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Annual Report 2001



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Highlights

- Since flotation in 1996 underlying profits have more than trebled.
- Company is stronger in terms of product, people, partners and opportunities than ever before.
- Average room yield in the 4-star portfolio increased by 9% to £46.90.
- Acquisition in April 2001 of Heritage Hotels in a strategic 50:50 joint venture with Bank of Scotland for £235m including a 10-year contract to manage the portfolio, provides a transformational platform for substantial revenue and profit growth.
- Guy Crawford, formerly Managing Director of Heritage Hotels, appointed to main board as Managing Director of the Group's enlarged hotels portfolio.
- £8.5m acquisition in April 2001 of remaining 50% of Barratt International Resorts Limited, one of the largest European timeshare owners and operators, and a business with significant growth potential in a rapidly developing global industry.
- Completion of £1.5million investment in new accounting and central reservations systems, providing mechanisms to improve yield and operating efficiencies across the Group.
- Following the Heritage and Barratt acquisitions, Macdonald Hotels is now the UK's 8th largest hotel & leisure group, operating 108 hotels and resorts throughout the UK and Spain with over 7,200 bedrooms and with a combined turnover in excess of £240m and employing over 6,000 people.

Corporate Calendar

2001

August 10	Annual general meeting
August 10	Payment of final dividend
October 4	Accounting reference date for six month reporting period
December	Preliminary announcement of results for six month period ending 4 October 2001

2002

January	Publication of statutory report for six month period
February	Annual general meeting
February	Payment of dividend
June	Announcement of interim results
August	Payment of interim dividend
October 3	Financial year end

OWNED HOTELS

SCOTLAND

- 1 **Aberdeen** Ardoe House
- 2 **Aberfoyle** Forest Hills
- 3 **East Kilbride** Crutherland House
- 4 **Grangemouth** Inchyra Grange
- 5 **Inverurie** Thainstone House
- 6 **Inverurie** Pittodrie House
- 7 **Kinloch Rannoch** Loch Rannoch
- 8 **Peterhead** Waterside Inn
- 9 **Uphall** Houstoun House

ENGLAND

- 10 **Accrington** Dunkenhagh
- 11 **Bolton** Egerton House
- 12 **Bolton** Last Drop Village
- 13 **Bolton** Pack Horse
- 14 **Canterbury** County
- 15 **Chadderton** Bower
- 16 **Chester** Craxton Wood
- 17 **Consett** Royal Derwent
- 18 **Coventry** Ansty Hall
- 19 **Hemel Hempstead** Bobsleigh Inn
- 20 **Kendal** Riverside Hotel
- 21 **Kenilworth** De Montfort
- 22 **Lymington** Elmers Court
- 23 **Rochdale** Norton Grange
- 24 **Samlesbury** Tickled Trout
- 25 **Shifnal** Park House
- 26 **Shrewsbury** Albrighton Hall
- 27 **Southampton** Botley Park
- 28 **Standish** Kilhey Court
- 29 **Telford** Buckatree Hall
- 30 **Warrington** Lymm

LEISURE RESORTS

SCOTLAND

- 31 **Aberfoyle** Forest Hills
- 32 **Aviemore** Dallaber
- 33 **Carrbridge** Lochanully
- 34 **Kinloch Rannoch** Loch Rannoch

ENGLAND

- 35 **Lymington** Elmers Court

WALES

- 36 **Pennal** Plas Talgarth

SPAIN

- 37 **Costa del Sol** Dona Lola
- 38 **Costa del Sol** Leila Playa
- 39 **Costa del Sol** Villacana
- 40 **Costa del Sol** La Ermita

HERITAGE HOTELS

SCOTLAND

- 41 **North Berwick** The Marine
- 42 **St Andrews** Rusacks

ENGLAND

- 43 **Abington** The Upper Reaches
- 44 **Alfriston** The Star Inn
- 45 **Amersham** The Crown
- 46 **Ascot** The Berystede
- 47 **Banbury** Whately Hall
- 48 **Bath** The Bath Spa
- 49 **Bath** The Francis
- 50 **Box Hill** The Burford Bridge
- 51 **Camberley** Frimley Hall
- 52 **Canterbury** The Chaucer
- 53 **Cheltenham** The Queen's
- 54 **Chester** Blossoms Hotel
- 55 **Coventry** Brandon Hall
- 56 **Dartmouth** The Dart Marina
- 57 **Dorking** The White Horse
- 58 **Dovedale** Peveril of the Peak
- 59 **Dunster** The Luttrell Arms
- 60 **Exeter** The Southgate
- 61 **Farnham** The Bush
- 62 **Grasmere** The Swan
- 63 **Guisborough** Gisborough Hall
- 64 **Helmsley** The Black Swan
- 65 **Hertingfordbury** The White Horse
- 66 **Kingston** Kingston Lodge
- 67 **Lavenham** The Swan
- 68 **Lincoln** The White Hart
- 69 **Marlow** The Compleat Angler
- 70 **Matlock Bath** The New Bath
- 71 **Mudeford** The Avonmouth

- 72 **Oxford** The Eastgate
- 73 **Oxford** The Randolph
- 74 **Padstow** The Metropole
- 75 **Romsey** The White Horse
- 76 **Salisbury** The White Hart
- 77 **Staines** The Thames Lodge
- 78 **Stratford** The Alveston Manor
- 79 **Stratford** The Shakespeare
- 80 **Stratford** The Swan's Nest
- 81 **Ullswater** Leeming House
- 82 **Winchester** The Wessex
- 83 **Windemere** The Old England
- 84 **Windsor** The Castle
- 85 **Woodstock** The Bear
- 86 **Hereford** The Green Dragon
- 87 **Sherborne** The Sherborne
- 88 **Worcester** The Giffard

MANAGED HOTELS

SCOTLAND

- 89 **Aberdeen** Grampian
- 90 **Aviemore** Aviemore Highland
- 91 **Bathgate** Cairn
- 92 **Edinburgh** Holyrood
- 93 **Edinburgh** Roxburgh

ENGLAND

- 94 **Alnwick** White Swan
- 95 **Blackpool** Clifton
- 96 **Blackpool** Savoy
- 97 **Bolney** Hickstead
- 98 **Burnham** Grovelfield
- 99 **Chesterfield** Chesterfield
- 100 **Derby** Royal Stuart
- 101 **Egham** Savill Court
- 102 **Grimby** Oaklands
- 103 **Harrogate** Old Swan
- 104 **Isle of Man** Grand Island
- 105 **Oldham** Pennine Way
- 106 **Plymouth** Plymouth Grand
- 107 **Tunbridge Wells** Wellington

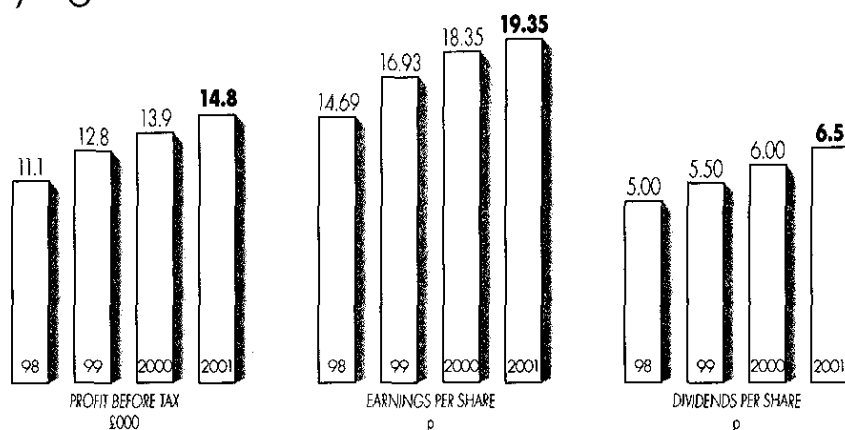
WALES

- 108 **Llandudno** St George's

Financial Headlines

Performance	2001	2000	Change
Turnover	£78.8m	£68.5m	+15%
PBIT	£16.7m	£14.4m	+16%
EBITDA	£21.6m	£18.6m	+16%
Profit before tax	£13.4m	£11.8m	+13%
Earnings per share	16.85p	14.92p	+13%
Dividends per share	6.5p	6.0p	+8%

Underlying Trends



Underlying results are stated prior to implementation of changes in accounting policies during the year to March 2000: FRS 15 Tangible Fixed Assets and the write off of pre-opening expenses.

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Chairman's Statement

Summary of Results

I am very pleased to report that in the 52 weeks to 5 April 2001 the company recorded its 11th consecutive year of sustained profit growth. It is a testament to the consistency and success of our strategy that underlying profits have more than trebled in the 5 years since our Stock Market Flotation in 1996.

Turnover increased by 15% in the year to £78.8m. Operating profits also increased by 16% to £16.7m and profit before tax increased by 13% to £13.4m.

After deducting tax at 25.7% and minority interests, profit attributable to shareholders increased by 14% to £10.1m. Earnings per share increased by 13% to 16.85p.

More detailed reviews of the Group's operating and financial performance are incorporated in the Chief Executive's Review on pages 4-13 and Finance Directors report on page 14 to the accounts.

Dividends

Your Board recommends a final dividend of 4.34p per share which, when added to the interim dividend of 2.16p, gives a total dividend for the year up 8% to 6.5p. The final dividend will be paid on the 10 August 2001 to shareholders on the register on the 22 June 2001.

Heritage Hotels

On 4 April 2001 we announced our intention to establish a 50:50 Joint Venture with the Bank of Scotland to acquire the Heritage portfolio of hotels from Compass PLC for £235m. The acquisition completed successfully on 26 April 2001. At the same time Macdonald Hotels signed a 10 year contract to manage the Heritage hotels on behalf of the Joint Venture.

The 48 Heritage hotels comprising 3,110 rooms are primarily 4 star properties of distinctive individual character situated in strong locations predominantly in the South East of England. They combine with our existing hotels estate to create an outstanding portfolio of quality assets throughout the UK. I believe we are now very well positioned to use the scale and quality of our offering to drive substantial revenue and profit growth across the commercial and leisure sectors of the market.

The process of integrating the business into the Group is well underway and should be largely complete by the end of October. Our development plans for the business are constantly evolving and more opportunities arise as we spend time in the business looking at the hotels and meeting the employees.

This acquisition creates exceptional and transforming opportunities for the Group. I believe we are now one of the leading UK Hotel companies by virtue of the quality of our assets, their earning potential and also through their scale and geographical spread.

Barratt International Resorts Limited (Barratt Resorts)

On 2 April 2001 we acquired the remaining 50% of the Barratt Resorts business from Barratt Developments PLC for £8.5m having acquired our existing 50% share of the business for £2.4m in 1997.

Barratt Resorts is one of the biggest owners and operators of timeshare resorts in Europe. The business comprises 6 resorts in the UK and 4 in Spain with 37,000 timeshare weeks and 200 hotel rooms. The Macdonald Group has managed and grown the business successfully since 1991 and we are confident we can begin to develop it into a major contributor to the Group's results in the years ahead.

Change to year end

Our Company has a March year end. Heritage Hotels has been operating to a September year end as part of Compass PLC and Barratt Resorts currently has a June year end.

