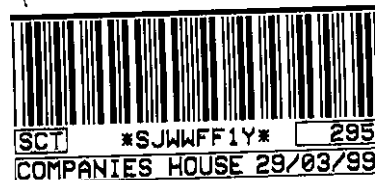


Scottish Highland Hotels plc

Annual Report 1998

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Scottish Highland Hotels plc

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Scottish Highland Hotels plc

Financial highlights

Turnover	£21.8 million	up 23.8%
Operating profit	£5.6 million	up 28.7%
Profit before tax and exceptional item	£4.5 million	up 29.0%
Earnings per share excluding exceptional item	13.4 pence	up 10.7%
Ordinary dividend	4.0 pence	up 11.1%

Scottish Highland Hotels plc

Five year record

	1994 £000	1995 £000	1996 £000	1997 £000	1998 £000
Turnover	15,252	15,745	16,604	17,654	21,848
Operating profit	2,383	3,432	3,932	4,372	5,626
Profit before tax and exceptional items	815	1,422	2,132	3,451	4,452
<hr/>					
Earnings per ordinary share excluding exceptional items on adjusted share capital	4.7p	8.3p	10.3p	12.1p	13.4p
Dividend per ordinary share	-	-	0.5p	3.6p	4.0p
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Scottish Highland Hotels plc

Chairman's statement

After an exciting first year as a listed company, the year to 31 October 1998 was one of strong consolidation and profitable growth for Scottish Highland Hotels. The two hotels in England acquired in October 1997 were successfully integrated; the balance sheet was further strengthened by cash flow and by the disposal of our least profitable 3 star hotel; the group's weighting in the target 4 star market grew to over 80%; and turnover, profits, earnings and dividends all reached new record levels.

Results

Turnover rose by 24% to £21.8 million with the increase attributable to the full year contribution from the acquired hotels. The turnover of the Scottish hotels was at a similar level to the previous year, with gains in the first half being offset by a weaker second half when some challenging trading conditions subsisted, particularly in the overseas tourist sector. Importantly however, cost increases across the group were held below the level of sales increases and consequently margins rose at both hotel operating level, from 31.5% to 31.6%, and at operating profit level, from 24.8% to 25.8%. Further details are contained in the review of the year on pages 5 to 7.

Operating profit before exceptional credit at £5.6 million was 29% ahead providing interest cover of 4.8 times. Excluding the exceptional profit of £0.2 million from the hotel disposal, profit before tax rose 29% to £4.5 million and earnings per share by 11% to 13.4p.

Financial position

At the last year end, following the acquisition and the placing and open offer to shareholders, net indebtedness amounted to £15.1 million and net assets £30.4 million, a gearing ratio of 50%.

Two major items impacted cash flow in the year to 31 October 1998. Firstly, the disposal of the Pitlochry Hydro Hotel in July 1998 realised net proceeds of £1.8 million. Secondly, on 29 October 1998, the redeemable preference shares were redeemed in full at a total cost of £1.1 million.

Outwith these items, operating cash flow was a healthy £5.2 million and net free cash flow totalled £1.5 million. As a result, overall net indebtedness at 31 October 1998 was reduced to £12.9 million, representing balance sheet gearing of under 40% on year end net assets of £32.4 million.

Properties

In line with the group's policy to revalue assets regularly, the carrying value of the hotel properties was reviewed by Christie & Co at 31 October 1998. In their opinion, the current value of the seven hotels totals £55.7 million. This represents an average of approximately £90,000 per room and a multiple of 8.1 times the hotel operating profit achieved by these hotels in the year to 31 October 1998.

Scottish Highland Hotels plc

Chairman's statement *(continued)*

This revaluation produces a surplus of £7.4 million over the book value of the assets. Whilst this is most encouraging, the Board has decided not to incorporate the surplus in the balance sheet at this time in view of the group's development plans for certain hotels and the current weaker economic conditions.

In March 1998 we announced the sale of the Pitlochry Hydro Hotel, the least profitable hotel in the group, for a cash consideration of £1.8 million, net of expenses. The timing of the handover, on 6 July 1998, meant that we lost the main trading season of the hotel but the resulting trading shortfall was compensated by achieving a gain over book value of £0.2 million.

Dividends

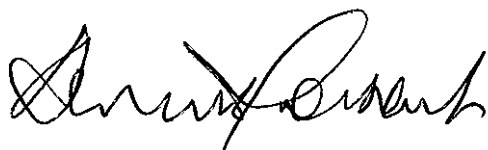
In view of the strong results and the healthy balance sheet position, the directors are recommending a final dividend of 2.6p per share. When added to the interim dividend of 1.4p per share paid in September 1998, total dividends for the year will be 4.0p per ordinary share. This represents an increase of 11% on last year's total.

Outlook

The group is soundly financed and managed, and our concentration on 4 star properties will provide us with a solid base of business through differing economic conditions. The 1998 results were very good although there was some fall off in demand in the latter part of the year.

The first part of the current financial year has seen a continuation of these weaker market conditions and turnover for the 10 weeks to 7 January 1999 was some 4% down on last year, on a like for like basis. The fog over future economic conditions in the UK makes predictions an uncertain process, but we have been served well in the past by taking the more prudent view. We therefore think it likely that these tougher trading conditions will continue for the remainder of this year, and that those industry commentators predicting a further year of growth are probably wrong.

Looking further ahead, the group will benefit from this year's capital expenditure on the leisure club development at Hellaby Hall Hotel and the bedroom extension at Stirling Highland Hotel. We remain comfortable that the positioning of our group has been well judged to withstand the more challenging trading conditions currently being experienced.



Hamish Grossart
Chairman

11 January 1999

Scottish Highland Hotels plc

Review of the year

In the year to 31 October 1998 the principal trading focus was the integration into the group of the two hotels acquired in October 1997. This was successfully achieved with hotel operating profits increasing by 24.2% to £6.9 million and operating margins reaching a new record level of 31.6%. After central costs of £0.6 million and depreciation of £0.6 million, group operating profit increased by 28.7% to £5.6 million.

Operating performance

The following table sets out the key operating statistics for the five financial years to 31 October 1998.

Year to 31 October	1994	1995	1996	1997	1998
Average rooms available	523	524	525	531	650
Revenue per room	£29,163	£30,047	£31,626	£33,247	£33,612
Average occupancy	71.2%	73.4%	75.5%	75.5%	70.5%
Average room rate	£47.51	£47.78	£49.83	£52.89	£56.29
Operating costs per room	£22,476	£21,899	£22,081	£22,785	£23,001
Hotel profit per room	£6,687	£8,148	£9,545	£10,462	£10,611
Hotel operating margin	22.9%	27.1%	30.2%	31.5%	31.6%

Note: Hotel profit and operating margin are based on profit before depreciation and central costs.

The room stock fell from 679 to 617 during the year following the sale of the Pitlochry Hydro Hotel on 6 July 1998. Room occupancy at the five continuing Scottish hotels was 75.2% (1997: 76.1%) and at the two acquired English hotels 58.9%, leaving scope at these hotels for future growth.

The pattern of business at the two acquired hotels mirrored the established trading mix of the group. This resulted in a group turnover split of 43% from rooms, 30% from food, 13% from liquor, 8% from leisure and 6% from sundry areas, similar to previous years.

