b>	<b>719</b>	<b>(514)</b>	<b>1,606</b>
Cash outflow from decrease in debt and lease financing	8,000	405	405
<b>Movement in net debt in the period</b>	<b>8,719</b>	<b>(109)</b>	<b>2,011</b>
Net debt at start of period	(19,803)	(21,814)	(21,814)
<b>Net debt at end of period</b>	<b>(11,084)</b>	<b>(21,923)</b>	<b>(19,803)</b>



**Other primary financial statements**  
for the six months ended 30 April 1997

**Statement of total recognised gains and losses**

	<i>6 months ended 30 April 1997 £'000</i>	<i>6 months ended 30 April 1996 £'000</i>	<i>Year ended 31 October 1996 £'000</i>
Profit for the financial period	623	235	1,773
Unrealised surplus on revaluation of properties	-	2,745	2,745
	<u>623</u>	<u>2,980</u>	<u>4,518</u>
Prior year adjustments	-	(533)	(533)
Total recognised gains relating to the period	<u>623</u>	<u>2,447</u>	<u>3,985</u>

**Reconciliation of movements in shareholders' funds**

	<i>6 months ended 30 April 1997 £'000</i>	<i>6 months ended 30 April 1996 £'000</i>	<i>Year ended 31 October 1996 £'000</i>
Profit for the financial period	623	235	1,773
Dividends	(320)	-	(122)
	<u>303</u>	<u>235</u>	<u>1,651</u>
Surplus arising on revaluation	-	2,745	2,745
New share capital issued	8,460	-	-
	<u>8,763</u>	<u>2,980</u>	<u>4,396</u>
Opening shareholders' funds	<u>14,340</u>	<u>9,944</u>	<u>9,944</u>
Closing shareholders' funds	<u>23,103</u>	<u>12,924</u>	<u>14,340</u>

**Notes to the Interim Statement**

for the six months ended 30 April 1997

**1. Basis of preparation**

The interim statement for the six months ended 30 April 1997 has been prepared on the basis of the accounting policies as set out in the financial statements for the year ended 31 October 1996 and was approved by the directors on 9 June 1997. The financial information contained in this interim report does not constitute statutory accounts for the group for the relevant periods. The interim report is unaudited but has been reviewed by the auditors and their report to the directors is set out on page 36. The comparative figures for the financial year ended 31 October 1996 are based on the company's statutory accounts for that financial year. Those accounts have been reported on by the company's auditors and delivered to the Registrar of Companies. The report of the auditors was unqualified and did not contain a statement under section 237(2) or (3) of the Companies Act 1985.

The comparative figures for the six months ended 30 April 1996 are based on the accounts prepared for the purposes of the prospectus relating to the group issued in accordance with the listing rules made under section 142 of the Financial Services Act 1986. These accounts were audited and the report of the auditors was unqualified.

## 2. Taxation

The tax charge for the period is based on an effective tax rate of 16.8% (1996: 14.5%) which is likely to apply to the profit on ordinary activities for the year ending 31 October 1997.

## 3. Earnings per share

Earnings per share is calculated as follows:

	<i>6 months ended 30 April 1997</i>	<i>6 months ended 30 April 1996</i>	<i>Year ended 31 October 1996</i>
Profit for the period	£623,000	£235,000	£1,773,000
Weighted average number of shares in issue	23,986,009	12,003,560	12,003,560
Earnings per share	2.6p	2.0p	14.8p

Fully diluted earnings per share based on the full exercise of all outstanding share options at 11 November 1996 and the subsequent capital reorganisation is as follows:

Profit for the period	£623,000	£254,000	£1,811,000
Adjusted number of shares	23,986,009	17,637,280	17,637,280
Adjusted earnings per share	2.6p	1.4p	10.3p

Fully diluted earnings per share at 30 April 1997 based on the exercise of the new share options is not shown as the dilution involved is immaterial.

## 4. Share capital

Ordinary shares of 5p each	<i>Number</i>
At 31 October 1996 and 30 April 1996	300,089
Exercise of options	140,843
	<hr/>
	440,932
Capitalisation issue (1 for 1)	440,932
	<hr/>
	881,864
	<hr/>
Sub-division of £1 shares into 5p shares	17,637,280
Issue of new shares of 5p each at 11 November 1996	6,720,000
	<hr/>
Ordinary shares of 5p each	24,357,280
	<hr/>
Redeemable preference shares of £1 each	1,000,000
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## 5. Cash flow statement

The Group has adopted the revised FRS1 presentation for the cash flow statement and the 1996 interim cash flow statement has been restated accordingly.

Reconciliation of operating profit to cash inflow from operating activities:

	<i>6 months ended 30 April 1997 £'000</i>	<i>6 months ended 30 April 1996 £'000</i>	<i>Year ended 31 October 1996 £'000</i>
Operating profit	1,221	1,190	3,932
Depreciation charge	216	199	408
Grant provision release	(35)	(35)	(70)
Loss/(gain) on sale of tangible fixed assets	2	-	(40)
(Increase)/decrease in stocks	(5)	(1)	7
Decrease/(increase) in debtors	429	204	(190)
(Decrease)/increase in creditors	(363)	(666)	300
Cash inflow from operating activities	<u>1,465</u>	<u>891</u>	<u>4,347</u>

## 6. Interim report

Copies of the interim report have been sent to shareholders. Further copies are available from the company's registered office at Regent Court, 70 West Regent Street, Glasgow G2 2QZ.

## **Review report by KPMG Audit Plc to Scottish Highland Hotels plc**

We have reviewed the interim financial information for the six months ended 30 April 1997 set out on pages 30 to 35 which is the responsibility of, and has been approved by, the directors. Our responsibility is to report on the results of our review.