Your Board has decided to rationalise the situation and to change the Company's year end date from the end of March to the end of September. Macdonald Hotels plc will complete a 6 month accounting period from 6 April 2001 ending on 4 October 2001 to be followed thereafter by 12 month accounting periods closing at the end of September each year. Barratt Resorts will complete a 15 month period to September 2001 and Heritage a 17 month period from its acquisition in April to September 2002.

The Board of Directors

I am delighted that the Managing Director of the Heritage business, Guy Crawford, has been appointed to the Board as Managing Director of the Group's hotel division. He has extensive UK and international industry experience and I have every confidence in his ability to lead the successful development of the enlarged hotels portfolio which now comprises 98 properties throughout the UK.

Gerry Smith, previously Operations Director, has been promoted to Deputy Chief Executive as part of the realignment of responsibilities following Guy's appointment.

On 30 March 2001 Ramon Pajares resigned from the Board. His contribution to our Board was of the highest quality and integrity, and we thank him for his wise counsel.

Staff

As we grow the business our employee numbers also increase. We now employ over 6,000 people in the UK and in Spain. We work in an industry that survives on its ability to provide the highest levels of customer service seven days a week, every day of the year and I thank our people for their continuing and impressive commitment to that cause.

Outlook and Prospects

The Heritage and Barratt Resorts acquisitions are key initiatives in the long term development of the Group, building upon our consistently held growth strategy. The Board is confident in the prospects for each business and in their ability to substantially enhance shareholder value in the years ahead.

I am encouraged by our trading performance in the early stages of this new financial period and anticipate very little impact on our results from the recent foot and mouth outbreak. These are exciting times for our Company. We are very well positioned with excellent partners, strong assets and extensive opportunities. I look forward to the future with growing confidence and optimism.

Frank O'Callaghan
Chairman

Chief Executive's Review

The Chairman's overview of our results for the year highlighted a 13% improvement in profit before tax. This strong performance, underpinned by a 16% increase in earnings before interest, tax and depreciation is our 11th consecutive year of growth since the Company's inception in 1990.

Left to right: Ardoi
House, Aberdeen;
Loch Rannoch
Hotel, Perthshire;
The Roxburghe
Hotel, Edinburgh.

Delivering Operating Results

Turnover increased by 15% to £78.8m in the year - driven by turnover in our owned hotels up 11%, fees from management contracts up 36% and joint venture sales up 38% in the year. Combining all of our business streams together we now manage turnover in excess of £240m.

After absorbing a substantial planned increase in central executive costs, operating profits increased by 16%. Operating margins were maintained at 21% recognising our consistent control over hotel costs and ability to secure better supplier terms through the enlarged portfolio's greater purchasing power.

Hotels

Room yields in our 4 star portfolio increased by 9% to £47 driven by occupancies up 3% to 65% and average room rates up 5% to £72. This growth in yield is ahead of the industry average and reflects a more focused approach to our sales and marketing programmes as well as returns from capital investment, particularly in the owned hotels. Room yields in the owned portfolio of hotels increased by 6% in the year to £38.

Total revenues per available room (Revpar) increased by 5% to £38k across our 4 star portfolio and by 6% to £34k in the owned hotels. Food and beverage income now accounts for approximately 45% of total revenues and leisure and beauty another 6% - both are vital to the overall success of the business and have significant potential for further growth. We recently recruited a Business Development Director whose sole focus is to drive a harder retail-based commercial edge to our restaurants. Our 12 leisure and beauty clubs operate as stand alone profit centres each attracting around 1,000 members whilst also providing excellent facilities to hotel guests. The clubs are performing well and we plan to exploit the potential to add at least another 6 to our owned estate.

Resorts

Barratt Resorts was accounted for as a 50% Joint Venture until 2 April when we acquired the remaining 50% of the business as outlined in the Chairman's statement.

Our share of turnover in the business increased by 38% to £10.9m in the year, underpinned primarily by a substantial increase in timeshare sales on the back of successful promotional campaigns and through higher revenues in the resort hotels. Our share of operating profits increased by £0.9m to £2.2m in the year.

A creative approach to development

Our areas of management expertise go beyond the pure operation of hotels and resorts. We also take pride in our ability to identify and execute enviable development opportunities.

In 1990 we acquired one of our first hotels, The Macdonald Ardoe House in Aberdeen, with 17 bedrooms, set in 40 acres of land and delivering operating profits of £0.4m. In June 2000 we completed a new wing of 40 bedrooms. This was the final phase of a £6.8m investment which also included a leisure club and conferencing facilities, added in 1999. The hotel now has 114 bedrooms and in its first full year following these developments we anticipate a £1.1m or 22% increase in profits.

Ansty Hall,
Warwickshire;
Ardoe House,
Aberdeen.

We have completed a £3.3m development and refurbishment programme at the Macdonald Ansty Hall Hotel, outside Coventry, adding a new bedroom block comprising 39 rooms and new conference and banqueting facilities. The extended hotel now has 62 rooms and the benefits of the investment will begin to be realised in the current financial period.

The major redevelopment projects at the Macdonald Cruthers House Hotel and the Macdonald Craxton Wood Hotel completed in June and November 1999 have been a success. Both hotels are trading extremely well with the Cruthers, which has been open longer, delivering a 22% operating return on investment cost in its first full 12 month trading period.

In May 2000 we exercised an option to acquire a 50% holding in The Pittodrie Group located close to Aberdeen, for only £122k. We have managed the business since 1992 and already had a 15% holding in the Hotel acquired for £131k in 1996. Our total investment of £253k is against an estimated value of our share of the business of around £3.0m. We are currently seeking planning consent to develop this unique and picturesque 27 bedroom hotel and estate adding new rooms, leisure facilities and, possibly, timeshare over the next 2 years.

The 157 bedroom Macdonald Holyrood Hotel in Edinburgh city centre was built in partnership primarily with the Royal Bank of Scotland and Bank of Scotland. It opened in November 1999 and is trading well. I was pleased that during 2000 the hotel received the prestigious AA Scottish Hotel of the Year award. Previous winners of this coveted award include the 5 star Edinburgh Sheraton and 5 star Cameron House at Loch Lomond.

Following the Heritage and Barratt Resorts acquisitions and our current focus on their successful integration into our business we do not envisage major development work in the immediate future, preferring instead to focus on refurbishments. The potential clearly remains however to build at least 700 new bedrooms, 6 leisure clubs and additional conference suites within the existing owned portfolio and we remain committed to doing so in the years ahead.

Building Partnerships for growth

Since the company's inception in 1990, its success has been founded on partnerships. There is no better example of this than our relationship with Barratt Developments plc. We managed their resort business from 1991, acquired a 50% interest in it in 1997 and completed the full acquisition in April 2001.

The acquisition of the Heritage Hotels Group from Compass in April 2001 in partnership with the Bank of Scotland is our largest and strategically most important Joint Venture to date.

This type of initiative builds upon an established and successful model in which Macdonald Hotels inject a proportion of equity into debt leveraged vehicles, funded mainly by banks as a means of securing long term management contracts over new business. This approach allows the Group to expand in a way that provides high overall returns on capital invested.

In June 2000 we announced the creation of a £100m development fund with the Bank of Scotland and Royal Bank to build 4 star city centre hotels. We are presently pursuing development sites throughout the UK.

At the time we announced the Heritage acquisition, we also announced an early end to our long term contract to manage Hand Picked Hotels. This decision was taken without compensation to Macdonald Hotels and is effective from 30 June 2001. Whilst on the surface, the loss of this contract will appear to impact upon our earnings in the year ahead I am confident that it will be more than compensated for by the Heritage and Barratt acquisitions.

The Heritage acquisition

The acquisition of the Heritage Hotels business is a tremendous step forward for our Group. The logic of the deal is compelling. The 48 hotels are very similar in their quality and character to our own portfolio and their locations are excellent, with Heritage filling most of the gaps we had, particularly in the south of England.

The business was acquired for £235m at a 22% discount to current independent valuations. £200m was paid on completion, the remaining £35m is deferred for payment in October 2002. The Joint Venture Company which made the acquisition is owned 50:50 between the Bank of Scotland and Macdonald Hotels and has total funding available of £272.5m. This comprises equity and loan stock of £62.5m and debt funding of £210m, all provided by the Bank of Scotland.

Macdonald Hotels has a 10 year management contract to run the Heritage business on behalf of the joint Venture, for which we will be remunerated through management fees calculated as a percentage of hotel revenues and operating profits.

The Compleat
Angler, Marlow;
The Syon
Lovers

The Heritage portfolio includes a number of well known high quality hotels such as The Compleat Angler at Marlow, The Berystede at Ascot, The Casile at Windsor, The Bath Spa, The Bear at Woodstock, The Randolph in Oxford and The Rusacks at St Andrews. 46 of the hotels are freehold or long leasehold with 2 further hotels run under management contract.

Over £20m has been spent on the development of the hotels over the last 3 years. This has included the launch of Retreat conferencing facilities, which are now in place at 30 hotels, as well as the introduction of designer rooms and the redefinition of ground floor areas at 10 hotels. Investment has been made in improving bedroom and public areas across the portfolio and we estimate that over 80% of the bedroom stock is now in good condition.

The hotels generated total revenues of £98m in the year to September 2000 of which 54% was earned from the top 15 hotels. Room yields were around £45 and approximately 60% of all business is derived from the commercial sector. 74% of sales are booked directly to the hotels and the majority of the remaining 26% comes from the central reservations office outside Birmingham.

Underlying hotel earnings before interest, tax and depreciation in the year to September 2000 were £34.2m. After absorbing central costs within the portfolio of £4.8m, costs allocated by Compass central services of £6.4m and depreciation of £6.4m, total EBIT was £16.6m.

I am optimistic about the exceptional growth prospects of the business. Most of the hotels are in excellent locations. They will be marketed alongside our own 4 star properties and, together, we see real opportunity to increase occupancy, room rates and yields.

We will look closely at the balance of the portfolio in the months ahead. We will seek to add new properties in identified location gaps with the funding available to us from the Joint Venture Company.

Our primary focus will be in driving the business forward in the UK. Expansion opportunities in management do exist in mainland Europe and prior to our acquisition of Heritage they were in advanced discussions to form a strategic sales and marketing alliance with a small, high quality hotel group in France.

Bath Spa, Bath;
Leeming House,
Ullswater.

The process of integrating the Heritage business into the Group is ahead of schedule. Over the next 6 months we will be restructuring the Macdonald and Heritage organisations into one and investing substantially in our *reservations and financial infrastructure*. The Group Head Office will remain in Scotland with the Finance function and Central Reservations. The Hotels Division will be managed from offices recently acquired in the South East, close to London. We expect to generate substantial savings from the integration and it will leave the overall organisation leaner, fitter and stronger than at any point in its history.

I am very pleased that key executives in the Heritage business, including Guy Crawford, have agreed to stay with us to continue the solid progress made in growing the business over the last 3 years.

Barratt International Resorts

Barratt Resorts is now a 100% subsidiary following our acquisition of the remaining 50% of the business from Barratt Developments PLC on 2 April 2001. We paid £1.2m on completion with the balance due in two equal instalments of £3.65m each, payable in June and December 2001. The acquisition is being funded through new borrowing facilities as set out in the Finance Director's report on page 14.

Villicano,
Andalucia, Spain.

