

**Macdonald Hotels and Resorts Limited
(formerly Macdonald Hotels Limited and
previously Macdonald Hotels plc)**

**Directors' report and consolidated
financial statements**

Registered number SC125204

2 October 2003



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Directors' report

The directors present their annual report and the audited financial statements for the 52 weeks ended 2 October 2003.

Principal activities

The principal activities of the company and group are the operation of hotels and leisure resorts.

Business review

At the time of the interim results, the board of Macdonald Hotels noted that trading remained difficult, although it was confident of the company's proven ability to continue to operate effectively in such conditions. The board considers that trading conditions continue to be difficult with lower rated domestic leisure volumes offsetting a difficult corporate and conference sector.

On 3 September 2003 the company was acquired by Skye Leisure Ventures plc (which subsequently changed its name on 10 February 2004 to Macdonald Hotels plc), a company 50% owned by the founders and certain members of Macdonald Hotels' senior management and 50% owned by Uberior Ventures Limited, a subsidiary of HBOS plc. Macdonald Hotels plc also acquired Macdonald Hotels and Resorts Limited's 50% interest in Ledge 563 Limited on 3 September 2003.

Following the acquisition by Macdonald Hotels plc the company re-registered as a private company and changed its name from Macdonald Hotels plc to Macdonald Hotels Limited, and was subsequently renamed, on 10 February 2004, Macdonald Hotels and Resorts Limited.

Results

The results of the group are given in the group profit and loss account on page 6.

Profit before tax and exceptional items amounts to £11.6 million in comparison to £14.3 million in the 52 weeks ended 3 October 2002.

Proposed dividend

The directors do not recommend the payment of a final ordinary dividend (2002: 5.0p) making a total of 2.62p (2002: 7.5p) per share for the year.

Policy and practice on payment of creditors

Although the company does not follow any code or standard on payment practice, 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 2 October 2003, 19 days average purchases of the group and company were outstanding (3 October 2002: 22 days).

Directors and directors' interests

The directors who held office during the period were as follows:

DJ Macdonald	
GH Smith	(resigned 4 December 2003)
PJA Dempsey	(appointed 25 August 2003; resigned 23 March 2004)
JG Busby	
JA Lerche	
SS Christie	
F O'Callaghan	(resigned 4 December 2003)
JAM Orr	
ADM MacDonald	
CA MacLeod	(resigned 15 September 2003)
R Pajares	

The directors retiring by rotation are DJ Macdonald and JA Lerche who, being eligible, offer themselves for re-election.

None of the directors who held office at the end of the financial period had any disclosable interests in the shares of the company.

Directors' report *(continued)*

Directors and directors' interests *(continued)*

The interests of the directors in the parent company at 2 October 2003 and the company at 3 October 2002 are as follows:

	2 October 2003 Number of £1 shares in Macdonald Hotels plc	3 October 2002 Number of 5p shares in Macdonald Hotels and Resorts Limited
DJ Macdonald	968,667	5,273,138
PJA Dempsey	385,000	-
GH Smith	912,500	3,510,147
JG Busby	220,000	310,907
JA Lerche	220,000	56,119
SS Christie	220,000	-
F O'Callaghan	330,000	2,386,000
JAM Orr	330,000	3,095,250
ADM MacDonald	330,000	3,095,250

According to the register of directors' interests, no rights to subscribe for shares in or debentures of group companies were granted to any of the directors or their immediate families, or exercised by them, during the financial year except as indicated below:

	At 3 October 2002	Exercised	At 2 October 2003	Exercise price	Market price at date of exercise
DJ Macdonald	193,103	193,103	-	145p	260p
	438,217	438,217	-	157p	260p
	148,634	148,634	-	183p	260p
GH Smith	126,896	126,896	-	145p	260p
	282,803	282,803	-	157p	260p
	107,107	107,107	-	183p	260p
JG Busby	110,344	110,344	-	145p	260p
	196,721	196,721	-	183p	260p
JA Lerche	41,931	41,931	-	145p	260p
	9,176	9,176	-	170p	260p
	152,357	152,357	-	157p	260p
	98,361	98,361	-	183p	260p
SS Christie	207,650	207,650	-	183p	260p
	169,670	169,670	-	183p	260p
	<u>2,282,970</u>	<u>2,282,970</u>			

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 become disabled while in the group's employment and to the provision and training and other assistance where necessary.