Our review was carried out having regard to the Bulletin *Review of Interim Financial Information*, issued by the Auditing Practices Board. This review consisted principally of applying analytical procedures to the underlying financial data, assessing whether accounting policies have been consistently applied, and making enquiries of group management responsible for financial and accounting matters. The review was substantially less in scope than an audit performed in accordance with Auditing Standards and accordingly we do not express an audit opinion on the interim financial information.

On the basis of our review:

- in our opinion the interim financial information has been prepared using accounting policies consistent with those adopted by Scottish Highland Hotels plc in its financial statements for the year ended 31 October 1996; and
- we are not aware of any material modifications that should be made to the interim financial information as presented.

**KPMG Audit Plc**  
Chartered Accountants

24 Blythswood Square  
Glasgow G2 4QS

## Part VIII

### Additional Information

#### 1. Responsibilities

The Directors of the Company, whose names appear in paragraph 2 below, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Directors (who have taken all reasonable care to ensure that such is the case) the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

#### 2. Directors

The Directors and their principal functions are as follows:

Hamish McLeod Grossart	Non-Executive Chairman
William Alasdair Cameron	Deputy Chairman and Finance Director
Paul Murray-Smith	Managing Director
Franco Galgani	Marketing Director
Tudor Griffith Davies	Non-Executive Director
Brian Maxwell Simmers	Non-Executive Director

The business address of the Directors is Regent Court, 70 West Regent Street, Glasgow G2 2QZ.

#### 3. Registered Office

The Company's registered office is Regent Court, 70 West Regent Street, Glasgow G2 2QZ.

#### 4. Share Capital

- (a) The authorised and issued share capital of the Company as it is at present and as it will be following the Placing and Open Offer is as follows:-

	<i>At Present</i>		<i>Following the Placing and Open Offer</i>	
	<i>No.</i>	<i>£</i>	<i>No.</i>	<i>£</i>
Ordinary Shares of 5p				
- Authorised	40,000,000	2,000,000	40,000,000	2,000,000
- Issued and fully paid	24,357,280	1,217,864	29,228,736	1,461,437
	<i>At Present</i>		<i>Proposed</i>	
	<i>No.</i>	<i>£</i>	<i>No.</i>	<i>£</i>
Redeemable Preference Shares of £1				
- Authorised	1,000,000	1,000,000	1,000,000	1,000,000
- Issued and fully paid	1,000,000	1,000,000	1,000,000	1,000,000

- (b) Pursuant to an ordinary resolution of the Company passed on 7 March 1997 it was resolved that in substitution for any existing authority under Section 80 of the Act, but without prejudice to the exercise of any such authority prior to the date of passing of the resolution, the Directors be authorised generally and unconditionally in accordance with Section 80 of the Act to exercise all the powers of the Company to allot relevant securities (within the meaning of Section 80(2) of the Act) up to an aggregate nominal amount of £418,455 (to include the Company's obligation to issue shares in respect of share options) provided that such authority shall expire on the earlier to occur of 15 months after the passing of the resolution or on the conclusion of the Annual General Meeting of the Company to be held in 1998 and the Company may before such expiry make an offer, agreement or other arrangement which would or might require any such relevant securities to be allotted after such expiry and the Directors may allot such relevant securities pursuant to any such offer, agreement or other arrangement as if the authority hereby conferred had not expired.
- (c) Pursuant to a special resolution of the Company passed on 7 March 1997 it was resolved that in substitution for, and to the exclusion of, any existing authority under Section 95 of the Act, the

Directors were generally empowered pursuant to Section 95 of the Act to allot equity securities (within the meaning of Section 94(2) of the Act) of the Company for cash pursuant to the authority conferred by the resolution outlined in paragraph 4(b) above as if Section 89(1) of the Act did not apply to any such allotment, provided that the power shall expire on the earlier to occur of 15 months after the passing of the resolution or on the conclusion of the Annual General Meeting of the Company to be held in 1998 (save that the Company may prior to such expiry make any offer, agreement or other arrangement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities pursuant to any such offer, agreement or other arrangement as if the power hereby conferred had not expired) and such allotment shall be limited to:

- (i) any allotment of equity securities where such securities have been offered to the holders of Ordinary Shares (whether by way of rights issue, open offer or otherwise) in proportion (as nearly as may be) to their respective holdings of Ordinary Shares held but subject to the Directors having the right to make such exclusion or other arrangements in connection with such offer as they deem necessary or expedient to deal with fractional entitlements and legal or practical problems under the laws of any territory or the requirements of any regulatory body or stock exchange or otherwise howsoever; and
  - (ii) any other allotment (otherwise than pursuant to sub-paragraph (i) of this paragraph 4(c)) of equity securities up to an aggregate amount in nominal value of £60,893.
- (d) Following the Placing and Open Offer 10,771,264 Ordinary Shares in the enlarged share capital of the Company will remain unissued of which 385,074 Ordinary Shares are reserved for issue in connection with the exercise of options under the Schemes.
- (e) The Ordinary Shares are in registered form and may be held in uncertificated form. The existing issued Ordinary Shares are listed on the London Stock Exchange.