Barratt Resorts is a 4 star timeshare business operating in an industry that has experienced rapid growth over the last 20 years. There are now over 5,000 resorts worldwide and the most popular destinations are the USA, mainland Europe and the UK. Global revenues are estimated at over £4bn per annum and are projected to grow at more than 10% per annum for the foreseeable future. The potential of the industry is enormous and it is no surprise that most of the major international hotel companies have entered the market looking to share in its overall growth and to exploit the opportunity to cross sell between hotels and resorts.

We have managed the Barratt Resort business since 1991 and have an in depth understanding of its operations as well as the critical factors in its long term success. In the year to 5 April 2001 Barratt Resorts generated turnover of £21.8m, EBIT of £4.4m and had net assets of £17.1m relative to our total acquisition cost for the business of £10.9m.

The business comprises 10 resorts, all which have timeshare developments and 3 of which have hotels. Four of the resorts are located in mainland Spain on the Costa del Sol and the remaining resorts and hotels are in the UK. Revenues are captured principally from timeshare sales and rentals (35%), provision of resort management services (9%) and hotels (38%).

We currently have 745 timeshare apartments equating to approximately 37,000 timeshare weeks. 95% of these weeks have already been sold leaving only 2,000 to sell. The resorts, however, still have substantial development opportunity and we estimate that another 80 apartments or 4,000 weeks can be built and sold on existing land.

At our Mijas joint venture in Spain another 2 phases of development opportunity exist, potentially adding 34 new apartments and 1,700 weeks for sale in addition to the 400 new weeks which have just been completed.

At Dalriada in Aviemore we plan to build another 6 apartments this year generating around 300 weeks for sale. We also have detailed planning consents to build an 18 hole golf course and 120 bedroom hotel at the site but will only progress this development once there is clarity around the overall development plans for Aviemore.

We are also looking selectively at our existing hotels portfolio and believe that substantial opportunity exists in specific locations to add timeshare developments to them. Additionally, we will seek to acquire new resorts probably as joint ventures in the UK and in mainland Europe and initial discussions are already underway with a potential partner.

Making effective use of Technology

There has been more progress made this year in introducing new technology to the Company than ever before in our history. The industry leading Micros Opera Central Reservation System is now installed at our Central Reservations Office. It is operating effectively and will be rolled out to our hotels over the next 3 months. We should then start to see substantial incremental revenue growth from this initiative.

A new loyalty club system has been introduced and is now efficiently supporting 6,600 club members.

To complement these initiatives on the cost and efficiency side, our financial systems have been upgraded and are now being supported by the development and introduction of a new business reporting package which will be operational shortly. These initiatives have been managed by our own in house team and executed on time and budget.

Investing in People

I made it clear at this time last year that we were in the process of strengthening our management team to drive and control the expansion of the business and to introduce fresh perspective and ideas to complement the experience already in the Group. Over the course of the last 18 months we have recruited 7 highly experienced executives into the business who have already made substantial impact within their relative disciplines.

Following the acquisition of Heritage and Barratt Resorts we now employ over 6,000 employees and they are the key to our continued success. We are committed to training and development at all levels in the organisation and I am sure this will result in increased sales, higher customer satisfaction and higher staff retention.

Prospects

I believe we have an interesting period of growth ahead. The existing business will continue to generate good organic sales growth following recent investment in people, technology and fabric. In the first 8 weeks of the new financial period room yields have increased by 7% across the portfolio.

These encouraging signs are supported by our investments in the acquisition of the Heritage and Barratt Resorts businesses both of which we expect to enhance shareholder value.

Donald J Macdonald

Chief Executive

8 June 2001

Finance Director's Report

The Chief Executive's Review of the year sets out the key drivers of the operating performance of the business.

PROFIT

Earnings before interest and tax (EBIT) increased by 16% in the period to £16.7m. Interest charges increased by £0.7m or 28% to £3.3m reflecting £3.5m of capital and other investment spend over the last 2 years and its impact on Group debts which finished the year up £6.4m at £57.4m.

The increase in interest costs against EBIT left profit before tax up 13% at £13.4m. The Group tax charge at £3.2m is at an effective rate of 25.7% reflecting the continued benefit of accelerated capital allowances on capital expenditure.

Profit attributable to shareholders improved by 14% and, after a proposed increase in dividends of 8% per share, retained profits for the year increased by 19% to £6.2m.

BALANCE SHEET AND CASH FLOW

Net assets increased by 12% to £89.6m. The year end position included the Barratt Resorts balance sheet acquired on 2 April 2001, comprising net assets of £17.1m. Year end gearing at 64% was in line with the prior year but as we have stated before, these percentages are based on fixed assets stated at 1996 valuations - gearing based on the Directors valuation of the assets is closer to 40%.

Debt funding increased by £6.4m in the year to £57.4m. The increase comprises:

	£m
Operating cash inflows	18.6
Interest, tax and dividends paid	(9.4)
Capital expenditure net of disposals	(10.5)
Investment in Barratt Resorts	(1.3)
Loans and loan repayments	(2.7)
Other cash outflows	(1.1)

Operating cash inflows increased by 25% to £18.6m driven by a 16% or £2.3m increase in operating profit before interest, higher depreciation of £0.7m and an increase in working capital of £0.7m.

Capital expenditure in the year includes the completion of major redevelopment projects at Macdonald Ardoe House (£1.7m) and Macdonald Ansty Hall (£2.5m), plus investments in IT (£1.5m)

mainly on new central reservation systems.

The total cost of the investment in the remaining 50% of the Barratt business is £8.5m of which £1.2m was paid at completion on 2 April 2001.

Loans and repayments comprise mainly the repayment of intercompany funding to Barratt Developments PLC on our acquisition of the business (£1.6m) and loans advanced to the Employee Share Ownership Plan (ESOP) during the year (£0.8m) to allow it to acquire shares on the open market to fund new share option issues.

DEBT FUNDING

Since the year end the Company's debt funding has been restructured to finance the acquisition of the Heritage and Barratt Resorts businesses and to provide headroom for on going operations. Funding facilities have been increased to £106m, all provided by the Bank of Scotland and comprising:

Term loan facilities	£70m
Multi option facility	£16m
Revolving credit facilities	£20m

The term loan facilities are structured in three tranches at interest rates between 0.9% and 2.5% over Libor. The multi option facility is at 1.0% over Libor and the revolving credit facility at 0.9% over Libor.

HERITAGE ACQUISITION

On completion of the Heritage acquisition on 26 April, Macdonald Hotels injected £2.5m equity and £28.75m of loan stock into the 50:50 Joint Venture Company established with the Bank of Scotland. The loan stock attracts interest at 5% over base. Debt financing in the Joint Venture Company totalling £210m is non recourse to Macdonald Hotels plc.

ACCOUNTING

Barratt Resorts has been accounted for as a subsidiary since 2 April 2001. Our 50% share of the Heritage business will be accounted for as a Joint Venture in accordance with FRS 9.

SS Christie

Finance Director

Board of Directors

Frank O'Callaghan

(61) Non-Executive Chairman* Appointed as Chairman in 1990 when the Group made its first acquisition. Chairman of Scottish Legal Life Assurance Company Ltd, Chairman of Outreach plc and Director of Rehab Scotland Ltd.

Donald Macdonald

(54) Chief Executive A founding director of the Company responsible for its overall development and expansion. Has over 30 years experience in the hotel industry including 13 years as a managing director and nine years as a main board director of a major hospitality industry plc.

Gerry Smith

(50) Deputy Chief Executive A founding director of the Company, promoted to deputy Chief Executive in May 2001. Previously Operations Director of Macdonald Hotels plc and prior to that operations director in a major hospitality industry plc. Has over 30 years experience in the hotel industry and now has responsibility for the Barratt International Leisure Resorts Ltd and other specific development opportunities within the business.

Scott Christie

(35) Finance Director Appointed in January 2000, with responsibility for finance, IT and purchasing. A Chartered Accountant, has held a number of senior financial positions with UDV and was latterly Integration Director at UDV Operations' Head Office in Edinburgh responsible for the merger of the UD and IDV operations businesses in the UK.

James Busby

(52) Corporate Development Director Joined the Company as finance director in 1992. Assigned responsibility for corporate development for the Group in 1999. A Certified Accountant with 23 years experience in the leisure and hotel industries.

James Lerche

(44) Regional Director Appointed in 1998. Has been with the Company since its inception when he was General Manager of Ardoe House hotel, one of the first two hotels bought by the Group.

Guy Crawford

(48) Hotel Division Managing Director Appointed May 2001 with overall responsibility for all hotels within the Group. Over 20 years experience in the hotel industry with Forte and Le Meridien Hotels, latterly as Managing Director of Heritage Hotels.

Donald MacDonald CBE

(62) Non-executive Director* Appointed in 1990. Chairman of Edinburgh Small Companies Trust plc and Scottish Chamber Orchestra. Vice Chairman City Inn Limited and Scottish Enterprise Edinburgh and Lothian. Director of Edinburgh Fund Managers Group plc and Director of Edinburgh Festival.

Sandy Orr

(62) Non-executive Director* Appointed in 1990. Chairman of City Inn Limited and Clark Pub Co Limited. Vice Chairman of Caledonian Brewery Limited and Director of Scottish Radio Holdings plc.

Calum MacLeod CBE

(65) Senior Non-executive Director* Appointed in 1995. Chairman of Aberdeen Development Capital PLC and Grampian Television and Deputy Chairman of Martin Currie Portfolio Investment Trust plc and SMG plc. Chairman of Institute of Directors, Scotland.

* Member of Audit and Remuneration Committees

The directors present their report and the Group financial statements of Macdonald Hotels plc for the year ended 5 April 2001.

REVIEW OF BUSINESS

The principal activities of the Group are the operation and management of hotels and leisure resorts. A review of the business during the year, including information on the Group's development and operations and the directors' opinion on future developments and prospects, is included in the Chairman's Statement and Chief Executive's Review.

RESULTS

The results of the Group for the year are shown in the financial headlines at the front of this report and in detail in the Group Profit and Loss Account on page 22.

DIVIDENDS

A final dividend of 4.34p (2000 : 4.00p) net per share is proposed for payment on 10 August 2001 making a total for the year of 6.50p (2000: 6.00p) net per share.

DIRECTORS

The directors of the Company, who held office throughout the year, are shown on page 15. R Pajares resigned from the Board on 30 March 2001. DJ Macdonald, GH Smith and F O'Callaghan retire by rotation and offer themselves for re-election at the Annual General Meeting.

DIRECTORS' INTERESTS IN SHARES

The directors' beneficial interests in the shares and rights to subscribe for shares of the Company are set out in Note 21 to the financial statements on pages 37 and 38.

DIRECTORS' INTERESTS IN CONTRACTS

No director is, or was during the financial year, materially interested in any contract of significance in relation to the Group's business.

SHARE CAPITAL

Movements in share capital are set out in Note 20 to the financial statements on page 37.

In accordance with the existing general authority to allot shares conferred by resolution 7 of the Annual General Meeting of the Company held on 6 August 1996 the Company is empowered to allot equity securities. This general authority expires on 5 August 2001 and an ordinary resolution will therefore be proposed at the Annual General Meeting as set out in resolution 8 of the Notice of the Annual General Meeting to give the directors general authority to allot shares.