Taxation

The tax charge on profits for the year to 31 October 1998 was £0.5 million, an effective rate of 10.6% on profit before exceptional item and a slight reduction on the 1997 rate of 13.1%. In view of our development plans and the availability of unrelieved losses we currently anticipate that the charge in the next two financial years will remain below 15%.

Scottish Highland Hotels plc

Review of the year *(continued)*

Developing our hotel assets

Major projects are now underway to develop two of the hotels. At Hellaby Hall Hotel a leisure club and brasserie is being added and the bedroom stock is being refurbished at a total cost of £2 million. At Stirling Highland Hotel 16 bedrooms and new laundry facilities are being added at a cost of £0.7 million. We anticipate that both projects will be completed by mid-summer 1999 but it will be our next financial year before the enhanced facilities impact on trading.

We shall continue to review the quality and scale of the facilities at all our hotels to ensure that they are competitive in the marketplace. Our rolling programme of refurbishment capital expenditure continued in the year to 31 October 1998 at a cost of £1.1 million and we are planning a similar spend in the current financial year.

Developing our marketing

Until April 1998, Franco Galgani combined the role of marketing director with the general managership of our flagship hotel, the Carlton Highland in Edinburgh. In April he relinquished his hotel role to devote his full energies to his marketing responsibilities and this will enable us to accelerate the modernisation of our marketing approach.

A number of initiatives to heighten our profile with our customers are already underway. These include the branding of the individual products which we offer, a development which we believe will not only increase the market's awareness of our hotels but will also assist us in achieving consistent quality of service delivery.

Developing our people

We strongly believe that the hospitality skills of our people give us an edge over our competitors. They consistently demonstrate to our customers their enthusiasm and a genuine willingness to care, evidenced by the results of external surveys.

We in turn demonstrate our commitment to our employees. Significant resources are applied to the development and training of all personnel with the aim of helping them achieve their full potential and we take seriously the obligations inherent in our group wide Investors in People recognition.

Our sincere thanks to all employees for their outstanding contribution to the continuing success of the group.

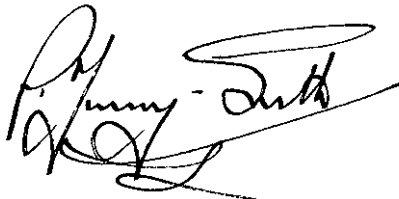
Scottish Highland Hotels plc

Review of the year *(continued)*

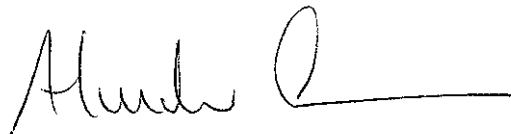
Year 2000 and Economic and Monetary Union

Our preparations to deal with the Year 2000 issue are well advanced. A rolling programme to replace non-compliant computer hardware has been underway for two years and will be completed in good time. All computer software issues have been addressed and solutions found. A full inventory of all relevant equipment and minor systems has been undertaken as well as a full supplier survey. Whilst it is difficult to ensure total compliance, we are confident that we will not be faced by any business critical issues or with major unforeseen expenditure. We estimate that the cost of upgrading non compliant equipment will be under £100,000.

We have reviewed the implications of the Economic and Monetary Union and are developing our policy on related marketing issues. Our financial systems will be upgraded as a matter of course within the likely timescale for UK entry.



Paul Murray-Smith
Managing Director



Alasdair Cameron
Deputy Chairman and Finance Director

11 January 1999

Scottish Highland Hotels plc

Directors

Hamish Grossart* (Chairman - aged 41) - appointed a non-executive director in 1990 and chairman in 1992. He is also Chairman of Royal Doulton plc and is Deputy Chairman of Cairn Energy plc and Scottish Radio Holdings plc.

Alasdair Cameron CA (Deputy Chairman and Finance Director - aged 43) - qualified as a chartered accountant in 1977 and joined what is now Stoddard International plc becoming Chief Accountant. He joined the group in 1982, was appointed finance director in 1987 and deputy chairman in August 1996.

Paul Murray-Smith FHCIMA (Managing Director - aged 51) - joined the group in 1982 to assist in the development of the Carlton Highland Hotel after many years experience in general management positions with Forte. He joined the board as operations director in 1987 and was appointed managing director in August 1996. He is currently Chairman of the Scottish Tourism Forum and a member of The National Executive of the British Hospitality Association. He also holds a number of other industry related appointments.

Franco Galgani FHCIMA (Marketing Director - aged 49) - first joined Scottish Highland Hotels in 1982 and after a period with Stakis plc returned to the group in 1986. He has managed three group hotels, has over 20 years hotel experience at senior level and is a member of the Master Innholders Association. He was appointed to the board as marketing director in March 1996.

Tudor Davies ACA* (non-executive - aged 47) - was appointed a non-executive director in July 1996. He is chairman of the remuneration committee and is the senior independent director. He is also chairman of Hicking Pentecost plc.

Brian Simmers CA* (non-executive - aged 58) - has been a director of the company for over 30 years, serving as managing director until July 1996 when he changed to a non-executive role. He is chairman of the audit committee.

* Members of the audit and remuneration committees

Scottish Highland Hotels plc

Directors' report

The directors present their annual report and the financial statements for the year ended 31 October 1998.

Principal activity and review of business

The principal activity of the group is that of hoteliers.

A review of the year's operations and of future developments is given in the chairman's statement and the executive directors' review of the year.

Results and dividends

The profit for the year after providing for taxation amounted to £4,185,000 (1997: £2,999,000).

The directors recommend a final dividend of 2.6 pence per ordinary share to be paid on 6 April 1999, giving a total ordinary dividend for the year of 4.0 pence per share (1997: 3.6 pence). In addition a dividend of £55,000 was paid to the holders of redeemable preference shares. The dividends were covered 3.4 times by profit after tax.

Share capital

Information relating to changes in the share capital of the company is given in note 18 to the financial statements.

Directors

The names of the present directors are shown on page 8. All of the directors served throughout the year.

As provided by the Articles of Association, Mr BM Simmers retires at the annual general meeting and, being eligible, offers himself for re-election.

Brief biographical details of all directors are set out on page 8. The interests of directors in the share capital of the company and their interests in share options are detailed in note 5 to the financial statements on pages 23 and 24.

Scottish Highland Hotels plc

Directors' report *(continued)*

Substantial interests

At 11 January 1999 the directors were aware of the following shareholdings which represented 3% or more of the issued ordinary share capital of the company.

Shareholder	Number of ordinary shares of 5p each	% of the issued ordinary share capital of the company
Framlington Investment Management Limited	3,567,971	12.2
Dunedin Enterprise Investment Trust PLC	3,560,000	12.2
Edinburgh Fund Managers PLC	3,095,362	10.6
Invesco Investment Management	1,924,353	6.6
Norwich Union Investment Management Limited	1,336,112	4.6
The Equitable Life Assurance Society	1,255,219	4.3
The Canada Life Assurance Company	891,393	3.0

Employees

The group recognises the benefits of keeping employees fully informed of its progress and of events which directly affect them and their working conditions. Information is provided on trading, development and other matters of concern by means of regular meetings with management, consultative committees and employee newsletters.

Group policy is to give full and fair consideration to employment of disabled persons, having regard to their particular aptitudes and abilities and their training and career development. Whenever possible employees who become disabled will be considered for suitable posts within the group.