#### 5. Subsidiary Undertakings

The Company is the holding company of the Scottish Highland Hotels Group and has the following subsidiary undertakings, all of which are wholly owned directly:

<i>Company</i>	<i>Issued and fully paid up share capital</i>	<i>Date and country of incorporation</i>	<i>Registered number</i>	<i>Nature of business</i>
Carlton Hotel (Edinburgh) Limited	100,000 ordinary shares of £1 each and 25,000 cumulative participating preference shares of £1 each	14 September 1970 Scotland	SC47923	Hotelier
Highland Hosts Limited	6,408 ordinary shares of £5 each	29 July 1919 Scotland	SC10553	Dormant
Scottish Highland Hotels Management Services Limited	37,000 ordinary shares of £1 each	2 January 1958 Scotland	SC32775	Dormant
Stirling Highland Hotel Limited	500,000 ordinary shares of £1 each	20 June 1988 Scotland	SC111734	Hotelier
The Troon Links Hotel Company Limited	46,334 ordinary shares of £1 each and 1,000 preference shares of £5 each	24 October 1895 Scotland	SC3021	Dormant
SH Hotels (Espana) SA	2,000 ordinary shares of 1,000 pesetas each	1 July 1988 Spain	A-11086055	Non-trading

The registered office of each of the above companies is Regent Court, 70 West Regent Street, Glasgow G2 2QZ, apart from SH Hotels (Espana) SA, which has its registered office at "Mar y Sol", Carretera Nacional, 340, km 131, Urbanizacion, Sotogrande, San Roque Cadiz, Spain.

Each of the above companies operates principally in its country of incorporation. There have been no issues of shares by any of the subsidiary undertakings in the three years preceding the date of this document.

## 6. Articles of Association

The articles of association of the Company ("the Articles") were adopted pursuant to a special resolution of the Company passed on 4 October 1996. The Articles contain provisions, *inter alia*, to the following effect:

### (a) *Share rights*

Subject to the provisions of every statute and subordinate legislation thereunder for the time being in force concerning companies and affecting the Company ("the Statutes") and without prejudice to any rights attached to any existing shares, shares may be issued with such rights and restrictions as the Company may by ordinary resolution decide, or (so far as the resolution does not make specific provision) as the board of Directors of the Company from time to time ("the Board") may decide. Redeemable shares may be issued. Subject to the Articles and to the Statutes and any resolution of the Company, unissued shares are at the disposal of the Board.

The rights, privileges and restrictions attaching to the Ordinary Shares and the Redeemable Preference Shares are as follows:

#### (i) As regards income:

The holders of the Redeemable Preference Shares shall be entitled to receive a fixed cumulative preferential dividend of 5.5% per annum on the capital for the time being paid up thereon, payable half yearly in arrears on 30 April and 31 October. The holders of the Ordinary Shares shall be entitled to receive such dividend as the Company may resolve to distribute.

#### (ii) As regards capital:

On a return of assets on liquidation, the assets of the Company available for distribution amongst the members of the Company shall be applied, firstly, in paying to the holders of the Redeemable Preference Shares £1.10 for each Redeemable Preference Share held by them; secondly, in repaying to the holders of the Ordinary Shares 5p in respect of each Ordinary Share held by them; and thereafter the balance of such assets shall be distributed among the holders of the Ordinary Shares.

#### (iii) As regards redemption:

Subject to the provisions of the Statutes all of the Redeemable Preference Shares shall be redeemed automatically on 1 November 1998 or earlier at the option of the Company at £1.10 per Redeemable Preference Share or, if on that date the Company cannot comply with the provisions of the Act relating to redemption, on such later date as the Company shall first be able to comply.

### (b) *Voting rights*

Subject to the provisions of the Articles and any rights or restrictions attached to any shares, on a show of hands every holder of Ordinary Shares present in person or (being a corporation) present by a duly authorised representative shall have one vote. The holders of the Redeemable Preference Shares are not entitled to vote on any resolution (other than a resolution for the winding-up of the Company or abrogation of any of the special rights attached to such shares) unless the dividend on the Redeemable Preference Shares is 6 months or more in arrears. In respect of resolutions upon which the holders of Redeemable Preference Shares are entitled to vote, every holder of Redeemable Preference Shares who is present in person or (being a corporation) by a representative shall have one vote for each Redeemable Preference Share held.

On a poll votes may be given either personally or (if a corporation) by duly authorised representative or by proxy and each such member or representative or proxy shall have one vote for each share of which he or his appointer is the holder. A member in respect of whom an order has been made by any court having jurisdiction in matters concerning mental disorder or being minor or otherwise under any legal disability may vote, whether on a show of hands or on a poll, by his curator bonis, guardian or other authorised person and any such authorised person may, on a poll, vote by proxy.

In the case of joint holders of a share, the vote of the senior who tenders a vote on a resolution, whether in person or by proxy, shall be accepted to the exclusion of the vote(s) of the other joint holder(s) on that resolution and seniority shall be determined by the order in which the names of the holders stand in the register of members of the Company in respect of that share.

No member shall vote, either in person or by proxy, at any general meeting or at any separate meeting of holders of any class of shares in the Company unless all monies presently payable by him in respect of any share held by him have been paid, unless the Board otherwise determines, nor shall any member vote as aforesaid if he or a connected person has been given a notice under Section 212 of the Act, has failed to give the Company the information required by it within the time limit stated, is sent a further notice of disenfranchisement by the Board (a "Direction Notice") and the Direction Notice continues in force (as defined in the Articles).

(c) *Dividends and other distributions*

The Board may pay interim dividends and also any fixed rate dividends out of distributable profits if in the opinion of the Board it is justified by the profits of the Company.

The Board may withhold payment of all or part of any dividends in respect of the shares in the Company from a person if he, or any other person connected with him appearing to be interested in at least 0.25% of the issued shares in the relevant class of shares in the capital of the Company, has been given notice under Section 212 of the Act, has failed to give the Company the information thereby required within the time limit stated therein, is sent a Direction Notice and the Direction Notice continues in force.