The Board has no present intention of issuing any part of the unissued share capital except pursuant to the exercise of options under employee share schemes or on the exercise by Uberior Trading Limited, a subsidiary of the Bank of Scotland, of the option granted to it to subscribe for 3,005,137 ordinary shares in the capital of the Company.

A special resolution will be proposed at the Annual General Meeting as set out in resolution 9 of the Notice of Annual General Meeting to give the directors authority to allot equity securities either wholly for cash without first offering them to existing shareholders in proportion to their shareholdings or in connection with a rights issue. The resolution which replaces an authority given at the last Annual General Meeting will limit the value of equity securities which may be so issued by the directors to an aggregate nominal amount not exceeding 3,006,240 at a nominal value of £150,312, representing approximately five per cent of the existing share capital.

SUBSTANTIAL SHAREHOLDINGS

At the date of this report the company has been notified or was aware of the following interests, other than directors' interests, in three per cent or more of the issued share capital of the Company:

	Number of Shares	%
Aegon AM (UK)	4,253,000	7.1
Standard Life Assurance Company	3,889,126	6.5
Clerical Medical	3,426,000	5.7
Edinburgh Fund Managers	3,291,000	5.5
AXA IM (UK)	2,837,706	4.7
Scottish Widows Group	2,281,639	3.8
Abbey National Asset Management	2,067,916	3.4

CREDITOR PAYMENT POLICY

It is the Group's policy, as far as practicable and excluding instances of dispute concerning price, delivery or quality, to pay its suppliers within agreed terms. At 5 April 2001, 32 days average purchases were outstanding (2000 : 36 days).

EMPLOYEES

The Group has maintained its policy of communicating and consulting with employees on matters of concern to them and providing information in particular on the financial and economic factors affecting the performance of the Group. Fair and equal consideration is given to the recruitment and career development of all employees, including disabled persons whether or not they became disabled while in the Company's employment, and to the provision of training and other assistance where necessary and practicable.

CHARITABLE AND POLITICAL CONTRIBUTIONS

During the year the Group made charitable donations totalling £30,000 (2000 : £6,000). No donations were given for political purposes.

ANNUAL GENERAL MEETING

The Notice convening the Annual General Meeting to be held on Friday 10 August 2001 at 11am in the Cruthers House Hotel, Strathaven Road, East Kilbride is set out on page 42. At the Annual General Meeting, a resolution will be proposed as special business to renew the partial dis-application of pre-emption rights. The directors believe that the limited power provided by this resolution will provide a desirable degree of flexibility.

AUDITORS

KPMG Audit Plc have expressed their willingness to remain in office and a resolution to re-appoint them will be proposed at the Annual General Meeting.

By order of the Board



RG Fraser

Company Secretary

8 June 2001

The Group's remuneration committee is chaired by ADM MacDonald and its other members are F O'Callaghan, JAM Orr and CA MacLeod. All the remuneration committee members are non-executive directors.

REMUNERATION OF EXECUTIVE DIRECTORS

In determining the remuneration policy in respect of the executive directors, the remuneration committee has taken cognisance of the provisions in Section 1, part B of the Combined Code. The committee determines the terms of employment, service contracts, and all elements of remuneration of the executive directors, and is responsible for approving the grant of share options or performance incentives to executive directors and other employees of the Group. Basic salaries of executive directors are set at a level which ensures the Group remains competitive in the relevant employment market. There is a performance related incentive scheme under which DJ Macdonald, GH Smith, SS Christie and JG Busby may earn a bonus of up to 30 per cent of basic salary depending on the extent to which earnings per share out-perform the Retail Price Index. JA Lerche has an incentive scheme under which he may earn a bonus of up to 30 per cent of basic salary depending on the performance of the hotels under his control. Benefits for executive directors cover health and life assurance, and the provision of a fully expensed Company car.

Full details of directors' remuneration are set out in note 5 on page 29.

SHARE OPTIONS

The Group's policy is to encourage and motivate all levels of management and staff through the selective use of share options. Options over 873,377 shares were granted to the Group's executive directors in the year ended 5 April 2001.

SERVICE CONTRACTS

DJ Macdonald, GH Smith, JG Busby, JA Lerche and SS Christie have service contracts with the Company which are terminable on twelve months notice. Non-executive directors do not have service contracts and do not participate in any incentive schemes. The remuneration of the non-executive directors is determined by the Board.

DIRECTORS' INTERESTS

The interests of the directors in the shares of the Company at 5 April 2001 and 2 April 2000 are set out in the table in note 21 on pages 37 and 38.

The share options held by the directors at 5 April 2001 are also included in the table in note 21 on pages 37 and 38.

CORPORATE INFORMATION

Company Secretary
R. Gordon Fraser

Company Number
SC125204

Auditors
KPMG Audit Plc

Registered Office
Whiteside House
Bathgate
West Lothian
EH48 2RX

Principal Bankers
Bank of Scotland plc

Solicitors
Stephenson Harwood

Registrars
Computershare Services plc

Stockbrokers
Cazenove & Co.

The Board of the Company is committed to high standards of corporate governance, for which it is accountable to shareholders. In June 1998, the Committee on Corporate Governance published the Principles of Good Governance and Code of Best Practice (the Combined Code) which was agreed in final form in July 1998 by the London Stock Exchange and incorporated into the Listing rules.

STATEMENT BY THE DIRECTORS ON COMPLIANCE WITH THE PROVISIONS OF THE COMBINED CODE

During the course of the year, the directors put in place procedures to ensure that the Company fully complied with Turnbull guidance on internal controls, and with this exception the Company has been in full compliance with the provisions set out in Section 1 of the Combined Code throughout the year.

THE BOARD

The Board currently comprises an independent non-executive Chairman, Chief Executive, five other executive directors and three other independent non-executive directors. Biographical details of each director appear on page 15. The Board meets monthly. There is a recognition at Board level of matters specifically reserved to the Board for decision, and this includes the determination of overall Group strategy, the approval of acquisitions, disposals and major capital expenditure and other significant matters. It reviews the Group's annual budgets and monitors progress against them at each meeting. The Board also delegates specific aspects of the Group's affairs to committees and to the executive directors, as noted below.

All directors have access to the advice and services of the Company Secretary. Board papers are distributed by the Company Secretary to all directors in advance of Board meetings. Directors may seek external professional advice on matters relating to the Company at its expense.

R Pajares resigned from the Board, on 30 March 2001. Guy Crawford was appointed to the Board on 21 May 2001. Brendan Gillespie resigned as Company Secretary, and Gordon Fraser was appointed as Company Secretary on 20 April 2001.

In order to ensure compliance with the Combined Code, directors are required to submit themselves for re-election at least every three years.

REMUNERATION COMMITTEE REPORT

The remuneration committee comprises all the non-executive directors under the chairmanship of ADM MacDonald and meets at least once a year.

The committee determines the terms of employment, service contracts and all elements of remuneration of the executive directors and is responsible for approving the granting of share options or performance incentives to executive directors and other employees of the Group.

The views of the Chief Executive are sought when considering the remuneration of the other executive directors. The remuneration of the non-executive directors is determined by the Board.

Further details of the Company's policies on remuneration are contained in the Report on Directors' Remuneration on page 18.

AUDIT COMMITTEE

The audit committee, which is chaired by CA Macleod, comprises all the non-executive directors and meets at least three times a year. Meetings are also attended, by invitation, by the Chief Executive, the Finance Director and the Head of Internal Audit.

The audit committee meets to review the half year and full year results and the Annual Report. It also reviews the appropriateness and effectiveness of the Group's internal controls, policies and procedures through review of the internal audit function. The external auditors are given the opportunity to speak confidentially to the non-executive directors.

RELATIONS WITH SHAREHOLDERS

The Board uses the Annual General Meeting to communicate with private and institutional investors and welcomes their participation. Details of resolutions to be proposed at the Annual General Meeting on 10 August 2001 can be found in the Notice of Annual General Meeting on page 42.

There is regular dialogue with institutional shareholders including presentations after the Company's half year and preliminary announcement of the year end results.

INTERNAL FINANCIAL CONTROL

The directors are responsible for the Group's system of internal financial control and for reviewing its effectiveness. This system is designed to provide reasonable but not absolute assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve business objectives.

The Combined Code introduced a requirement that the directors review the effectiveness of the Group's system of internal controls. This extended the requirement in respect of internal financial controls to cover all controls including: financial, operational, compliance and risk management.

Guidance for directors *Internal Control: Guidance for Directors on the Combined Code* (the Turnbull guidance) was published in September 1999. In accordance with that guidance, procedures were put in place during the course of the year to identify, evaluate and manage the significant risks faced by the Group.

The directors have reviewed the effectiveness of the Group's system of internal controls. In carrying out this review, the directors have regard to those controls which in their judgement are appropriate to the Group's business and to the relative costs and benefits of implementing specific controls.

The key elements of the Group's system of internal controls are as follows:

- Financial reporting – there is a comprehensive budgeting system with an annual budget approved by the directors. Actual results are reported monthly against budget and revised forecasts to the year end are regularly prepared;
- Control environment – operating and financial controls and procedures which operating units are required to follow include appropriate authorisation limits and segregation of duties;
- Risk identification – Group management are responsible for the identification and evaluation of key risks applicable to their area of business. These risks are assessed on a regular basis and may be associated with a variety of internal and external sources including control breakdowns, competition and regulatory requirements;
- Investment appraisal – the Group has clearly defined investment criteria and guidelines for capital expenditure. These include detailed appraisal and review procedures and levels of authority;
- Monitoring and corrective action – there are clear and consistent procedures in place for monitoring the system of controls. The audit committee meets at least three times per annum and, within its remit, reviews the effectiveness of the Group's system of internal controls. In addition, the Group has an internal audit department, which conducts routine and unannounced reviews of the operation of controls and reports to management and to the audit committee.

GOING CONCERN

After making due enquiries the directors have 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.

Directors' Responsibilities in Respect of Financial Statements

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

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

REPORT OF THE AUDITORS TO THE MEMBERS OF MACDONALD HOTELS PLC

We have audited the financial statements on pages 22 to 41.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report. As described on page 20 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

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

We review whether the statement on pages 19 and 20 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statement on internal control covers all risks and controls or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with the 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 the Group as at 5 April 2001 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



KPMG Audit Plc

Chartered Accountants

Registered Auditor

8 June 2001

24 Blythswood Square

Glasgow G2 4QS

FOR THE YEAR (52 WEEKS) ENDED 5 APRIL 2001

	Note	2001 £000	2000 £000
Turnover : Group and share of joint venture	1	78,790	68,521
Less : Share of joint venture		(10,890)	(7,877)
Group turnover		67,900	60,644
Cost of sales		(51,814)	(46,375)
Gross profit		16,086	14,269
Administrative expenses		(1,646)	(1,163)
Operating profit		14,440	13,106
Share of operating profit of joint venture		2,245	1,311
Profit on ordinary activities before interest	1	16,685	14,417
Interest payable	2	(3,309)	(2,584)
Profit on ordinary activities before taxation	3	13,376	11,833
Taxation	6	(3,244)	(3,009)
Profit on ordinary activities after taxation		10,132	8,824
Minority interests		(53)	-
Profit attributable to shareholders		10,079	8,824
Dividends - equity	7	(3,872)	(3,608)
Retained profit for the year		6,207	5,216
		p	p
Earnings per share - basic	8	16.85	14.92
Earnings per share - diluted	8	16.82	14.81
Dividends per share	7	6.50	6.00

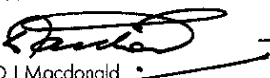
The results of the current and previous years all derive from continuing operations.