The group operates executive and savings-related share option schemes and a group wide profit related pay scheme.

Charitable donations

Charitable donations paid during the year amounted to £8,207 (1997: £3,547).

Policy on payment to creditors

It is the company's policy to settle all debts with its creditors on a timely basis, taking account of the credit period given by each supplier. The number of days billings from suppliers outstanding at the end of the financial year was 23 days.

Scottish Highland Hotels plc

Directors' report *(continued)*

Auditors

A resolution is to be proposed at the Annual General Meeting for the re-appointment of KPMG Audit Plc as auditors of the company.

Annual general meeting

The notice convening the annual general meeting for 11:00am on 5 March 1999 at the Stirling Highland Hotel is set out on pages 36 and 37.

At the meeting, in addition to the four items of ordinary business, one ordinary resolution and one special resolution will be proposed as special business.

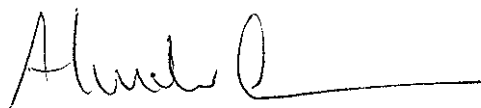
Resolution 5 is an ordinary resolution pursuant to which the directors are authorised under Section 80 of the Companies Act 1995 to allot shares up to an aggregate nominal amount of £517,106, which represents approximately one-third of the presently issued ordinary share capital (together with the company's obligations to issue shares in respect of the exercise of share options). Except for the issue of shares pursuant to the exercise of share options, the directors have no present intention to issue any part of the unissued share capital.

Resolution 6 is a special resolution disapplying the statutory pre-emption rights and authorising the directors to allot equity securities for cash to shareholders in proportion to their existing holding of shares, and for any allotment other than on a proportional basis up to a maximum nominal amount equal to 5% of the issued share capital of the company.

The authorities conferred by resolutions 5 and 6 expire on the earlier to occur of 15 months after the passing of the relevant resolution or at the conclusion of the annual general meeting of the company to be held in 2000.

Similar resolutions to resolutions 5 and 6 were passed at the annual general meeting of the company held on 27 February 1998. The directors believe that they should have the facilities which these powers provide, in line with current standard practice.

By order of the board



Alasdair Cameron
Secretary

Regent Court
70 West Regent Street
Glasgow
G2 2QZ

11 January 1999

Scottish Highland Hotels plc

Corporate governance

The directors have reviewed the recommendations of the Cadbury Code of Best Practice and consider that the company complied with all aspects of the Code throughout the accounting period. In addition the directors have reviewed the requirements of the Combined Code issued in June 1998 and will report on compliance in the 1999 annual report.

The board of directors

The board meets regularly throughout the year and comprises the non-executive chairman, three executive directors and two non-executive directors. Biographical details of each director are shown on page 8. A schedule of matters is reserved for board approval.

The audit committee

The audit committee, which consists of the three non-executive directors, is chaired by Brian Simmers CA and meets at least twice a year. The committee meets with the auditors at least once in the year without executive directors being present.

The remuneration committee

The remuneration committee, which consists of the three non-executive directors, is chaired by Tudor Davies and meets on a regular basis.

Financial statements

The directors' responsibilities in respect of the preparation of the financial statements are set out on page 16.

Internal financial controls

The board of directors has overall responsibility for the company's system of internal financial control. The company has established a framework of internal financial controls which has been reviewed by the board. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss. The framework of internal financial control comprises:

Financial reporting: there are comprehensive management reporting disciplines which include the preparation of annual budgets and medium term business plans by all hotels. These are reviewed by executive management and subsequently passed to the board for approval. Four-weekly management accounts analyse variances from budget, report on key performance indicators and form the base information for rolling annual forecasts to be prepared.

Control procedures: financial controls and procedures which head office and hotels are required to follow are detailed in a financial administration manual which includes appropriate authorisation limits.

Compliance monitoring: compliance with the overall system of internal financial control is monitored by a designated member of the finance function.

Going concern

After making enquiries, the directors formed the judgement at the time of approving the financial statements that there is a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

Scottish Highland Hotels plc

Report of the remuneration committee

The remuneration committee

The remuneration and other emoluments of executive directors are determined by the remuneration committee which is made up of the three non-executive directors and chaired by Tudor Davies. The remuneration of the non-executive directors is set by the full board. The group complies with Section A of the best practice provisions on directors' remuneration annexed to the Stock Exchange listing rules.

Remuneration policy

The policy of the remuneration committee on executive directors' remuneration is to ensure that they are fairly rewarded for their individual contribution to the group's overall performance, having due regard to the interests of shareholders and to the scale and financial progress of the group. The remuneration committee designs remuneration packages which will attract and retain individuals of the requisite level of skill and experience and take into account the rates for comparable jobs both within the hotel industry and generally. In framing its remuneration policy, the remuneration committee has given full consideration to Section B of the best practice provisions annexed to the Stock Exchange listing rules. Remuneration packages will include a competitive basic salary, appropriate benefits in kind, options and a bonus scheme. The bonus scheme for the executive directors is linked to growth in fully taxed earnings per share and capped at one half of basic salary. The exercise of share options awarded is conditional upon the achievement of growth in fully taxed earnings per share measured by reference to both internal and external criteria.

Directors' remuneration

Details of directors' remuneration for 1998 and 1997 are set out below:

Director	Fees	Salary	Bonus	Benefits	Total 1998	Total 1997
	£000	£000	£000	£000	£000	£000
HM Grossart	30	-	-	-	30	27
WA Cameron	-	80	10	7	97	87
P Murray-Smith	-	80	10	4	94	85
F Galgani	-	70	9	6	85	75
TG Davies	16	-	-	-	16	15
BM Simmers	16	-	-	-	16	7
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	62	230	29	17	338	296
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1997	49	200	31	16	296	
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Notes

- i. Benefits principally relate to the provision of a company car and private medical cover.
- ii. Bonuses for the year to 31 October 1998 were linked to profits earned in excess of target.
- iii. HM Grossart's services are provided by Petronius Limited and his interest in the share capital is held by that company.

Scottish Highland Hotels plc

Report of the remuneration committee (continued)

Directors' pension entitlements

The directors have accrued entitlements under the company's final salary pension scheme as follows:

Director	Annual accrued pension		Increase	Increase after indexation £000	Transfer value of increase after indexation £000
	1998 £000	1997 £000			
WA Cameron	20	18	2	1	7
P Murray-Smith	20	18	2	1	10
F Galgani	12	11	1	1	8

Executive directors are entitled to participation in the final salary scheme only to the extent of their base salary at flotation (plus annual indexation). An employer contribution of 15% of the excess of salary over this amount is paid on a money purchase basis. Contributions in the year to this scheme were £3,180 split as follows: WA Cameron £1,038, P Murray-Smith £1,038 and F Galgani £1,104.

Directors' interests in shares

Details of directors' interests in the share capital and share options are provided in note 5 to the financial statements on pages 23 and 24.

Service contracts

The service agreements of the executive directors are terminable by either party giving to the other not less than one year's notice. Non-executive directors do not have service agreements.

The executive directors are required to devote the whole of their time to their duties with the company.