Subject to the rights attaching to any shares issued by the Company and the terms of issue, all dividends shall be apportioned and paid proportionally to the amounts paid up on the shares (other than amounts paid up in advance of a call) during any portion or portions of the period in respect of which the dividend is paid.

Any dividend unclaimed after a period of twelve years from the date of declaration of such dividend shall be forfeited and shall revert to the Company.

The Board may, if authorised by an ordinary resolution of the Company, direct payment of a dividend by the distribution of specific assets (including further shares), instead of cash, in respect of all or part of the dividend specified by the ordinary resolution.

In a winding-up, the liquidator may, with the sanction of an extraordinary resolution of the Company, divide among the holders of the Ordinary Shares the whole or any part of the assets of the Company and/or vest the whole or any part in trustees upon such trusts for the benefit of the holders of the Ordinary Shares as the liquidator, with the sanction of an extraordinary resolution, determines.

(d) *Variation of rights*

Subject to the provisions of the Statutes, the rights attached to any class of share may only (unless otherwise provided by the terms of issue of the shares of that class) be varied with the written consent of the holders of three-fourths in nominal value of the issued shares of that class, or with the sanction of an extraordinary resolution passed at a separate meeting of the holders of the shares of that class.

The provisions of the Statutes and of the Articles relating to general meetings shall apply *mutatis mutandis* to any separate meeting, except that:-

- (i) the necessary quorum shall be at least two persons holding or representing by proxy not less than one-third in nominal amount of the issued shares of that class or, at any adjourned meeting of holders of shares of that class at which such a quorum is not present, the necessary quorum shall be one holder who is present in person or by proxy, whatever the number of shares held by him;
- (ii) any holder of shares of that class present in person or by proxy may demand a poll; and
- (iii) every holder of shares of that class shall on a poll have one vote in respect of every share of that class held by him.

(e) *Lien and forfeiture*

The Company will have a lien (enforceable by sale) on every partly-paid share for all amounts payable to the Company in respect of that share and may retain dividends and other monies payable and apply such in satisfaction of the amounts payable, whether by way of unpaid calls or other debts or liabilities



in respect of such share. The Board may call any monies unpaid on shares, and may forfeit shares on which call amounts payable under the terms of issue are not duly unpaid.

(f) *Transfer of shares*

- (i) Subject to such of the restrictions of the Articles as may be applicable or as may be permitted and approved by the London Stock Exchange a member may transfer all or any of his shares by an instrument of transfer in any usual common form or in any other form which the Board may approve. A transfer shall be executed by or on behalf of the transferor and (unless the share is fully paid) by or on behalf of the transferee and the transferor is deemed to remain the holder until the transferee's name is entered in the register. Subject to the Articles and the Uncertificated Securities Regulations 1995, a member may transfer shares held in uncertificated form by means of a relevant system, including CREST.
- (ii) The Board may refuse to register the transfer of a share which is not fully paid without giving any reason for so doing (but not so as to prevent dealings in shares from taking place on an open and proper basis) and it may refuse to register the transfer of a share on which the Company has a lien.
- (iii) The Board may refuse to register the transfer of a share held by a person appearing to be interested in at least 0.25% of the issued share capital of the relevant class of shares of the Company if he has been given a notice under Section 212 of the Act, has failed to give the Company the information required by it within the time limit stated, is sent a Direction Notice and the Direction Notice continues in force, unless the sale is to a *bona fide* third party whom the Board is satisfied is unconnected with the transfer.
- (iv) The Board may refuse to register the transfer of a share in certificated form unless the instrument of transfer:-
  - (aa) is lodged, duly stamped (if necessary), at the registered office of the Company, accompanied by the certificate for the shares to which it relates (where a certificate has been issued in respect of the shares) and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer;
  - (bb) is in respect of one class of share only; and
  - (cc) is in favour of not more than four transferees (except in the case of executors or trustees of a deceased member).
- (v) If the Board refuses to register a transfer it shall, within two months after the date on which the transfer was lodged, send to the transferee notice of the refusal.
- (vi) The registration of transfers of shares held in certificated form may be suspended at such times and for such periods (not exceeding thirty days in any year) as the Board may determine.
- (vii) No fee shall be charged for the registration of any instrument of transfer or other document relating to or affecting the title to any share.
- (viii) Any instrument of transfer which is registered may be retained by the Company, but any instrument of transfer which the Board refuses to register shall be returned to the person lodging it when notice of the refusal is given.

(g) *Alteration of share capital*

The Company may by ordinary resolution increase, consolidate, sub-divide or cancel its share capital. The Company may by special resolution reduce its share capital or any capital redemption reserve or share premium account or other undistributable reserve in accordance with the Statutes.

(h) *Purchase of own shares*

The Company may, subject to the Statutes and the rights of the holders of any class of shares, purchase its own shares. Any purchases must be authorised by a special resolution of the Company.

## 7. Directors' and others' interests

- (a) As at the date of this document, the interests of the Directors (all of which are beneficial) in the share capital of the Company which have been notified to the Company by each Director pursuant to Sections 324 and 328 of the Act and which are required to be entered in the register maintained pursuant to Section 325 of the Act or which are interests of a connected person of a Director which would require to be disclosed if that person were a Director, and the existence of which is known to or could, with reasonable diligence, be ascertained by that Director, are, and will be immediately following the Placing and Open Offer, as follows:-

<i>Directors</i>	<i>No. of Ordinary Shares before Placing and Open Offer</i>	<i>Percentage of Ordinary Share capital before Placing and Open Offer</i>	<i>*No. of Ordinary Shares following Placing and Open Offer</i>	<i>*Percentage of Ordinary Share capital following Placing and Open Offer</i>
H M Grossart	400,000	1.64	400,000	1.37
W A Cameron	492,360	2.02	492,360	1.68
P Murray-Smith	492,360	2.02	492,360	1.68
F Galgani	90,000	0.37	90,000	0.31
T G Davies	80,000	0.33	80,000	0.27
B M Simmers	926,960	3.81	926,960	3.17

\*This assumes that the Directors do not apply for their entitlements under the Open Offer.