There is no material difference between the retained profit for the year stated above and its historical cost equivalent.

AS AT 5 APRIL 2001, AND 2 APRIL 2000

		Group		Company	
	Note	2001 £000	2000 £000	2001 £000	2000 £000
Fixed assets					
Tangible fixed assets	9	156,628	126,228	57	115
Investment in joint venture					
Share of gross assets		-	9,012		
Share of gross liabilities		-	(6,056)		
		-	2,956	-	1,522
Investment in own shares		813	-	813	-
Other investments		3,000	5,576	22,899	14,373
Share of net assets of associates		1,431	865	1,431	865
Total investments	10	5,244	9,397	25,143	16,760
		161,872	135,625	25,200	16,875
Current assets					
Stocks	11	2,708	916	-	-
Debtors	12	11,983	10,124	107,226	100,868
Cash and short term deposits		98	67	-	-
		14,789	11,107	107,226	100,868
Creditors : Due within one year	13	(44,519)	(24,551)	(45,845)	(23,598)
Net current (liabilities) assets		(29,730)	(13,444)	61,381	77,270
Total assets less current liabilities		132,142	122,181	86,581	94,145
Creditors : Due after more than one year	14	(39,700)	(39,800)	(38,700)	(38,700)
Provisions for liabilities and charges	16	(2,575)	(2,053)	69	37
Minority interest		(244)	-	-	-
Net assets		89,623	80,328	47,950	55,482
Capital and reserves					
Called up share capital	20	3,006	3,005	3,006	3,005
Share premium account	23	27,366	27,343	27,366	27,343
Revaluation reserve	23	25,059	21,995	-	-
Profit and loss account	23	34,192	27,985	17,578	25,134
Equity shareholders' funds		89,623	80,328	47,950	55,482

Approved by the Board on 8 June 2001 and signed on its behalf by


D J Macdonald
Director

S S Christie
Director



FOR THE YEAR (52 WEEKS) ENDED 5 APRIL 2001

	2001	2000
	£000	£000
Net cash inflow from operating activities (note 24 (1))	18,586	14,910
Net cash outflow from returns on investments and servicing of finance		
Interest paid	(3,568)	(2,712)
Taxation		
Corporation tax paid	(2,215)	(2,298)
Capital expenditure and financial investments		
Purchase of tangible fixed assets	(10,638)	(17,586)
Disposal of tangible fixed assets	99	187
Net cash outflow from capital expenditure and financial investments	(10,539)	(17,399)
Acquisitions and disposals		
Purchase of subsidiary undertakings	(1,322)	-
Overdrafts acquired with subsidiary undertakings	(736)	-
Repayment/(investment) in joint venture	574	(3,011)
Investment in associated undertakings and other investments	(390)	(3,000)
Net cash outflow from acquisitions and disposals	(1,874)	(6,011)
Equity dividends paid	(3,696)	(3,357)
Cash outflow before financing	(3,306)	(16,867)
Financing		
Share issue	24	3,161
Receipt of loans	-	6,300
Loan to ESOP trust	(813)	-
Repayment of loans	(1,886)	(100)
Net cash (outflow)/inflow from financing	(2,675)	9,361
Decrease in cash in the year (note 24 (2))	(5,981)	(7,506)

Group Statement of Total Recognised Gains and Losses

FOR THE YEAR (52 WEEKS) ENDED 5 APRIL 2001

	2001	2000
	£000	£000
Profit for the financial year and total recognised gains and losses relating to the year	10,079	8,824
Revaluation of own share of joint venture at time of acquisition of remaining 50%	3,064	-
Prior year adjustments	-	(3,000)
Total gains and losses recognised since last annual report	13,143	5,824

Group Reconciliation of Movements in Shareholders' Funds

FOR THE YEAR (52 WEEKS) ENDED 5 APRIL 2001

	2001	2000
	£000	£000
Profit attributable to shareholders	10,079	8,824
Dividends	(3,872)	(3,608)
Retained profit for the year	6,207	5,216
Share issue	24	3,161
Revaluation of own share of joint venture at time of acquisition of remaining 50%	3,064	-
Net increase in shareholders' funds	9,295	8,377
Opening shareholders' funds	80,328	71,951
Closing shareholders' funds	89,623	80,328

BASIS OF PREPARATION

The financial statements have been prepared in accordance with applicable UK accounting standards and under historical cost accounting rules, modified to include the revaluation of certain land and buildings. The financial statements have been prepared for the 52 weeks ended 5 April 2001 (2000 : 53 week period ended 2 April 2000).

BASIS OF CONSOLIDATION

The Group financial statements consolidate the financial statements of the Company and all its subsidiary undertakings made up to 5 April 2001. No profit and loss account is presented for Macdonald Hotels plc as permitted by Section 230 of the Companies Act 1985. Unless otherwise stated, the acquisition method of accounting is used to consolidate the results of subsidiary undertakings acquired during a financial period. The Group's share of the results and net assets of its joint venture and associate undertakings are included in the consolidated profit and loss account and balance sheet under the equity method of accounting. The recently acquired subsidiary (previously a joint venture), Barratt International Resorts Ltd ("Barratt Resorts"), has an end of June year end. The Group's share of the results of this subsidiary is based on reliable management accounts to the end of March.

GOODWILL

Prior to 29 March 1998, goodwill relating to the acquisition of shares in subsidiary undertakings, being the excess of the fair value of the purchase consideration over the fair value attributed to the underlying net assets at the date of acquisition, was written off against reserves in the financial period in which it arose. In the event of a subsequent disposal of the businesses to which it relates, a charge or credit to the profit and loss account in respect of such goodwill would arise. Positive goodwill arising on acquisitions since March 1998 is capitalised, classified as an asset in the balance sheet and amortised in accordance with FRS 10.

FIXED ASSETS AND DEPRECIATION

(a) Land and buildings

The Group's hotel properties were valued in February 1996 on the basis of existing use as fully equipped operational entities having regard to their trading potential. On adoption of FRS 15, the Group followed the transitional provisions to retain the net book value of land and buildings, which were revalued in 1996 but not to adopt a policy of revaluation in the future.

(b) Depreciation

Depreciation is provided to write the assets down to their estimated residual value by equal instalments over their estimated useful economic lives as follows:

Land	not depreciated
Freehold hotel properties	50 years
Building surfaces	10-30 years
Office premises	50 years
Furniture, fittings and fixtures	4-10 years
Motor vehicles	4 years
Information technology equipment	4 years

Any impairment in the value of hotel properties is charged to the profit and loss account or statement of total recognised gains or losses, as appropriate, in the financial year in which it arises.

Investments are stated at cost less any necessary provision for diminution in value. Other fixed assets are stated at cost.

INTEREST

Interest charges incurred in the acquisition, construction or redevelopment of trading units are capitalised up to the point of practical completion.

OPERATING LEASES

Operating lease rental charges are charged to the profit and loss account on a straight line basis over the period of the lease.

TAXATION

The charge for taxation is based on the profits for the year and takes into account taxation deferred by timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

STOCKS

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

PENSION COSTS

The Group operates a defined contribution pension scheme. Contributions are charged against the profit and loss account as incurred.

EMPLOYEE SHARE OWNERSHIP PLAN TRUST

The Company established an Employee Share Ownership Plan ("ESOP") to promote ownership of ordinary shares among certain employees of the Company. Shares are held in trust until such time as they may be transferred to employees in accordance with the terms of the scheme (dividends on these shares have been waived by the trustees). These shares are shown as fixed asset investments for accounting purposes in accordance with FRS 5 and UITF Abstract 13. At 5 April 2001 the trust held a total of 560,000 shares of 5p each representing 0.9% of the called up share capital.

DERIVATIVE INSTRUMENTS

Where interest rate caps and collars are used to manage interest rate exposure, interest is charged to the profit and loss account over the lives of the instruments and based on their contracted rates together with the cost of the instrument. These instruments are not revalued to fair value or shown on the balance sheet at the year end.

1 SEGMENTAL ANALYSIS

	Turnover		Profit before interest	
	2001	2000	2001	2000
	£000	£000	£000	£000
Owned hotels	63,451	57,382	12,938	12,004
Management contracts	4,449	3,262	1,502	1,102
Share of joint venture	10,890	7,877	2,245	1,311
	78,790	68,521	16,685	14,417

Turnover represents the invoiced value of sales excluding value added tax. Turnover originated both in the United Kingdom and in Spain.

The net assets of the Group are located in the United Kingdom and Spain. The net assets attributable to the management contracts business are not material.

2 INTEREST PAYABLE

	2001	2000
	£000	£000
On bank borrowings	3,270	2,748
Capitalised	(47)	(199)
Group interest charged	3,223	2,549
Share of joint venture's interest	86	35
	3,309	2,584

3 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	2001	2000
	£000	£000
Profit on ordinary activities before taxation is stated after charging:		
Depreciation	4,881	4,219
Operating lease rentals - plant and machinery	27	40
- property	43	59
Loss / (gain) on sale of tangible fixed assets	18	(1)
Auditors' remuneration - audit services	56	54
Other fees paid to the auditors and their associates	52	35

The parent Company audit fee was £13,000 (2000:£13,000)

4 EMPLOYEES

	2001 £000	2000 £000
Wages and salaries	30,066	26,459
Social security costs	2,155	1,768
Other pension costs (note 18)	401	242
	32,622	28,469
Of which recharged under management contracts	(9,406)	(7,449)
	23,216	21,020
The average number of employees during the year was:-		
Owned hotels	1,844	1,858
Management contracts	613	519
	2,457	2,377

5 DIRECTORS' REMUNERATION

	FEES £000	SALARY £000	BONUSES £000	PAYMENTS IN LIEU OF PENSION £000	BENEFITS £000	TOTAL 2001 £000	TOTAL 2000 £000	PENSION 2001 £000	PENSION 2000 £000
Executive									
DJ Macdonald	-	242	30	45	14	331	258	28	23
GH Smith	-	157	20	8	21	206	166	23	22
JG Busby	-	122	15	1	13	151	136	23	21
JA Lerche	-	89	12	-	7	108	82	13	11
G McGee	-	-	-	-	-	-	†84	-	7
SS Christie	-	101	15	-	12	128	*28	17	4
Non-executive:									
F O'Callaghan	50	-	-	-	-	50	50	-	-
JAM Orr	30	-	-	-	-	30	30	-	-
ADM Macdonald	20	-	-	-	-	20	20	-	-
TJ Hemmings	-	-	-	-	-	-	† 8	-	-
CA Macleod	20	-	-	-	-	20	20	-	-
R Pajares ‡	18	-	-	-	-	18	5	-	-
	138	711	92	54	67	1,062	887	104	88

* From date of appointment.

† To date of resignation.

Included in directors' fees are payments of £88,000 (2000 : £78,000) made to director owned management services companies.