Tudor Davies
Chairman

11 January 1999

Scottish Highland Hotels plc

Review report by KPMG Audit Plc to Scottish Highland Hotels plc on corporate governance matters

In addition to our audit of the financial statements, we have reviewed the directors' statements on page 12 on the company's compliance with the paragraphs of Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. This guidance does not require us to perform any additional work necessary to express a separate opinion on the effectiveness of either the group's system of internal financial control or the company's corporate governance procedures, or on the ability of the group to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control, and going concern on page 12, in our opinion the directors have provided the disclosures required by the Listing Rules and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the company, and examination of relevant documents, in our opinion the directors' statement on page 12 appropriately reflects the company's compliance with the other paragraphs of the code specified for our review by the Listing Rules.



KPMG Audit Plc
Chartered Accountants

24 Blythswood Square
Glasgow
G2 4QS

11 January 1999

Scottish Highland Hotels plc

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and group and of the profit or loss for that period. In preparing those financial statements, the directors are required to (a) select suitable accounting policies and then apply them consistently, (b) make judgements and estimates that are reasonable and prudent, (c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and (d) prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

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



KPMG Audit Plc

Report of the auditors to the members of Scottish Highland Hotels plc

We have audited the financial statements on pages 17 to 34. We have also examined the amounts disclosed relating to emoluments and directors' pension entitlements which form part of the remuneration committee report on pages 13 and 14.

Respective responsibilities of directors and auditors

As described above, the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company and group as at 31 October 1998, and of the profit of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in dark ink, appearing to read 'KPMG Audit Plc', written over a horizontal line.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

24 Blythswood Square
Glasgow
G2 4QS

11 January 1999

Scottish Highland Hotels plc

Group profit and loss account
for the year ended 31 October 1998

	Note	1998 £000	1997 £000
Turnover	2	21,848	17,654
Cost of sales		(14,950)	(12,099)
Hotel operating profit		<u>6,898</u>	<u>5,555</u>
Administrative expenses		(645)	(717)
Depreciation		(627)	(466)
Operating profit	3	<u>5,626</u>	<u>4,372</u>
Exceptional item: profit on disposal of hotel		204	-
Profit on ordinary activities before interest		<u>5,830</u>	<u>4,372</u>
Interest	6	(1,174)	(921)
Profit on ordinary activities before taxation		<u>4,656</u>	<u>3,451</u>
Taxation	7	(471)	(452)
Profit on ordinary activities after taxation		<u>4,185</u>	<u>2,999</u>
Dividends - equity	9	(1,169)	(994)
- non equity	9	(55)	(55)
Retained profit for the financial year		<u>2,961</u>	<u>1,950</u>
Earnings per ordinary share	10	<u>14.1p</u>	<u>12.1p</u>
Earnings per ordinary share excluding exceptional item	10	<u>13.4p</u>	<u>12.1p</u>

The results for both the current and preceding financial year relate to continuing activities.

The only material difference between the results as disclosed in the profit and loss account and the results on an unmodified historical cost basis is that the realised revaluation surplus of £437,000 on the hotel disposal would have been reflected in the historical cost results.

There are no recognised gains or losses in the year other than the profit as disclosed above.

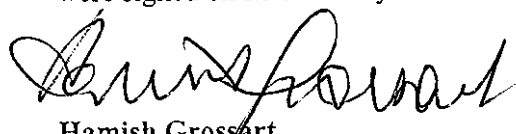
Details of movements in reserves are shown in note 19.

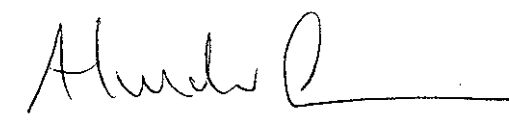
Scottish Highland Hotels plc

Balance sheets
at 31 October 1998

		Group		Company	
	Note	1998	1997	1998	1997
		£000	£000	£000	£000
Fixed assets					
Tangible assets	11	48,413	49,388	24,982	26,076
Investments	12	-	-	427	427
		<u>48,413</u>	<u>49,388</u>	<u>25,409</u>	<u>26,503</u>
Current assets					
Stocks	13	206	227	101	134
Debtors	14	1,461	1,032	8,839	10,466
Cash at bank and in hand		69	24	5,671	4,680
		<u>1,736</u>	<u>1,283</u>	<u>14,611</u>	<u>15,280</u>
Creditors: amounts falling due within one year	15	<u>(6,623)</u>	<u>(6,432)</u>	<u>(5,409)</u>	<u>(4,863)</u>
Net current (liabilities)/assets		<u>(4,887)</u>	<u>(5,149)</u>	<u>9,202</u>	<u>10,417</u>
Total assets less current liabilities		<u>43,526</u>	<u>44,239</u>	<u>34,611</u>	<u>36,920</u>
Creditors: amounts falling due after more than one year	16	<u>(10,500)</u>	<u>(13,000)</u>	<u>(10,500)</u>	<u>(13,000)</u>
Provision for liabilities and charges	17	<u>(622)</u>	<u>(796)</u>	<u>(288)</u>	<u>(406)</u>
Net assets		<u>32,404</u>	<u>30,443</u>	<u>23,823</u>	<u>23,514</u>
Capital and reserves					
Called up share capital	18	1,461	2,461	1,461	2,461
Share premium account		6,365	6,365	6,365	6,365
Capital redemption reserve	19	1,015	15	1,015	15
Revaluation reserve	19	10,771	11,208	4,297	4,734
Special reserve		7,370	7,370	7,370	7,370
Other reserves		180	180	-	-
Profit and loss account	19	5,242	2,844	3,315	2,569
		<u>32,404</u>	<u>30,443</u>	<u>23,823</u>	<u>23,514</u>
Shareholders' funds					
Equity		32,404	29,443	23,823	22,514
Non-equity		-	1,000	-	1,000
		<u>32,404</u>	<u>30,443</u>	<u>23,823</u>	<u>23,514</u>

These financial statements were approved by the board of directors on 11 January 1999 and were signed on its behalf by:


Hamish Grossart
Chairman


Alasdair Cameron
Deputy Chairman & Finance Director

Scottish Highland Hotels plc

Group cash flow statement for the year ended 31 October 1998

	1998 £000	1997 £000
Cash inflow from operating activities	5,190	4,979
Returns on investments and servicing of finance		
Interest paid	(1,163)	(869)
Non equity dividend paid	(55)	(55)
Net cash outflow from returns on investments and servicing of finance	(1,218)	(924)
Taxation paid	(337)	(110)
Capital expenditure		
Purchase of tangible fixed assets	(1,016)	(826)
Sale of tangible fixed assets	-	38
Net cash outflow for capital expenditure	(1,016)	(788)
Acquisitions and disposals		
Purchase of businesses	-	(13,119)
Disposal of hotel	1,771	-
Net cash inflow/(outflow) from acquisitions and disposals	1,771	(13,119)
Equity dividends paid	(1,111)	(414)
Cash inflow/(outflow) before financing	3,279	(10,376)
Financing		
(Redemption)/issue of share capital	(1,100)	15,687
Expenses paid in connection with share issues	-	(618)
Debt due beyond one year:		
Repayment of secured loan	(2,000)	(8,000)
New secured loan	-	5,000
Net cash (outflow)/inflow from financing	(3,100)	12,069
Increase in cash in the year	179	1,693

Notes supporting the cash flow statement are detailed in note 22.