Apart from B M Simmers who has irrevocably undertaken not to take up his entitlement under the Open Offer, none of the Directors has yet decided whether to take up their entitlements under the Open Offer.

Petronius Limited (a company connected with H M Grossart) which holds all of H M Grossart's interests in the Company and Messrs Cameron, Murray-Smith, Galgani, Davies and Simmers have undertaken in favour of the Company and Bell Lawrie White & Co. not to dispose of their interests in any of the Ordinary Shares held by them immediately following Flotation (subject to certain exceptions) until 11 November 1997.

None of the Directors have a beneficial or non-beneficial interest in any of the Redeemable Preference Shares.

- (b) Details of options over Ordinary Shares granted to the Directors are as follows:

- (i) Messrs. W A Cameron, P Murray-Smith and F Galgani have each been granted options to subscribe for 21,739 Ordinary Shares under the Company Share Option Plan, exercisable between November 1999 and November 2006, at a price of 138p per share.
  - (ii) Messrs. W A Cameron and P Murray-Smith have each been granted options to subscribe for 38,261 Ordinary Shares and Mr F Galgani has been granted an option to subscribe for 28,261 Ordinary Shares, in each case under the Executive Share Option Scheme, exercisable between November 1996 and November 2003, at a price of 138p per share.
  - (iii) Messrs. W A Cameron, P Murray-Smith and F Galgani have each been granted options to subscribe for 11,500 Ordinary Shares under the Company's Savings Related Scheme, exercisable between April 2002 and October 2004, at a price of 150p per share.
- (c) Save as disclosed in sub-paragraphs (a) and (b) above, none of the Directors has any interest (as described in sub-paragraph (a) above) directly or indirectly in the share capital of the Company or any of its subsidiaries.

- (d) As at the date of this document, and in addition to the interests of B M Simmers disclosed above, the Company had been notified (or was otherwise aware) of the following interests which represent 3% or more of the issued Ordinary Share capital of the Company immediately prior to the Placing and Open Offer:-

	<i>No. of Ordinary Shares</i>	<i>Percentage of Ordinary Share capital</i>
Dunedin Enterprise Investment Trust PLC	3,760,000	15.44
Edinburgh Fund Managers PLC	1,893,720	7.77
Invesco Investment Management	1,570,000	6.45
Scottish Amicable Investment Managers Ltd	1,368,500	5.62
Mercury Asset Management Ltd	1,250,000	5.13
HSBC Asset Management	1,222,700	5.02
The Equitable Life Assurance Society	930,000	3.82
Legal & General	910,000	3.74
GUD Pension Trustee Ltd	886,058	3.64
Norwich Union Investment Mangement Ltd	821,760	3.37

- (e) As at the date of this document, and in addition to the interest of B M Simmers disclosed above, the Company had been notified (or was otherwise aware) of the following interests which will represent 3% or more of the issued Ordinary Share capital of the Company immediately following the Placing and Open Offer:-

	<i>No. of Ordinary Shares</i>	<i>Percentage of Ordinary Share capital</i>
Dunedin Enterprise Investment Trust PLC	3,760,000	12.86
Edinburgh Fund Managers PLC	1,893,720	6.48
Invesco Investment Management	1,570,000	5.37
Scottish Amicable Investment Managers Ltd	1,368,500	4.68
Mercury Asset Management Ltd	1,250,000	4.28
HSBC Asset Management	1,222,700	4.18
The Equitable Life Assurance Society	930,000	3.18
Legal & General	910,000	3.11
GUD Pension Trustee Ltd	886,058	3.03

- (f) As at the date of this document the Company had been notified (or was otherwise aware) of the following interests which represent 3% or more of the issued Redeemable Preference Shares:-

	<i>No. of Preference Shares</i>	<i>Percentage of Preference Share capital</i>
Dunedin Enterprise Investment Trust PLC	866,666	86.67
EFT Group plc	133,334	13.33

- (g) Save as disclosed in this paragraph, the Company does not know of any person who, directly or indirectly, is interested in 3% or more of any class of the Company's issued share capital, or of any other person who, directly or indirectly, jointly or severally, exercises or could exercise control over the Company.
- (h) Save for the interests referred to in this paragraph and save for an aggregate of 180,574 Ordinary Shares under option pursuant to the Schemes, no share capital of the Company or any of its subsidiaries is under option or agreed conditionally or unconditionally to be put under option.
- (i) No Director has or has had any interest in any transaction which is or was unusual in its nature or conditions or significant to the business of the Scottish Highland Hotels Group during the current or immediately preceding financial year or was effected by any member of the Scottish Highland Hotels Group during any earlier financial year and which remains in any respect outstanding or unperformed.

- (j) There are no outstanding loans granted by the Company or any member of the Scottish Highland Hotels Group for the benefit of any Director. No guarantee has been provided by any member of the Scottish Highland Hotels Group for the benefit of any of the Directors.