Under their service agreements certain directors are entitled to payments in lieu of pension contributions over the pensions cap.

Pension payments for each director are in respect of contributions to money purchase schemes.

Directors' share options are detailed in note 21 on pages 37 and 38.

6 TAXATION ON PROFIT ON ORDINARY ACTIVITIES

	2001	2000
	£000	£000
The taxation charge comprises:		
Corporation tax on profit for the year	2,352	2,059
Joint venture	820	585
Deferred tax	261	302
Current year charge	3,433	2,946
Prior year corporation tax	(326)	-
Prior year deferred tax	137	63
	3,244	3,009

The current year tax charge is at an effective rate of 25.7% (2000 : 24.9%), less than the standard rate of 30.0% (2000 : 30.0%) as follows:

	2001	2000
	£000	£000
Corporation tax at standard rate	4,013	3,550
Reduced by excess of capital allowances over depreciation not provided	(781)	(777)
Losses utilised and other timing differences	16	(27)
Impact of joint venture tax charge	185	200
	3,433	2,946

7 DIVIDENDS

	2001	2000
	£000	£000
Interim dividend of 2.16p (2000 : 2.0p) net per share paid	1,289	1,201
Final dividend of 4.34p (2000 : 4.0p) net per share proposed	2,583	2,407
Total dividend - 6.5p (2000 : 6.0p)	3,872	3,608

8 EARNINGS PER SHARE

The calculation of earnings per share is based on profit attributable to shareholders of £10,079,000 (2000 : £8,824,000) and on 59,803,564 (2000 : 59,137,979), being the weighted average number of shares in issue.

The diluted earnings per share is based on profit attributable to shareholders of £10,079,000 (2000 : £8,824,000) and on 59,938,957 (2000 : 59,568,303) shares, calculated as follows:

	2001	2000
	£000	£000
Basic weighted average number of shares	59,803,564	59,137,979
Dilutive potential ordinary shares:		
Employee share options	135,393	430,324
	59,938,957	59,568,303

Earnings per share are calculated for the issued shares excluding those held by the Employee Share Ownership Plan Trust in accordance with UITF 13.

9 TANGIBLE FIXED ASSETS

	Group				Company
	Freehold properties	Projects in progress	Vehicles, Fittings & equipment	Total	Total
	£000	£000	£000	£000	£000
Cost or valuation					
At 2 April 2000	108,973	2,574	30,733	142,280	159
Additions	426	8,329	1,798	10,553	-
Acquisitions	22,482	229	6,464	29,175	-
Transfers	6,137	(8,981)	2,844	-	-
Disposals	-	-	(319)	(319)	(47)
At 5 April 2001	138,018	2,151	41,520	181,689	112
At cost	76,063	2,151	41,520	119,734	112
At valuation 1996	61,955	-	-	61,955	-
Depreciation					
At 2 April 2000	3,893	-	12,159	16,052	44
Acquisitions	452	-	3,876	4,328	-
On disposals	-	-	(200)	(200)	(25)
Charge for year	1,438	-	3,443	4,881	36
At 5 April 2001	5,783	-	19,278	25,061	55
Net book amount					
At 5 April 2001	132,235	2,151	22,242	156,628	57
At 2 April 2000	105,080	2,574	18,574	126,228	115

In accordance with FRS 15: Tangible Fixed Assets, the Group has followed the option to retain the book value of land and buildings, certain of which were valued in February 1996 by an independent firm of chartered surveyors, Robert Barry & Co. The freehold property element (i.e. excluding fittings and equipment) at £62.0 million of their total valuation of £69.5 million has been incorporated in the financial statements. The properties were valued on the basis of existing use value as fully equipped operational entities having regard to their trading potential and the valuations were carried out in accordance with the Practice Statements in the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors. The value attributed by the directors to fittings and equipment was equal to the net book amount of these assets. The surplus on revaluation of the properties has been credited to revaluation reserve.

The cost or valuation Freehold Properties category is made up of £19,881,000 (2000 : £14,825,000) of land which is not depreciated, £24,973,000 (2000 : £19,695,000) of building surfaces and finishes, and £93,164,000 (2000 : £74,453,000) of hotel buildings.

On an unmodified historical cost basis the net book amount of the Group tangible fixed assets at 5 April 2001 would be £134,633,000 (2000 : £104,233,000).

The gross amount of depreciable assets is £161,808,000 (2000 : £127,455,000). Fixed assets at cost include capitalised interest of £487,000 (2000 : £440,000).

10 FIXED ASSET INVESTMENTS

	SUBSIDIARIES SHARES £000	JOINT VENTURES SHARES £000	LOANS £000	ASSOCIATES SHARES £000	LOANS £000	TRADE INVESTMENT £000	OWN SHARES £000	TOTAL £000
Group								
Cost								
At 2 April 2000	-	2,956	2,445	95	770	3,131	-	9,397
Additions	-	-	-	60	506	-	813	1,379
Repayment	-	-	(574)	-	-	-	-	(574)
Transfers within investments	-	(1,522)	(312)	-	-	(131)	-	(1,965)
Transfer to intercompany	-	(2,773)	(1,559)	-	-	-	-	(4,332)
Share of retained profit	-	1,339	-	-	-	-	-	1,339
At 5 April 2001	-	-	-	155	1,276	3,000	813	5,244
Company								
Cost								
At 2 April 2000	8,797	1,522	2,445	95	770	3,131	-	16,760
Additions	8,666	-	-	60	506	-	813	10,045
Additional consideration	471	-	-	-	-	-	-	471
Repayment	-	-	(574)	-	-	-	-	(574)
Transfers within investments	1,965	(1,522)	(312)	-	-	(131)	-	-
Transfer to intercompany	-	-	(1,559)	-	-	-	-	(1,559)
At 5 April 2001	19,899	-	-	155	1,276	3,000	813	25,143

Own shares are held in the Employee Share Ownership Plan ("ESOP") trust. At 5 April 2001, the market value of these shares was £912,800.

At 5 April 2001 the following companies were the principal subsidiaries, associated undertakings and investments, all operating in the UK:

Subsidiaries

- (i) Intra Inns Ltd
- (i)(iv) Killhey Courts Hotels Ltd
- (i) Macdonald Hotels (UK) Ltd
- (iii) Macdonald Hotels (Management) Ltd
- (iii) Leisure Resorts Management Ltd
- (iii) Aviemore Leisure Management Ltd
- (ii) Barratt International Resorts Ltd
- (iii) Pittodrie Group Ltd (50%)
- (i) Pittodrie House Hotel Ltd (57.5%)
- (iv) Pittodrie Estates Ltd (50%)
- (i) Hotels (ii) Hotels and Leisure (iii) Management Services (iv) Held through intermediate subsidiary

Associates

- (i) Holyrood Hotels Ltd (19%)
- (i) Cardrona Hotel, Golf and Country Club Ltd (15%)
- (ii)(iv) Aviemore Mountain Resort Ltd (33%)

Investments

- (ii) Hand Picked Hotels Ltd (8%)

A full list of subsidiary undertakings will be included in the Company's Annual Return.

Barratt Resorts previously a 50% joint venture, was acquired as a 100% subsidiary on 2 April 2001 for a consideration of £8,544,000. Loans due from Barratt Resorts at this date were therefore transferred to intercompany, and the shares held as joint venture investments were transferred to subsidiary investments held. The additional consideration paid of £471,000 is as a result of a deferred consideration payable on the acquisition of the first 50% of Barratt Resorts.

On 25 May 2000, an option was exercised by the Company to buy 50% of Pittodrie Group Ltd for £122,000. Pittodrie Group Ltd have an 85% stakeholding in Pittodrie House Hotels Ltd. The Company previously had a direct holding in Pittodrie House Hotels Ltd of 15% and therefore with the acquisition of Pittodrie Group Ltd, now has an effective 57.5% holding. Shares held as trade investments relating to Pittodrie Hotels Ltd were therefore transferred to subsidiary shares held.

Additions to subsidiary shares therefore comprise the shares in Pittodrie Group Ltd and also the additional Barratt Resorts shares acquired during the year.

10 FIXED ASSET INVESTMENTS (CONTINUED)

1) Acquisition of Barratt Resorts

The fair value on the acquisition of the remaining 50% of Barratt Resorts was determined as follows:

	Book value of assets acquired	Fair value adjustment	Assets at fair value
	£000	£000	£000
Fixed assets	14,181	9,325	23,506
Current assets	5,002	-	5,002
Current liabilities	(7,614)	-	(7,614)
Bank overdraft	(688)	-	(688)
Long term loans	(3,118)	-	(3,118)
	7,763	9,325	17,088
Acquisition of 50%			8,544
Consideration			(8,544)
Goodwill			-

Fair value adjustments were made to restate freehold property to market value.

The Companies Act requires that goodwill is calculated at the date a company becomes a subsidiary. This treatment would result in the retained reserves relating to Barratt Resorts, earned while it was a joint venture, being reclassified as negative goodwill. The directors believe that this treatment would fail to give a true and fair view and that the acquisition should be accounted for on a piece-meal basis in accordance with paragraph 89 of FRS 2. The impact of this is that negative goodwill of £6,239,000 that would otherwise have arisen is included as retained reserves (£3,175,000) and the revaluation reserve (£3,064,000).

The profit after tax of Barratt Resorts in its last financial year to 30 June 2000 was £1,404,000 and the profit after tax in the period from its year end to date of acquisition was £2,678,000.

The consideration was paid in one cash instalment of £1,200,000, and a deferred consideration of £7,344,000 is payable in two equal instalments on 22 June 2001 and 14 December 2001.

(2) Acquisition of Pittodrie Group Limited

	Book value of assets acquired	Fair value adjustment	Assets at fair value
	£000	£000	£000
Fixed assets	1,381	(80)	1,301
Current assets	164	-	164
Current liabilities	(1,173)	-	(1,173)
Bank overdraft	(48)	-	(48)
	324	(80)	244
Acquisition of 50%			122
Consideration in cash			(122)
Goodwill			-

Fair value adjustments were made to restate freehold property to market value.

11 STOCKS

	Group		Company	
	2001 £000	2000 £000	2001 £000	2000 £000
Unsold timeshare weeks for resale	1,325	-	-	-
Goods for resale	1,383	916	-	-
	2,708	916	-	-

12 DEBTORS

	Group		Company	
	2001 £000	2000 £000	2001 £000	2000 £000
Trade debtors	8,358	4,991	137	64
Other debtors and prepayments	3,625	4,538	617	2,643
Amounts due from subsidiary undertakings	-	-	106,472	98,161
Amounts due from joint venture	-	595	-	-
	11,983	10,124	107,226	100,868

Although amounts due from subsidiary undertakings are payable on demand, the parent Company has no plans to demand settlement in the short term. All other debtor balances are due within one year.

13 CREDITORS: DUE WITHIN ONE YEAR

	Group		Company	
	2001 £000	2000 £000	2001 £000	2000 £000
Bank overdrafts and other loans	17,720	11,256	34,527	20,511
Trade creditors	4,379	1,778	1	-
Proposed dividend	2,583	2,407	2,583	2,407
Corporation tax	3,629	1,751	-	-
Other taxation and social security	2,316	1,146	57	50
Other creditors	7,454	-	7,454	-
Accruals and deferred income	6,438	6,213	1,223	630
	44,519	24,551	45,845	23,598

Bank overdrafts and loans are secured by a bond and floating charge over the whole property and undertakings of the Group.