Scottish Highland Hotels plc

Reconciliations of movements in shareholders' funds for the year ended 31 October 1998

	Group		Company	
	1998 £000	1997 £000	1998 £000	1997 £000
Profit for the financial year	4,185	2,999	2,533	2,616
Dividends	(1,224)	(1,049)	(1,224)	(1,049)
	<hr/>	<hr/>	<hr/>	<hr/>
Preference share capital redeemed	2,961 (1,000)	1,950 -	1,309 (1,000)	1,567 -
New share capital issued	-	15,069	-	15,069
Goodwill on acquisition	-	(916)	-	(916)
	<hr/>	<hr/>	<hr/>	<hr/>
	1,961	16,103	309	15,720
Opening shareholders' funds	30,443	14,340	23,514	7,794
	<hr/>	<hr/>	<hr/>	<hr/>
Closing shareholders' funds	32,404	30,443	23,823	23,514
	<hr/>	<hr/>	<hr/>	<hr/>

Scottish Highland Hotels plc

Notes to the financial statements

1 Accounting policies

Basis of accounting

The financial statements are prepared in accordance with applicable accounting standards under the historical cost convention, modified to include the revaluation of certain fixed assets. The accounting policies used are consistent with those used in previous years.

Basis of consolidation

The group profit and loss account and balance sheet include the accounts of the parent company and all its subsidiary undertakings. The results of undertakings acquired during the period are included from the effective date of acquisition. The results of undertakings sold during the period are included up to the effective date of disposal. The amount by which the fair value of the consideration paid exceeds or falls short of the fair value of net tangible assets of subsidiary undertakings or businesses at the date of acquisition is dealt with through reserves in the year of acquisition.

No profit and loss account is presented for Scottish Highland Hotels plc as provided by s230 of the Companies Act 1985.

Tangible assets

Freehold and long leasehold properties are incorporated in the accounts at valuation and regularly revalued. In the event of any permanent diminution in property value below historical cost, provision is made in the profit and loss account.

Depreciation

It is the policy of the board to ensure that properties are continually maintained in a sound state of repair and accordingly the directors consider that the lives and residual values of these properties are such that their depreciation is not significant. Accordingly no depreciation is provided on freehold and long leasehold 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
Motor vehicles	-	4 years
Other fixtures, fittings and equipment	-	10-15 years

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

Scottish Highland Hotels plc

1 Accounting policies (*continued*)

Stocks

Stocks of goods for resale and consumables are stated at the lower of cost and net realisable value.

Government grants

In the case of non-depreciable assets, government grants on capital expenditure are deducted from the cost of the asset. Other grants are credited to a deferral account and released to revenue over the period to which the grant conditions apply.

Deferred taxation

Provision for deferred taxation is made in respect of differences arising from the recognition of income and expenditure in different periods for taxation purposes and for accounting purposes, to the extent that any liability may crystallise in the foreseeable future.

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 finance 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 lease.

Pension costs

The group operates a final salary pension scheme. The expected cost of providing staff pensions is recognised on a systematic basis over the expected average remaining service lives of members of the pension scheme.

The group operates a defined contribution pension scheme. The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period.

2 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.

Scottish Highland Hotels plc

3 Operating profit

Operating profit is stated after charging/(crediting):

	1998 £000	1997 £000
Auditors' remuneration and expenses:		
audit fees (parent company £23,000 (1997: £20,000))	36	31
fees paid to KPMG Audit Plc and their associates for services other than audit	13	123
less: included in share issue and acquisition costs	-	(107)
	<u>13</u>	<u>16</u>
Depreciation on owned assets	627	466
Operating lease charges		
plant and machinery	113	97
land and buildings	107	101
Government grants released	(70)	(70)
	<u><u>627</u></u>	<u><u>466</u></u>

4 Employees and remuneration

Staff costs (including directors):

	1998 £000	1997 £000
Wages and salaries	6,853	5,257
Social security costs	460	345
Other pension costs	164	95
	<u>7,477</u>	<u>5,697</u>

	Number	Number
Average weekly number of employees	<u>598</u>	<u>480</u>

5 Information relating to directors

- (i) The interests of the directors in the share capital of the company at the balance sheet dates were as follows:

	1998		1997	
	Ordinary shares of 5p each		Ordinary shares of 5p each	
	Beneficial	Non-beneficial	Beneficial	Non-beneficial
HM Grossart	400,000	-	400,000	-
WA Cameron	433,560	58,800	433,560	58,800
P Murray-Smith	492,360	-	492,360	-
F Galgani	90,000	-	90,000	-
TG Davies	80,000	-	80,000	-
BM Simmers	501,960	-	926,960	-

There have been no changes to the above particulars in the period from 1 November 1998 to 11 January 1999.

Scottish Highland Hotels plc

5 Information relating to directors *(continued)*

(ii) The details of each director's share options are as follows:

(a) Executive schemes

	At 31 October 1997	Number Granted	At 31 October 1998	Exercise price	Dates exercisable/ expiry date
WA Cameron	38261	-	38261	£1.38	26/11/99 - 25/11/03
	21739	-	21739	£1.38	26/11/99 - 25/11/06
	-	30000	30000	£1.34	27/01/01 - 26/01/05
P Murray-Smith	38261	-	38261	£1.38	26/11/99 - 25/11/03
	21739	-	21739	£1.38	26/11/99 - 25/11/06
	-	30000	30000	£1.34	27/01/01 - 26/01/05
F Galgani	28261	-	28261	£1.38	26/11/99 - 25/11/03
	21739	-	21739	£1.38	26/11/99 - 25/11/06
	-	30000	30000	£1.34	27/01/01 - 26/01/05

Options were granted to executive directors and senior managers in the year in line with recommendations made by the remuneration committee.

(b) Sharesave scheme

WA Cameron	11500	-	11500	1.50	1/6/02-30/11/02
P Murray-Smith	11500	-	11500	1.50	1/6/02-30/11/02
F Galgani	11500	-	11500	1.50	1/6/02-30/11/02

No options were exercised or lapsed during the year. Details of share options exercised in 1997 are as follows:

	Difference between market value and exercise price on exercise date £000
HM Grossart	705
WA Cameron	1,081
P Murray-Smith	1,081
F Galgani	211
TG Davies	50
BM Simmers	1,081

The market price of the shares at 31 October 1998 was 99.5p and the range during the year under review was 165.5p to 90.5p.

There have been no changes to the above particulars in the period from 1 November 1998 to 11 January 1999.

(iii) Full details of each director's remuneration have been included in the remuneration committee report on pages 13 and 14.

Scottish Highland Hotels plc

6 Interest

	1998 £000	1997 £000
Bank loans and overdrafts	1,154	901
Accrual for premium on redemption of preference shares	20	20
	<u>1,174</u>	<u>921</u>

7 Taxation

	1998 £000	1997 £000
Corporation tax 31% (1997: 31.8%)	634	557
Over provision in respect of prior years	-	(60)
ACT written back	(306)	-
Deferred taxation - current year	143	(9)
- prior year overprovision	-	(36)
	<u>471</u>	<u>452</u>

The corporation tax charge for the year has been reduced by losses brought forward from previous years and capital allowances in excess of depreciation in the year. Aggregate unutilised losses carried forward in the three group trading companies at 31 October 1998 are estimated at £2.3 million (1997: £3.0 million). There was no taxation charge on the exceptional item due to capital losses brought forward from previous years.