#### **8. Directors' service contracts and remuneration**

- (a) The following are particulars of the Directors' service contracts:-

- (i) On 28 October 1996 Alasdair Cameron entered into a service agreement with the Company which took effect from 29 October 1996. The service agreement is terminable by either party giving to the other not less than one year's notice. A salary of £70,000 per annum is payable under the agreement. During the term of the agreement, Mr Cameron is entitled to receive bonuses as specified by the Remuneration Committee of the Board of Directors, the use of a company car, private medical insurance for himself and his family and 25 days holiday in each year. Mr Cameron participates in the final salary pension scheme operated by the Scottish Highland Hotels Group, to a maximum of the base salary of £70,000 per annum payable from 29 October 1996. Mr Cameron is also entitled to receive an additional pension contribution of 15% of the amount by which his salary in the future exceeds £70,000 per annum, payable by the Company on a money purchase basis.
- (ii) On 28 October 1996 Paul Murray-Smith entered into a service agreement with the Company which took effect from 29 October 1996. The service agreement is terminable by either party giving to the other not less than one year's notice. A salary of £70,000 per annum is payable under the agreement. During the term of the agreement, Mr Murray-Smith is entitled to receive bonuses as specified by the Remuneration Committee of the Board of Directors, the use of a company car, private medical insurance for himself and his family and 25 days holiday in each year. Mr Murray-Smith participates in the final salary pension scheme operated by the Scottish Highland Hotels Group, to a maximum of the base salary of £70,000 per annum payable from 29 October 1996. Mr Murray-Smith is also entitled to receive an additional pension contribution of 15% of the amount by which his salary in the future exceeds £70,000 per annum, payable by the Company on a money purchase basis.
- (iii) On 28 October 1996 Franco Galgani entered into a service agreement with the Company which took effect from 29 October 1996. The service agreement is terminable by either party giving to the other not less than one year's notice. A salary of £60,000 per annum is payable under the agreement. During the term of the agreement, Mr Galgani is entitled to receive bonuses as specified by the Remuneration Committee of the Board of Directors, the use of a company car, private medical insurance for himself and his family and 25 days holiday in each year. Mr Galgani participates in the final salary pension scheme operated by the Scottish Highland Hotels Group, to a maximum of the base salary of £60,000 per annum payable from 29 October 1996. Mr Galgani is also entitled to receive an additional pension contribution of 15% of the amount by which his salary in the future exceeds £60,000 per annum, payable by the Company on a money purchase basis.

- (b) The total aggregate remuneration paid and benefits in kind granted to the Directors during the last completed financial year (being the financial year ended 31 October 1996) was £372,000.

#### **9. Material contracts**

- (a) The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Scottish Highland Hotels Group within the 2 years immediately preceding the date of this document and are, or may be, material:-

- (i) a Placing Agreement among the Company, the directors of the Company and Bell Lawrie White & Co. dated 28 October 1996 in terms of which, *inter alia*, (aa) Bell Lawrie White & Co. agreed to use reasonable endeavours to procure subscribers for 6,720,000 Ordinary Shares at 125p per share, and to the extent that it was unable to procure such subscribers to subscribe itself for such Ordinary Shares at 125p per share, and (bb) the Company and certain directors granted certain warranties, and the Company granted certain indemnities, in favour of Bell Lawrie White & Co.;

- (ii) a Placing Agreement between the Company and Bell Lawrie White & Co. dated 19 September 1997 in terms of which, *inter alia*, Bell Lawrie White & Co. has agreed, subject to certain conditions, to use reasonable endeavours to procure subscribers for the New Ordinary Shares at the Placing Price (subject to a right of recall in respect of such number of New Ordinary Shares as may be required to satisfy valid applications by Qualifying Shareholders under the Open Offer), and to the extent that it is unable to procure such subscribers to subscribe itself for the New Ordinary Shares at the Placing Price. In consideration for its services, Bell Lawrie White & Co. will receive (together with VAT, where applicable):

- (aa) a corporate stockbroking and marketing fee of £110,000; and
- (bb) a commission of 0.5 per cent. of the value of the New Ordinary Shares at the Placing Price, which commission Bell Lawrie White & Co. will pay to placees of the New Ordinary Shares.

The agreement contains certain warranties and indemnities by the Company in favour of Bell Lawrie White & Co.; and

- (iii) the Acquisition Agreement.

Save as aforesaid, no member of the Scottish Highland Hotels Group has entered into any contract (not being a contract entered into in the ordinary course of business) within the 2 years immediately preceding the date of this document which is, or may be, material.

- (b) So far as the Company is aware, save as disclosed in sub-paragraph 9(a)(iii) above there have been no contracts entered into (not being contracts entered into in the ordinary course of business) in respect of the Hotels within the 2 years immediately preceding the date of this document which are, or may be, material.

## 10. Market Prices

Set out below are the closing middle market quotations for the Ordinary Shares as derived from the Stock Exchange Daily Official List on the first dealing day of each of the 6 months prior to 18 September 1997 (the latest practicable date prior to the publication of this document) and on 18 September 1997:-

<i>Date</i> <i>1997</i>	<i>Ordinary Share Price</i>
1 April	155½p
1 May	136½p
2 June	132½p
1 July	130½p
1 August	137p
1 September	142½p
18 September	141½p

## 11. Litigation

- (a) A claim has been brought in Spain by Centro Sotogrande SA for alleged unpaid rental and for damages incurred as a result of alleged wrongful termination of a hotel lease agreement entered into by a wholly owned Spanish subsidiary of the Company, whose obligations under such hotel lease agreement the Company guaranteed. Both the Company and the Spanish subsidiary have lodged a defence to the claim and the Spanish subsidiary has counterclaimed. On the basis of legal advice received from the Company's Spanish lawyers and Maclay Murray & Spens, full provision has already been made by the Company for that part of the claim (relating to certain of the rental payments alleged to be due) for which liability may arise and for costs in connection with the claim, but otherwise the Directors are satisfied that there are no reasonable grounds upon which the remainder of the claim might be expected to succeed. Save as aforesaid, there are no legal or arbitration proceedings (nor, so far as the Directors are aware, are any such proceedings pending or threatened) by or against the Company or any of its subsidiaries which may have, or have had, during the 12 months preceding the date of this document, a significant effect on the Scottish Highland Hotels Group's financial position.
- (b) So far as the Company is aware, during the 12 months preceding the date of this document, the Hotels were not the subject of or subject to any legal or arbitration proceedings which may have or have had

a significant effect on the financial position of the Hotels nor, so far as the Company is aware, are any such proceedings pending or threatened.