Other creditors includes an amount of £7,344,000 of deferred consideration on the acquisition of Barratt Resorts and £109,000 deferred consideration for loan notes on the acquisition of 15% of Cardrona Hotel, Golf and Country Club Ltd.

14 CREDITORS: DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	2001 £000	2000 £000	2001 £000	2000 £000
Bank loans	39,700	39,800	38,700	38,700
The loans are repayable as follows:				
Within one year	551	100	-	-
Between one and two years	100	100	-	-
Between two and five years	300	300	-	-
After five years	39,300	39,400	38,700	38,700
After more than one year	39,700	39,800	38,700	38,700

14 CREDITORS: DUE AFTER MORE THAN ONE YEAR (CONTINUED)

	£000	Rate	Repayment
Bank loans			
Term loan	20,000	Libor or Base + 0.9%	One single instalment in December 2018
Revolving credit	18,700	Libor or Base + 0.9%	One single instalment in December 2018
	<u>38,700</u>		
Term loan	1,000	Fixed rate 9.575%	Further instalment of £100,000 in January 2002, then one single instalment in December 2018
Total bank loans (i)	<u>39,700</u>		

(i) Secured by a bond and floating charge over the whole property and undertakings of the Group.

15 DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

a) Short term debtors and creditors

Short term debtors and creditors have been excluded from all of the following disclosures.

b) Interest rate risk profile of financial liabilities and assets

The interest rate profile of the Group's financial liabilities at 5 April 2001, after taking account of the interest rate collars used to manage the interest profile, was:

Currency	Total £000	Floating Rate £000	First rate borrowings		
			Fixed Rate £000	Weighted average interest rate %	Weighted average period until maturity Years
Sterling	57,420	57,420	1,000	9.575	1.2
Cash	(98)	(98)	-	-	-
Net borrowing	57,322	57,322	1,000	9.575	1.2

Interest rate caps and collars are used to manage the Group's exposure to interest rate risk. The year end variable rate debt was partially covered by the following interest rate collars:

	Cap 9% £000	Floor 6% £000
Expiring December 2001	15,000	10,000
Expiring May 2002	10,000	10,000
	<u>25,000</u>	<u>20,000</u>

If the Group had wished to exit these collars at the year end, a premium of £162,000 would have been payable, reflecting the fair value of these financial instruments at the balance sheet date.

c) Liquidity risk

The maturity profile of the Group's financial liabilities, excluding short term creditors, and the undrawn facilities available to the Group, in respect of which all conditions precedent had been met, are as follows:

	Drawn £000	Undrawn Facilities £000	Total Facilities £000
Expiring within one year or less	17,720	8,180	25,900
Expiring between one and two years	100	-	100
Expiring in more than two years	39,600	400	40,000
	<u>57,420</u>	<u>8,580</u>	<u>66,000</u>

For all debts, short term assets and liabilities, the book values and fair values are the same except for the £162,000 termination cost on the interest rate collars noted above. The Group does not have any foreign currency exposure nor does it speculate in derivative transactions.

The Company re-negotiated its banking facilities during April 2001 (note 26).

16 PROVISION FOR LIABILITIES AND CHARGES

	Group £000	Company £000
The deferred tax balance and movements during the year were as follows:		
At 2 April 2000	2,053	(37)
Charge for year (note 6)	398	(32)
On acquisition of Pittodrie Group Ltd	124	-
At 5 April 2001	2,575	(69)

	Group		Company	
	2001 £000	2000 £000	2001 £000	2000 £000
Provided				
Difference between accumulated depreciation and capital allowances	2,712	2,088	(4)	(2)
Other timing differences	(137)	(35)	(65)	(35)
	2,575	2,053	(69)	(37)

	Group		Company	
	2001 £000	2000 £000	2001 £000	2000 £000
Unprovided				
Difference between accumulated depreciation and capital allowances	6,073	5,202	-	-

The tax liability which would arise on disposal of freehold properties at their book amounts is not quantified as it is anticipated that rollover relief would postpone any such liability indefinitely

17 FINANCIAL COMMITMENTS

	Group		Company	
	2001 £000	2000 £000	2001 £000	2000 £000
(1) Capital commitments				
Contracted but not provided for	462	610	-	-

(2) Operating lease commitments

Annual commitments of the Group under non-cancellable operating leases are as follows:

	Properties		Plant & Equipment	
	2001 £000	2000 £000	2001 £000	2000 £000
Operating leases which expire:				
Within one year	21	37	8	14
Between two and five years	-	-	18	26
After five years	22	21	-	-
	43	58	26	40

18 PENSION COMMITMENTS

The Group operates a defined contribution pension scheme, the assets of which are held in an independently administered fund. Pension costs represent contributions payable by the Group to the fund, together with defined contributions payable by the Group to individual funds administered separately for directors and certain employees in accordance with their respective service contracts or terms and conditions of employment, which are charged to the profit and loss account annually. The total of the contributions for the year was £401,000 (2000 : £242,000). Contributions totalling £14,000 (2000 : £14,000) remained unpaid at 5 April 2001 and are included in accruals.

Following a judgement by the House of Lords in July 2000 against Equitable Life and its subsequent failure to achieve a sale of its business, the trustees of the Company's pension scheme, on consulting with their advisors, concluded that from December 2000 no further investments would be made with Equitable Life. From that date, members' contributions have been held on deposit with the Bank of Scotland by the trustees under their sole control until a decision is made on a future course of action. The balance held in the trust account at 5 April 2001 was £149,898.

19 CONTINGENT LIABILITIES

The Company is party to joint and several guarantees with its subsidiary undertakings in respect of Group bank borrowings. The Company's liability in respect of these guarantees at 5 April 2001 amounted to £nil (2000 : £nil).

The Company is party to an unlimited joint and several guarantee with its wholly owned subsidiary Barratt International Resorts Ltd to the Civil Aviation Authority in respect of third party liabilities associated with that Company's Air Tour Operator's licence.

20 SHARE CAPITAL

Authorised:

	£000
At 2 April 2000 and	
5 April 2001 - 78,000,000 ordinary shares of 5p each	3,900

Allotted, called up and fully paid:

At 2 April 2000 - 60,102,740 ordinary shares of 5p each	3,005
Allotted during the year	1
At 5 April 2001 - 60,124,808 ordinary shares of 5p each	3,006

21 DIRECTORS' INTERESTS

The directors' interests in the ordinary shares of the Company and in share options at the dates stated were as follows:

(1) Shares

	5 April 2001	2 April 2000
F O'Callaghan	2,386,000	2,350,000
D J Macdonald	5,266,172	5,237,255
G H Smith	3,500,000	3,500,000
J G Busby	300,760	300,760
S S Christie	-	-
J A Lerche	56,119	56,119
J A M Orr	2,800,000	2,800,000
A D M MacDonald	2,800,000	2,800,000
C A Macleod	40,000	40,000

There has been no change in directors' shareholdings in the period 6 April to 8 June 2001.

21 DIRECTORS' INTERESTS (CONTINUED)

(2) Share options

	At 2 April 2000	Granted during year	At 5 April 2001	Exercise price	Exercise dates
D J Macdonald	193,103	-	193,103*	145p	(i) Mar 99 - Mar 03
	10,147	-	10,147+	170p	Jan 02 - Jun 02
	-	438,217	438,217*	157p	(iii) Oct 04 - Oct 06
G H Smith	126,896	-	126,896*	145p	(i) Mar 99 - Mar 03
	10,147	-	10,147+	170p	Jan 02 - Jun 02
	-	282,803	282,803*	157p	(iii) Oct 04 - Oct 06
J G Busby	110,344	-	110,344*	145p	(i) Mar 99 - Mar 03
	10,147	-	10,147+	170p	Jan 02 - Jun 02
S S Christie	207,650	-	207,650*	183p	(ii) Mar 03 - Mar 05
J A Lerche	41,931	-	41,931*	145p	(i) Mar 99 - Mar 03
	9,176	-	9,176+	170p	Jan 04 - Jun 04
	-	152,357	152,357*	157p	(iii) Oct 04 - Oct 06
	719,541	873,377	1,592,918		

* Executive Share Option Scheme

+ SAYE Share Option Scheme

No options were exercised or lapsed during the year

(i) Exercisable as to one third from 7 March in each of the years 1999, 2000 and 2001 subject to growth in earnings per share in each of the three years ending 31 March 1999 exceeding growth in the Retail Price Index by at least 2 per cent.

(ii) Exercisable as to one third from 16 March in each of the years 2003, 2004 and 2005 subject to growth in earnings per share in each of the three years ending prior to the date on which the option is first exercised exceeding growth in the Retail Price Index by at least 2 per cent.

(iii) Exercisable as to one third from 5 October in each of the years 2004, 2005 and 2006 subject to growth in earnings per share in each of the three years ending prior to the date on which the option is first exercised exceeding growth in the Retail Price Index by at least 2 per cent.

The middle-market price of the Company's shares at 5 April 2001, the last dealing day of the financial year, was 163.0p and the highest and lowest prices during the year were 196.8p and 128.5p respectively. There has been no change in directors' options in the period 6 April to 8 June 2001.

22 SHARE OPTIONS

Other than directors' options (Note 21 (2)), at 5 April 2001 options were outstanding under the terms of the share option schemes to subscribe for ordinary shares as follows:

	No of shares	Exercise price	Exercise dates
Share Option Plan (No2)	245,024	145p	(i) Mar 99 - Mar 03
	34,319	183p	(ii) Dec 00 - Dec 04
	254,098	183p	(iii) Mar 03 - Mar 05
	495,731	157p	(iv) Oct 03 - Oct 05
	259,375	160p	(v) Mar 04 - Mar 06
Share Option Plan	91,120	169p	(vi) Aug 01 - Aug 07
	15,000	152p	(vii) Feb 03 - Feb 09
Savings Related Share Option Scheme	65,521	170p	Jan 02 - June 02
	33,490	170p	Jan 04 - June 04

22 SHARE OPTIONS (CONTINUED)

- (i) Exercisable as to one third from 7 March in each of the years 1999, 2000 and 2001 subject to growth in earnings per share in each of the three years ending 31 March 1999 exceeding growth in the Retail Price Index by at least 2 per cent.
- (ii) Exercisable as to one third from 29 December in each of the years 2000, 2001 and 2002 subject to growth in earnings per share in each of the three years ending 31 March 2000 exceeding growth in the Retail Price Index by at least 2 per cent.
- (iii) Exercisable as to one third from 16 March in each of the years 2003, 2004 and 2005 subject to growth in earnings per share in each of the three years ending prior to the date on which the option is first exercised exceeding growth in the Retail Price Index by at least 2 per cent.
- (iv) Exercisable as to one third from 5 October in each of the years 2003, 2004 and 2005 subject to growth in earnings per share in each of the three years ending prior to the date on which the option is first exercised exceeding growth in the Retail Price Index by at least 2 per cent.
- (v) Exercisable as to one third from 8 March in each of the years 2003, 2004 and 2005 subject to growth in earnings per share in each of the three years ending prior to the date on which the option is first exercised exceeding growth in the Retail Price Index by at least 2 per cent.
- (vi) Exercisable as to two thirds from 21 August 2001 and one third from 21 August 2002 subject to growth in earnings per share in each of the three years ending 31 March 2000 exceeding growth in the Retail Price Index by at least 2 per cent.
- (vii) Exercisable in whole or in part from 18 February 2003 subject to growth in earnings per share in each of the three years ending 31 March 2002 exceeding growth in the Retail Price Index by at least 2 per cent.