Deferred taxation of £413,000 has been provided at 31 October 1998 in respect of timing differences between accelerated capital allowances and depreciation on depreciable assets. No provision is made in respect of accelerated capital allowances on assets which are not depreciated as the difference between book and tax written down value will not reverse, except in the event of disposal of the properties concerned. Unprovided deferred tax at 31 October 1998 was £1,604,000 (1997: £645,000). This comprises:

	1998 £000	1997 £000
Accelerated capital allowances	2,338	1,798
Other timing differences	(31)	(36)
Tax losses (including unrelieved ACT)	(703)	(1,117)
	<u>1,604</u>	<u>645</u>

The capital gains tax liability which would arise on disposal of the trading properties at book value is not quantified or provided as it is anticipated that roll-over relief would postpone any such liability indefinitely.

Scottish Highland Hotels plc

8 Profit attributable to members of the holding company

	1998 £000	1997 £000
Dealt with in the accounts of the holding company	2,533	2,616
Retained by subsidiary companies	1,652	383
	<u>4,185</u>	<u>2,999</u>

9 Dividends - paid and proposed

	1998 £000	1997 £000
Equity:		
Interim dividend paid on 7 September 1998 of 1.4p (1997: 1.2p) per share on 29,228,736 ordinary shares in issue	409	292
Final dividend proposed of 2.6p (1997: 2.4p) per share on 29,228,736 ordinary shares in issue	760	702
Total ordinary dividend - 4.0p per share (1997: 3.6p)	<u>1,169</u>	<u>994</u>
Non equity:		
Dividend paid on redeemable preference shares of 5.5% (net)	55	55
	<u>1,224</u>	<u>1,049</u>

10 Earnings per ordinary share

The calculation of earnings per share is based upon the group profit after taxation of £4,185,000 (1997: £2,999,000) less preference share dividends of £55,000 (1997: £55,000), divided by the weighted average number of ordinary shares of 5p in issue during the period, being 29,228,736 shares (1997: 24,333,328 shares). Earnings per share excluding exceptional item is based on 29,228,736 shares (1997: 24,333,328) and adjusted earnings of £3,926,000 (1997: £2,944,000). In the opinion of the directors this measure of earnings per share provides a better basis for comparison of the financial performance of the group. Fully diluted earnings per share are not stated as the dilution would relate only to share options and would not be material.

Scottish Highland Hotels plc

11 Tangible fixed assets

Group	Freehold land and buildings	Long leasehold land and buildings	Fixtures, fittings and equipment	Projects in progress	Total
	£000	£000	£000	£000	£000
<i>Cost or valuation</i>					
At 31 October 1997	39,154	5,462	7,233	-	51,849
Additions	502	20	534	165	1,221
Disposals	(1,303)	-	(494)	-	(1,797)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 October 1998	38,353	5,482	7,273	165	51,273
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Being:</i>					
At valuation	26,232	5,444	-	-	31,676
At cost	12,121	38	7,273	165	19,597
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	38,353	5,482	7,273	165	51,273
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>					
At 31 October 1997	-	-	2,461	-	2,461
Provided in year	-	-	627	-	627
On disposals	-	-	(228)	-	(228)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 October 1998	-	-	2,860	-	2,860
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>					
At 31 October 1998	38,353	5,482	4,413	165	48,413
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 October 1997	39,154	5,462	4,772	-	49,388
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

A professional valuation of the group's properties, together with their fixtures, fittings and equipment, was carried out by Christie & Company at 31 October 1995 in accordance with RICS statement of Asset Valuation Practice and Guidance Notes on an open market basis for existing use and this is reflected in the above figures. A valuation was carried out at 31 October 1998 which produced a surplus of £7.4 million. This valuation has not been reflected in the accounts as explained in the chairman's statement.

Scottish Highland Hotels plc

11 Tangible fixed assets (continued)

Company	Freehold land and buildings	Fixtures, fittings and equipment	Project in progress	Total
	£000	£000	£000	£000
<i>Cost or valuation</i>				
At 31 October 1997	23,262	4,076	-	27,338
Additions	425	325	91	841
Disposals	(1,302)	(468)	-	(1,770)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 October 1998	22,385	3,933	91	26,409
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Being:</i>				
At valuation	10,475	-	-	10,475
At cost	11,910	3,933	91	15,934
	<hr/>	<hr/>	<hr/>	<hr/>
	22,385	3,933	91	26,409
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Depreciation</i>				
At 31 October 1997	-	1,262	-	1,262
Provided in year	-	368	-	368
On disposals	-	(203)	-	(203)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 October 1998	-	1,427	-	1,427
	<hr/>	<hr/>	<hr/>	<hr/>
<i>Net book value</i>				
At 31 October 1998	22,385	2,506	91	24,982
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 October 1997	23,262	2,814	-	26,076
	<hr/>	<hr/>	<hr/>	<hr/>

The historical cost of freehold and long leasehold land and buildings included at valuation is as follows:

	Group		Company
	Freehold land and buildings	Long leasehold land and buildings	Freehold, land and buildings
	£000	£000	£000
At 31 October 1998	17,349	4,461	7,029
	<hr/>	<hr/>	<hr/>
At 31 October 1997	18,215	4,461	7,895
	<hr/>	<hr/>	<hr/>

On a historical cost basis, the depreciation charge for the year would not be materially different.

Scottish Highland Hotels plc

12 Investments

	Company	
	1998 £000	1997 £000
Shares in subsidiary undertakings at cost	<u>427</u>	<u>427</u>

The group's interest in the equity of subsidiaries (excluding dormant subsidiaries) is as shown below.

Name of company	Country of registration and operation	Holding	Proportion held	Nature of business
Carlton Hotel (Edinburgh) Limited	Scotland	Ordinary shares	100%	Hoteliers
		Preference shares	100%	
Stirling Highland Hotel Limited	Scotland	Ordinary shares	100%	Hoteliers

13 Stocks

	Group		Company	
	1998 £000	1997 £000	1998 £000	1997 £000
Goods for resale and consumables	<u>206</u>	<u>227</u>	<u>101</u>	<u>134</u>

14 Debtors

	Group		Company	
	1998 £000	1997 £000	1998 £000	1997 £000
Trade debtors	1,284	944	634	451
Prepayments and accrued income	177	88	110	44
Amounts owed by subsidiary undertakings	-	-	8,095	9,971
	<u>1,461</u>	<u>1,032</u>	<u>8,839</u>	<u>10,466</u>

Group balances that have arisen as a result of payments made by the holding company on behalf of its subsidiaries are not expected to be repaid within one year.

Scottish Highland Hotels plc

15 Creditors: amounts falling due within one year

	Group		Company	
	1998	1997	1998	1997
	£000	£000	£000	£000
Current portion of bank loans	2,500	2,000	2,500	2,000
Bank overdrafts	-	134	-	-
Trade creditors	734	718	529	332
Proposed dividend	760	702	760	702
Corporation tax	422	431	244	368
Other taxes and social security costs	841	765	436	359
Other creditors	28	45	21	31
Accruals	757	831	580	570
Deferred income	581	726	339	421
Accrual for premium on preference share redemption	-	80	-	80
	<u>6,623</u>	<u>6,432</u>	<u>5,409</u>	<u>4,863</u>

The bank overdrafts and loans (see note 16) are secured by standard securities and bonds and floating charges over the assets of the group supported by cross guarantees. The company's liability in this respect at 31 October 1998 is £5,611,000 (1997: £4,798,000).