## **12. Taxation**

### *Capital Gains Tax*

It is understood that the Inland Revenue takes the view in relation to Open Offers that the allotment of the New Ordinary Shares by the Company to Shareholders, up to and including a Qualifying Shareholder's *pro rata* entitlement, will amount to a reorganisation of the share capital of the Company for the purposes of United Kingdom taxation of capital gains. Accordingly, New Ordinary Shares, subscribed for pursuant to the Open Offer by a Qualifying Shareholder should be added to that Shareholder's existing shareholding so as to enlarge it at a cost equivalent to the amount subscribed pursuant to the Open Offer.

### *Stamp Duty and Stamp Duty Reserve Tax*

No stamp duty or stamp duty reserve tax should be charged on the allotment of New Ordinary Shares pursuant to the Open Offer.

### *United Kingdom Taxation on Dividends*

- (i) Under current United Kingdom tax legislation, there is no withholding tax on dividends, but whenever the Company pays a dividend it will be liable to account to the Inland Revenue for advance corporation tax ("ACT") in respect of the dividend. The rate of ACT is currently equal to one quarter of the dividend. ACT paid by the Company can be set off against its liability to mainstream corporation tax, subject to certain limits and restrictions.
- (ii) A Shareholder who is an individual resident (for tax purposes) in the United Kingdom and who receives a dividend paid by the Company will be entitled to a tax credit of an amount equal to one quarter of the dividend. The individual will be taxable on the total of the dividend and the related tax credit, which will be regarded as the top slice of the individual's income. The tax credit will, however, be treated as discharging the individual's liability to income tax in respect of the dividend, unless and except to the extent that the dividend and related tax credit are above the threshold for the higher rate of income tax, in which case the individual will, to that extent, pay tax on the dividend and related tax credit at a rate equal to the excess of the higher rate (currently 40%) over the lower rate (current 20%). If the tax credit exceeds the individual's liability to income tax on the total of the dividend and the tax credit, he may be able to claim payment of the excess.
- (iii) Subject to certain exceptions for some insurance companies with overseas business, a Shareholder that is a company resident (for tax purposes) in the United Kingdom and who received a dividend paid by the Company will be entitled to a tax credit in respect of the dividend. The Company will not be taxed on the dividend, and the dividend and related tax credit will be treated as franked investment income. The amount of the tax credit will be an amount equal to one quarter of the dividend.
- (iv) Subject as mentioned below, Shareholders who are resident (for tax purposes) in countries other than the United Kingdom may be entitled to a tax credit in respect of a dividend received from the Company and to claim payment from the Inland Revenue of a portion of that tax credit if there is an appropriate provision granting such entitlement in a double tax convention or agreement between the country concerned and the United Kingdom. Persons who are not resident in the United Kingdom should consult their own tax advisers on the possible application of such provisions and what relief or credit may be claimed in the jurisdiction in which they are resident for any such tax credit.
- (v) A different treatment from that outlined above applies in respect of dividends which the paying company elects to be foreign income dividends.

### *General*

The Company is not a close company within the meaning of the Income and Corporation Taxes Act 1988 and, following the completion of the Placing and Open Offer, the Company is not expected to become so.

**The above statement does not constitute tax advice and is of a general nature only. It is based on United Kingdom legislation currently in force and currently understood Inland Revenue practice. Qualifying Shareholders who are in any doubt as to their taxation position should consult their independent professional advisers.**

### **13. Working Capital**

The Company is of the opinion that, having regard to the existing bank facilities and taking account of the net proceeds of the Placing and Open Offer receivable by the Company, the Enlarged Group has sufficient working capital for its present requirements.

### **14. Indebtedness**

As at the close of business on 28 August 1997, the Company and its subsidiaries had outstanding total borrowings or other indebtedness of £10,000,000, comprising secured bank loans.

Save as aforesaid and apart from intra-group liabilities, neither the Company nor any of its subsidiaries had at that date any loan capital outstanding (including loan capital created but unissued) term loans or any other borrowings or indebtedness in the nature of borrowing, including bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits, hire purchase commitments or obligations under finance leases, mortgages or charges or guarantees or other contingent liabilities.

No indebtedness in respect of the Hotels will be assumed by the Company or its subsidiaries arising from the acquisition of the Hotels.

### **15. Significant changes**

- (a) Save as disclosed in Part I of this document, there has been no significant change in the financial or trading position of the Scottish Highland Hotels Group since 30 April 1997, the date to which the last published unaudited interim results of the Scottish Highland Hotels Group were made up.
- (b) So far as the Company is aware, there has been no significant change in the financial or trading position of the Hotels since 30 March 1997, the date to which the financial statements referred to in the Accountants' Report set out in Part IV of this document were made up.