In the period 6 April to 8 June 2001 no options have lapsed.

23 RESERVES

	<i>Group</i>	<i>Company</i>
	£000	£000
Share premium account		
At 2 April 2000	27,343	27,343
Premium on shares issued in year	23	23
At 5 April 2001	27,366	27,366
Revaluation reserve		
At 2 April 2000	21,995	-
Revaluation of own share of joint venture at time of acquisition of remaining 50%	3,064	-
At 5 April 2001	25,059	-
Profit and loss account		
At 2 April 2000	27,985	25,134
Profit for the year	10,079	(3,684)
Dividends	(3,872)	(3,872)
At 5 April 2001	34,192	17,578

Total goodwill written off directly to reserves in all financial periods to 5 April 2001 amounts to £80,000 (2000 : £80,000).

24 GROUP CASH FLOW STATEMENT

		2001	2000		
(1) Reconciliation of operating profit to operating cash flow	£000	£000	£000		
Operating profit		14,440	13,106		
Depreciation charged for year		4,881	4,219		
Loss / (gain) on disposal of tangible fixed assets		18	(1)		
Movement in:					
Stocks		(79)	(257)		
Debtors		1,594	(4,761)		
Creditors		(2,268)	2,604		
Net cash inflow from operating activities		18,586	14,910		
		2001	2000		
(2) Reconciliation of net cash flow to movement in net debt	£000	£000	£000		
Decrease in cash in the year		(5,981)	(7,506)		
Cash used to repay loans		1,886	100		
Loans from acquisition		(2,238)	(6,300)		
Change in net debt		(6,333)	(13,706)		
Opening net debt		(50,989)	(37,283)		
Closing net debt		(57,322)	(50,989)		
(3) Analysis of Net Debt	2 April 2000	Acquisition of Subsidiaries	Cash Flows	Other Changes	5 April 2001
	£000	£000	£000	£000	£000
Cash and short term deposits	67	-	31	-	98
Overdrafts	(11,156)	-	(6,012)	-	(17,168)
Loans due within one year	(100)	(2,238)	1,886	(100)	(552)
Loans due after one year	(39,800)	-	-	100	(39,700)
Net Debt	(50,989)	(2,238)	(4,095)	-	(57,322)
(4) Analysis of acquisitions		Barratt Resorts	Pittodrie Group Ltd	Total	
		£000	£000	£000	
Fixed assets		23,506	1,301	24,807	
Current assets		5,002	164	5,166	
Current liabilities		(7,614)	(1,173)	(8,787)	
Bank overdraft		(688)	(48)	(736)	
Long term loans		(3,118)	-	(3,118)	
Net assets		17,088	244	17,332	
Net assets acquired 50%		8,544	122	8,666	
Goodwill		-	-	-	
Consideration		8,544	122	8,666	
Satisfied by:					
Cash outflow		1,200	122	1,322	
Deferred consideration		7,344	-	7,344	
		8,544	122	8,666	

Barratt Resorts contributed £36,000 and Pittodrie Group Ltd contributed £168,000 to the Group's operating cash flows, with all other operating cash flows being attributable to the Macdonald Hotels plc Group.

25 RELATED PARTY TRANSACTIONS

The Company previously had a 50 per cent interest in Barratt Resorts and a contract to manage its timeshare leisure resorts in the UK and Spain. The Company acquired the remaining 50 per cent interest on 2 April 2001. Fees earned under the contract amounted to £478,000 (2000 : £376,000), of which £238,000 was outstanding at 5 April 2001 (2000 : £196,000).

26 POST BALANCE SHEET EVENTS

On 26 April 2001 the Group acquired a 50% share in Ledge 563 Limited ('Ledge 563'), a special purpose joint venture Company, formed with Uberior Limited, a subsidiary of the Bank of Scotland plc ('Uberior') to acquire the Heritage hotels business from Hospitality Holdings Limited, a subsidiary of Compass Group plc.

The consideration payable by Ledge 563 is £235 million, £200 million in cash was paid on completion, with a deferred consideration of £35 million payable 18 months from the date of completion. Each party paid its consideration into Ledge 563 by subscribing for 2,500,000 ordinary shares at £1 each and for loan stock of £28,750,000, upon which interest is payable by Ledge 563 at 5% above base rate.

The Group also entered into a 10 year management contract with Ledge 563 to manage the Heritage hotels, with fees payable as a percentage of gross revenue and a percentage of gross operating profit. The Group also granted a subsidiary of the Bank of Scotland an option over 3,005,137 new shares in Macdonald Hotels plc with an exercise price of 167 pence per share. The option takes effect upon the first drawdown of the extended term loan facility granted by the Bank of Scotland and is exercisable at any time within 5 years from the first anniversary of the effective date.

The Group's bank facilities were re-negotiated as a result of the above deal. The term loan facility was extended to £70 million, split into three Tranches, with terms as follows:

	Facility	Interest Rate	Repayment terms
Tranche A	£35 million	Libor plus 1.5%	20 equal quarterly instalments starting 2 years from draw-down
Tranche B	£15 million	Libor plus 2.5%	20 equal quarterly instalments starting 2 years from draw-down
Tranche C	£20 million	Libor plus 0.9%	Repayment in full on December 31, 2018

In addition to these facilities, a multi-option facility was granted of £16 million, at an interest rate of Libor plus 1.0%, with maturity on 31 December 2003. A revolving credit facility was granted of £20 million, at an interest rate of Libor plus 0.9% with maturity on 31 December 2003.

NOTICE is hereby given that the Eleventh Annual General Meeting of MACDONALD HOTELS PLC will be held at 11 am on 10 August 2001 in the Cruthersland House Hotel to transact the following business:

Ordinary Business

- 1 To receive the directors' report and financial statements for the year ended 5 April 2001 together with the auditors' report.
- 2 To approve the proposed final dividend.
- 3 To re-elect Mr DJ Macdonald as a director.
- 4 To re-elect Mr GH Smith as a director.
- 5 To re-elect Mr F O'Callaghan as a director.
- 6 To elect Mr G Crawford as a director.
- 7 To re-appoint KPMG Audit plc as auditors and to authorise the directors to fix their remuneration.

Special Business

To consider and, if thought fit, pass the following resolutions as an ordinary resolution in the case of resolution 8 below and as a special resolution in the case of resolution 9 below:

- 8 That pursuant to the provisions of Section 80 of the Companies Act 1985 (the "Act"), the directors shall be generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (as defined by such section 80) of the Company up to a maximum nominal amount of £894,000. This authority (unless previously revoked, varied or renewed) shall expire on the earlier of the conclusion of the annual general meeting of the Company held in 2006 and 9 August 2006 except that the directors may prior to such expiry make offers or agreements which would or might require relevant securities to be allotted after such expiry.
- 9 That the directors shall be empowered pursuant to Section 95 of the Act to allot unissued shares in the capital of the Company wholly for cash within the terms of the general authority to issue shares conferred by resolution 8 as if Section 89 (1) of the Act did not apply to any such allotment provided that this power shall be limited:
 - (a) to an aggregate nominal amount not exceeding 3,006,240 ordinary shares of 5p each, representing 5 per cent of the issued share capital of the Company, or;
 - (b) in connection with a rights issue (which for the purposes of this resolution shall mean an offer of equity securities open for acceptance for a period fixed by the directors to holders of equity securities on the register on the record date in proportion to their respective holdings of such securities or in accordance with the rights attached thereto) but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with legal or practical problems in respect of overseas holders, fractional entitlements or otherwise.

This power shall expire on the conclusion of the Annual General Meeting of the Company held in 2002 except that the directors may prior to such date make offers or agreements which would or might require the allotment of shares after the expiry of such period.

By Order of the Board

RG Fraser

Company Secretary

8 June 2001

Whiteside House

Bathgate

West Lothian EH48 2RX

NOTES

- 1 A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and, on a poll, to vote instead of the member. A proxy need not be a member of the Company.
- 2 To be valid, proxy forms must be lodged with the Company's Registrars not less than 48 hours before the time of the meeting.
- 3 The appointment of a proxy will not preclude a member from attending and voting at the meeting in person.
- 4 The following documents will be available for inspection at the registered office of the Company on weekdays during usual business hours and on the day of the 2001 Annual General Meeting at the place of the meeting, during the meeting and for at least fifteen minutes beforehand:
 - (i) the Register of Directors' Share Interests kept pursuant to Section 325 of the Companies Act 1985.
 - (ii) copies of all contracts of service under which directors are employed by the Company.

ANNUAL GENERAL MEETING 2001

PROXY FORM

I/We (block capitals) (full name)

of (address)

being (a) member(s) of Macdonald Hotels plc hereby appoint the Chairman of the Meeting or

.....

as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held in the Cruthersland House Hotel at 11 am on 10 August 2001 and at any adjournment thereof and I/we direct the proxy to vote in respect of the resolutions to be proposed at the Annual General Meeting as indicated below:

RESOLUTIONS:

	For	Against
1 Receive the Directors' Report and Financial Statements	<input type="checkbox"/>	<input type="checkbox"/>
2 Approve the proposed final dividend	<input type="checkbox"/>	<input type="checkbox"/>
3 Re-elect Mr DJ Macdonald as a director	<input type="checkbox"/>	<input type="checkbox"/>
4 Re-elect Mr GH Smith as a director	<input type="checkbox"/>	<input type="checkbox"/>
5 Re-elect Mr F O'Callaghan as a director	<input type="checkbox"/>	<input type="checkbox"/>
6 To elect Mr G Crawford as a director.	<input type="checkbox"/>	<input type="checkbox"/>
7 Re-appoint KPMG Audit Plc as auditors and fix their remuneration	<input type="checkbox"/>	<input type="checkbox"/>
8 Authorise the directors to allot securities	<input type="checkbox"/>	<input type="checkbox"/>
9 Authorise the partial dis-application of pre-emption rights	<input type="checkbox"/>	<input type="checkbox"/>

Signed Date 2001

NOTES ON COMPLETING THE PROXY FORM

- 1 Please complete this form legibly in block capitals. Sign and date in the spaces indicated.
- 2 To appoint a person other than the Chairman as your proxy, insert the name of the proxy desired and delete the words "Chairman of the Meeting". A proxy need not be a member of the Company but must attend the meeting to vote for you.
- 3 Please indicate how you want your proxy to vote by marking the appropriate box opposite each resolution. If neither box is marked, your proxy may vote or abstain as he/she thinks fit. The appointment of a proxy does not preclude a member from attending and voting at the meeting in person.
- 4 A body corporate must execute this form under seal or under the hand of a duly authorised officer or attorney, in which case the authority, or a certified copy, must also be lodged with the Registrars. In the case of joint holders, the signature of the first named holder will be accepted.
- 5 To be valid, this form must be completed and lodged with the Registrars not less than 48 hours before the time appointed for the meeting.