16 Creditors: amounts falling due after more than one year

	Group		Company	
	1998	1997	1998	1997
	£000	£000	£000	£000
Bank loans (see note 15)	<u>10,500</u>	<u>13,000</u>	<u>10,500</u>	<u>13,000</u>
<i>Repayable</i>				
- between one and two years	2,500	2,500	2,500	2,500
- between two and five years	6,600	7,500	6,600	7,500
- after five years	1,400	3,000	1,400	3,000
	<u>10,500</u>	<u>13,000</u>	<u>10,500</u>	<u>13,000</u>

The loans comprise:

- (i) A loan of £8 million repayable in annual instalments of £2 million commencing on 31 October 1999. Interest is fixed at 7.42% plus margin to 31 October 2000.
- (ii) A loan of £5 million repayable in nine annual instalments commencing on 31 October 1999. Interest is at base plus margin.

Scottish Highland Hotels plc

17 Provision for liabilities and charges

	Group		Company	
	1998 £000	1997 £000	1998 £000	1997 £000
Pension provision (note 21)	99	116	99	116
Litigation provision	-	230	-	230
Government grants	110	180	30	60
Deferred tax (note 7)	413	270	159	-
	<u>622</u>	<u>796</u>	<u>288</u>	<u>406</u>

18 Share capital

Equity interests

	Authorised 1997 and 1998		Allotted, issued and fully paid			
	Number 000	£000	1998 Number 000	1997 Number 000	1998 £000	1997 £000
Ordinary shares of 5p	40,000	2,000	29,229	29,229	1,461	1,461

Non equity interests

Redeemable preference shares of £1 each	1,000	1,000	-	1,000	-	1,000
--	-------	-------	---	-------	---	-------

The redeemable preference shares of £1 each were redeemed in full on 29 October 1998 at a premium of 10p per share in accordance with their redemption terms.

At 31 October 1998 options were outstanding under the terms of the share option schemes to subscribe for ordinary shares as follows:

	Number of shares	Option price £	Option dates
Sharesave scheme	27,664	1.50	1/6/00 - 30/11/00
	90,298	1.50	1/6/02 - 30/11/02
	17,284	1.25	1/4/01 - 31/10/01
	38,971	1.25	1/4/03 - 31/10/03
Executive share option scheme	113,044	1.38	26/11/99 - 25/11/03
	123,732	1.34	27/1/01 - 26/1/05
Company share option plan	136,956	1.38	26/11/99 - 25/11/06
	51,268	1.34	27/1/01 - 26/1/08
	<u>599,217</u>		

Scottish Highland Hotels plc

19 Reserves

	Group £000	Company £000
<i>Capital redemption reserve:</i>		
At 1 November 1997	15	15
Transfer from profit and loss account on redemption of preference shares (note 18)	1,000	1,000
At 31 October 1998	<u>1,015</u>	<u>1,015</u>
<i>Revaluation reserve:</i>		
At 1 November 1997	11,208	4,734
Realised on disposal of hotel	(437)	(437)
At 31 October 1998	<u>10,771</u>	<u>4,297</u>
<i>Profit and loss account:</i>		
At 1 November 1997	2,844	2,569
Retained profit for the financial year	2,961	1,309
Transfer from revaluation reserve	437	437
Transfer to capital redemption reserve	(1,000)	(1,000)
At 31 October 1998	<u>5,242</u>	<u>3,315</u>

Total goodwill written off directly to reserves at 31 October 1998 in respect of businesses acquired amounts to £0.9 million (1997: £0.9 million).

20 Commitments

	Group		Company	
	1998 £000	1997 £000	1998 £000	1997 £000
(a) <i>Operating lease commitments</i>				
The annual commitments under non-cancellable operating leases are:				
Hotel equipment				
Due on leases expiring within one year	30	29	13	19
Due on leases expiring within two to five years	55	49	52	34
	<u>85</u>	<u>78</u>	<u>65</u>	<u>53</u>
Land and buildings				
Due on leases expiring within two to five years	54	54	54	54
Due on leases expiring in more than five years	55	56	-	-
	<u>109</u>	<u>110</u>	<u>54</u>	<u>54</u>

Scottish Highland Hotels plc

20 Commitments (continued)

	Group		Company	
	1998	1997	1998	1997
	£000	£000	£000	£000
(b) <i>Capital commitments</i>				
Authorised and contracted	2,050	92	1,550	13

21 Pension costs

The group operates a defined benefit pension scheme based on final pensionable salary. The assets are held in a separate trustee administered fund.

The scheme which is subject to regular valuation using the projected unit method was last valued as at 1 December 1995 by a professionally qualified actuary. The principal actuarial assumptions adopted at the valuation were that, over the long term, the annual rate of future investment returns would be 2% higher than the annual increase in total pensionable salaries and future pensions will increase by 3%. The market value of the scheme at the date of the valuation was £1,240,876 and the actuarial value of the assets represented 113% of the benefits that had accrued to members, after allowing for future increases in earnings. The employer's contribution rate over the average remaining service lives of the members of the scheme takes account of the results disclosed by the valuation.

The pension charge to the profit and loss account for the year is £128,000 (1997: £95,000). This is after adjusting for the release of pension provisions established in accordance with SSAP 24 in respect of a pension contributions holiday which ended in 1991 (see note 17).

The group also operates a group personal pension plan for certain employees. This is a defined contribution scheme and contributions in the year amounted to £36,000 (1997: £Nil).

22 Cash flow notes

(a) Reconciliation of operating profit to operating cash flows

	1998	1997
	£000	£000
Operating profit	5,626	4,372
Depreciation charge	627	466
Grant provision release	(70)	(70)
Loss/(gain) on sale of tangible fixed assets	2	(28)
Decrease in stocks	21	5
(Increase)/decrease in debtors	(429)	441
Decrease in creditors	(587)	(207)
	<u>5,190</u>	<u>4,979</u>

Scottish Highland Hotels plc

22 Cash flow notes (continued)

(b) Analysis of net debt

	At 1 November 1997 £000	Cash flow £000	Reclassification £000	At 31 October 1998 £000
Cash at bank and in hand	24	45	-	69
Overdrafts	(134)	134	-	-
	<u>(110)</u>	<u>179</u>	<u>-</u>	<u>69</u>
Debt due after one year	(13,000)	2,000	500	(10,500)
Debt due within one year less overdrafts	<u>(2,000)</u>	<u>-</u>	<u>(500)</u>	<u>(2,500)</u>
	<u>(15,000)</u>	<u>2,000</u>	<u>-</u>	<u>(13,000)</u>
Net debt	<u>(15,110)</u>	<u>2,179</u>	<u>-</u>	<u>(12,931)</u>

(c) Reconciliation of net cash flow to movement in net debt

	1998 £000	1997 £000
Increase in cash in the year	179	1,693
Cash outflow from decrease in debt	<u>2,000</u>	<u>3,000</u>
Movement in net debt in the year	<u>2,179</u>	<u>4,693</u>
Net debt at 1 November 1997	<u>(15,110)</u>	<u>(19,803)</u>
Net debt at 31 October 1998	<u>(12,931)</u>	<u>(15,110)</u>