### **16. General**

- (a) The Placing is being fully underwritten by Bell Lawrie White & Co. (a division of Brewin Dolphin Bell Lawrie Limited). Brewin Dolphin Bell Lawrie Limited is regulated by The Securities and Futures Authority Limited and has its registered office at 5 Giltspur Street, London EC1A 9BD. Bell Lawrie White & Co. has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its letter and its name and the references thereto in the form and context in which they appear and has authorised the contents of those parts of this document for the purposes of Section 152(1)(e) of the Financial Services Act 1986.
- (b) KPMG Audit Plc has given and not withdrawn its written consent to the issue of this document with the inclusion herein of its report, its letter and its name and the references thereto in the form and context in which they appear and has authorised the contents of those parts of this document for the purposes of Section 152(1)(e) of the Financial Services Act 1986.
- (c) Christie & Co. has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its report and its name and the references thereto in the form and context in which they appear and has authorised the contents of those parts of this document for the purposes of Section 152(1)(e) of the Financial Services Act 1986.
- (d) Maclay Murray & Spens have given and have not withdrawn their written consent to the issue of this document with the inclusion herein of the reference to their name in the form and context in which it appears.
- (e) The total costs, charges and expenses payable by the Company in connection with the Acquisition and the Placing and Open Offer are estimated to amount to £550,000 (inclusive of stamp duty on the Acquisition but exclusive of VAT). Of this amount, approximately £143,000 (exclusive of VAT) is payable to Bell Lawrie White & Co. out of which Bell Lawrie White & Co. will pay commission to financial intermediaries of approximately £33,000.
- (f) The financial statements of the Scottish Highland Hotels Group for the financial periods ended 31 October 1994 and 31 October 1995 were audited by French Jarvie Macharg, Chartered Accountants of 375 West George Street, Glasgow G2 4LH. KPMG Audit Plc has audited the financial statements of

the Scottish Highland Hotels Group for the financial period ended 31 October 1996. The financial statements for each of these financial periods have received an unqualified audit opinion.

- (g) The Placing Price of 140p represents a premium of 135p over the nominal value of 5p of the Ordinary Shares.
- (h) There have been no interruptions which may have or have had during the last twelve months a significant effect on the Scottish Highland Hotels Group's financial position.
- (i) There are no arrangements under which any dividend has been waived or agreed to be waived.
- (j) Except pursuant to the terms of the Placing and Open Offer the New Ordinary Shares are neither being sold nor are they available in whole or in part to the public.
- (k) The total emoluments of the Directors of the Company will not be varied as a consequence of the Acquisition and the Placing and Open Offer.

#### **17. Documents available for inspection**

Copies of the following documents will be available for inspection at the offices of Maclay Murray & Spens, 10 Foster Lane, London EC2V 6HH and at Scottish Highland Hotels' registered office, Regent Court, 70 West Regent Street, Glasgow G2 2QZ, during normal business hours on any weekday (public holidays excepted) until the Extraordinary General Meeting and at the Extraordinary General Meeting:-

- (a) the Memorandum and Articles of Association of the Company;
- (b) the audited consolidated accounts of the Group for the years ended 31 October 1995 and 31 October 1996 and the unaudited interim results of the Group for the six months ended 30 April 1997;
- (c) the Accountants' Report set out in Part IV and the statement of adjustments thereto;
- (d) the Property Valuation Report set out in Part III;
- (e) the letter from KPMG Audit Plc set out in Part V;
- (f) the Directors' service contracts referred to in paragraph 8 above;
- (g) the material contracts referred to in paragraph 9 above; and
- (h) the letters of consent referred to in paragraphs 16(a), (b), (c) and (d) above.

19 September 1997



# SCOTTISH HIGHLAND HOTELS PLC

(Registered in Scotland under No. 55493)

## Notice Of Extraordinary General Meeting

NOTICE is hereby given that an EXTRAORDINARY GENERAL MEETING of the Company will be held at Regent Court, 70 West Regent Street, Glasgow G2 2QZ on 9 October 1997 at 10.00 a.m. to consider, and if thought fit pass, the following resolution as an Ordinary Resolution:

"THAT the acquisition by the Company of Redworth Hall Hotel and Hellaby Hall Hotel and of the businesses carried on therefrom and certain assets relating thereto on the terms and subject to the conditions contained in the Acquisition Agreement summarised in the circular to the shareholders of the Company dated 19 September 1997 be and is hereby approved and the Directors be and are hereby authorised to take all such steps as they may consider necessary or desirable in order to implement and complete the same with such modifications as they think fit, providing such modifications are not material in nature."

*Registered Office:*

Regent Court  
70 West Regent Street  
Glasgow G2 2QZ

BY ORDER OF THE BOARD

W A Cameron  
*Secretary*

19 September 1997

### *Notes:*

1. A member entitled to attend and vote at the Extraordinary General Meeting may appoint one or more proxies to attend and, on a poll, vote on his behalf. A proxy need not be a member of the Company.
2. A Form of Proxy is enclosed. To be valid, Forms of Proxy must be lodged with the Company's Registrars, The Royal Bank of Scotland plc, Registrar's Department, PO Box 457, Owen House, 8 Bankhead Crossway North, Edinburgh, EH11 0XG not less than 48 hours before the time appointed for the Extraordinary General Meeting.
3. Completion of the Form of Proxy will not prevent a member from attending and voting in person at the meeting if the member so wishes.
4. The Company, pursuant to regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only those Shareholders registered in the Register of Members of the Company as at 10.00 a.m. on 7 October 1997 or, in the event that the meeting is adjourned, in the Register of Members 48 hours before the time of any adjourned meeting, shall be entitled to attend or vote at the meeting in respect of the number of Ordinary Shares registered in their name at the relevant time. Changes to entries in the Register of Members after 10.00 a.m. on 7 October 1997 or, in the event that the meeting is adjourned, in the Register of Members less than 48 hours before the time of any adjourned meeting shall be disregarded in determining the rights of any person to attend or vote at the meeting.
5. Holders of Redeemable Preference Shares are entitled to attend but not to vote at the meeting.