Scottish Highland Hotels plc

General information

Advisers

Secretary and registered office
WA Cameron CA
Regent Court
70 West Regent Street
Glasgow
G2 2QZ

Registered number: 55493

Auditors
KPMG Audit Plc
Chartered Accountants
24 Blythswood Square
Glasgow
G2 4QS

Bankers
Bank of Scotland
38 St Andrew Square
Edinburgh
EH2 2YR

Solicitors
Maclay Murray & Spens
151 St Vincent Street
Glasgow
G2 5NJ

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

Registrars and transfer office
Computershare Services PLC
PO Box 435
Owen House
8 Bankhead Crossway North
Edinburgh
EH11 4BR

Financial calendar

Full year results announced	12 January 1999
Report and accounts posted	29 January 1999
Annual general meeting	5 March 1999
Final dividend payable	6 April 1999
Half year end	30 April 1999
Interim results announced	June 1999
Interim dividend payable	September 1999
Financial year end	31 October 1999

Share price information

The current share price for Scottish Highland Hotels plc is available on BBC Ceefax page 231 or by dialling the Financial Times Cityline service on 0336 431702. Calls are charged at 50p per minute.

Website

Visit our website to obtain additional information on our hotels and a copy of the latest Annual Report and Accounts.

www.scottishhighlandhotels.co.uk

Scottish Highland Hotels plc

Notice of annual general meeting

NOTICE IS HEREBY GIVEN that the twenty-fifth ANNUAL GENERAL MEETING of the company will be held at the Stirling Highland Hotel, Spittal Street, Stirling, FK8 1DU on 5 March 1999 at 11:00am for the purpose of transacting the following business:

- 1 To receive the accounts of the company for the year ended 31 October 1998 and the reports of the directors and auditors thereon.
- 2 To declare a final dividend.
- 3 To re-elect as a director Mr BM Simmers who, in accordance with the company's Articles of Association, retires by rotation.
- 4 To re-appoint KPMG Audit Plc as auditors and authorise the directors to agree their remuneration.
- 5 To consider, and if thought fit, pass the following resolution which will be proposed as an ordinary resolution:

"That the directors be and are hereby authorised generally and unconditionally pursuant to Section 80 of the Companies Act 1985 ("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 £517,106 provided that:

- (a) this authority shall expire fifteen months after the passing of this resolution or on the conclusion of the Annual General Meeting of the company to be held in 2000, whichever first occurs, unless renewed, varied or revoked by the company in general meeting;
- (b) 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 any such relevant securities pursuant to any such offer, agreement or other arrangement as if the authority hereby conferred had not expired; and
- (c) words or expressions defined in or for the purposes of Part IV of the Act shall in this resolution bear the same meanings."

- 6 To consider, and if thought fit, pass the following resolution which will be proposed as a special resolution:

"That subject to the passing of the previous resolution the directors be and they are hereby generally empowered pursuant to Section 95 of the Companies Act 1985 ("the Act") to allot equity securities for cash as if Section 89(1) of the Act did not apply to any such allotment provided that this power shall be limited to:

- (a) the allotment of equity securities where such securities have been offered to the holders of ordinary shares (whether by way of a rights issue or open offer or otherwise) in proportion (as nearly as may be) to their respective holdings of ordinary shares but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems arising under the laws of, or the requirements of any regulatory body or any stock exchange in, any territory; and
- (b) the allotment (otherwise than pursuant to sub-paragraph (a) of this resolution) of equity securities up to an aggregate nominal amount of £73,071;

Scottish Highland Hotels plc

Notice of annual general meeting *(continued)*

and shall expire on the conclusion of the Annual General Meeting of the company to be held in 2000, or fifteen months after the passing of this resolution, (whichever is the earlier) save that the company may at any time before such expiry make an offer, agreement or other arrangement which would or might require equity securities to be allotted for cash after such expiry and the directors may allot equity securities pursuant to any such offer, agreement or other arrangement as if the power conferred hereby had not expired and otherwise shall be in substitution for any other power previously conferred on the directors to allot equity securities wholly for a cash consideration otherwise than in accordance with Section 89(1) of the Act. Words and expressions defined in or for the purposes of Part IV of the Act shall in this resolution bear the same meanings."

By order of the board

WA Cameron
Secretary

11 January 1999

Registered office:
Regent Court
70 West Regent Street
Glasgow
G2 2QZ

Notes

- 1 A member entitled to attend and vote at the Annual General Meeting may appoint a proxy to attend and, on a poll, vote on his behalf. A proxy need not be a member of the company.
- 2 A form for the appointment of a proxy is enclosed. To be valid, forms of proxy must be lodged with the company's registrars, Computershare Services PLC, PO Box 457, Owen House, 8 Bankhead Crossway North, Edinburgh, EH11 0XG not less than 48 hours before the time appointed for the Annual 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 following documents will be available for inspection at the company's registered office on weekdays during usual business hours (Saturdays and bank holidays excepted) until the date of the Annual General Meeting and during the Annual General Meeting and for at least 15 minutes before it begins:
 - (a) a register of directors' share interests kept pursuant to Section 325 of the Companies Act 1995; and
 - (b) copies of the service contracts of each of WA Cameron, P Murray-Smith and F Galgani.

Scottish Highland Hotels plc

Proxy form

Scottish Highland Hotels plc

I/We (capitals)
of
.....

being (a) member(s) of Scottish Highland Hotels plc hereby appoint

*

or failing him, the duly appointed Chairman of the Meeting, as my/our proxy, to attend and vote for me/us at the Annual General Meeting of the company to be held on 5 March 1999 at 11:00am and at any adjournment thereof and, in relation to the resolutions referred to below, to vote as directed.

*The Chairman of the Meeting will act as your proxy if no other name is inserted. A proxy need not be a member of the company.

	For	Against
Resolution 1 (Ordinary)		
Resolution 2 (Ordinary)		
Resolution 3 (Ordinary)		
Resolution 4 (Ordinary)		
Resolution 5 (Ordinary)		
Resolution 6 (Special)		

Signed the day of 1999

Signature

- 1 Please indicate with an "X" in the spaces provided how you wish your votes to be cast. Without specific direction, the proxy will abstain or vote at his or her discretion. A proxy may vote at his or her discretion on any other competent business which comes before the meeting.
- 2 This form of proxy together with, if appropriate, the power of attorney (if any) under which it is signed or a notarially certified copy thereof, must be lodged with the company's Registrars, Computershare Services PLC, PO Box 457, Owen House, 8 Bankhead Crossway North, Edinburgh, EH11 0XG not less than 48 hours before the time appointed for the holding of the Annual General Meeting or any adjournment thereof.
- 3 Any alteration to this form should be initialled.
- 4 In the case of joint holders, the signature of one holder will be accepted but the names of all joint holders should be stated.
- 5 In the case of a corporation, the proxy must be executed by any director or by the company secretary, by a duly authorised attorney or by an officer or agent duly authorised to do so, proof of whose capacity should be included.
- 6 Completion of the proxy will not preclude holders of ordinary shares from attending and voting in person at the Annual General Meeting if the member so wishes.
- 7 BM Simmers, who is retiring by rotation, is a member of the remuneration committee.