Directors' report *(continued)*

Political and charitable contributions

During the period, the group and company made charitable donations totalling £39,000 (2002: £31,000). No donations were given for political purposes.

By order of the board



RG Fraser
Secretary

Whiteside House
Bathgate
West Lothian
EH48 2RX

28 April 2004

Statement of directors' responsibilities

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

- select suitable accounting policies and then 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 to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.



KPMG LLP

24 Blythswood Square
Glasgow
G2 4QS
United Kingdom

**Report of the independent auditors to the members of Macdonald Hotels and Resorts Limited
(formerly Macdonald Hotels Limited and previously Macdonald Hotels plc)**

We have audited the financial statements on pages 6 to 25.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 4, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board 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 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the group is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. 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 2 October 2003 and of the profit of the group for the 52 weeks then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG LLP
Chartered Accountants
Registered Auditor

30 April 2004

Consolidated profit and loss account for the 52 weeks ended 2 October 2003

	Note	Continuing businesses	Share of Ledge 563 joint venture	52 weeks ended 2 October 2003 £000	Continuing businesses	Share of Ledge 563 joint venture	52 weeks ended 3 October 2002 £000
		£000	£000	£000	£000	£000	£000
Turnover: group and share of joint ventures	2	89,723	42,904	132,627	91,559	48,189	139,748
Less: share of joint ventures	10	(101)	(42,904)	(43,005)	(195)	(48,189)	(48,384)
Group turnover		89,622	-	89,622	91,364	-	91,364
Cost of sales - normal		(70,114)	-	(70,114)	(70,063)	-	(70,063)
- exceptional	2	(7,070)	-	(7,070)	-	-	-
Gross profit		12,438	-	12,438	21,301	-	21,301
Administrative expenses		(3,001)	-	(3,001)	(2,802)	-	(2,802)
Group operating profit		9,437	-	9,437	18,499	-	18,499
Share of operating profit of joint ventures							
- normal		(58)	6,016	5,958	(5)	7,475	7,470
- exceptional		-	(2,370)	(2,370)	-	-	-
Share of operating loss of associate		(240)	-	(240)	(177)	-	(177)
Total operating profit		9,139	3,646	12,785	18,317	7,475	25,792
Profit on sale of joint venture		3,943	-	3,943	-	-	-
Profit on sale of properties		-	-	-	264	-	264
Share of profit on sale of joint venture properties		-	845	845	-	1,586	1,586
Profit before interest	2	13,082	4,491	17,573	18,581	9,061	27,642
Net group interest payable	3	(1,750)	-	(1,750)	(2,357)	-	(2,357)
Share of joint venture and associate interest payable							
- normal	3	(387)	(8,502)	(8,889)	(168)	(8,998)	(9,166)
- exceptional	3	-	(2,105)	(2,105)	-	-	-
Profit/(loss) before tax and exceptional items		14,072	(2,486)	11,586	15,792	(1,523)	14,269
Operating exceptional items		(7,070)	(2,370)	(9,440)	-	-	-
Non operating exceptional items		3,943	(1,260)	2,683	264	1,586	1,850
Profit/(loss) on ordinary activities before taxation	4	10,945	(6,116)	4,829	16,056	63	16,119
Tax on profit on ordinary activities	7	(2,435)	2,459	24	(4,612)	-	(4,612)
Profit/(loss) on ordinary activities after taxation		8,510	(3,657)	4,853	11,444	63	11,507
Minority interests - equity		(34)	-	(34)	(9)	-	(9)
Profit/(loss) for the period attributable to shareholders		8,476	(3,657)	4,819	11,435	63	11,498
Dividends - equity	8	(1,548)	-	(1,548)	(4,428)	-	(4,428)
Retained profit for the period		6,928	(3,657)	3,271	7,007	63	7,070

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

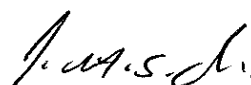
Consolidated balance sheets
at 2 October 2003

	Note	Group		Company	
		2 October 2003 £000	3 October 2002 £000	2 October 2003 £000	3 October 2002 £000
Fixed assets					
Tangible fixed assets	9	166,325	161,276	3	8
Investments					
Share of gross assets of joint ventures		5,526	134,398	-	-
Share of gross liabilities of joint ventures		(5,538)	(132,142)	-	-
Share of net (liabilities)/assets of joint ventures		(12)	2,256	-	2,500
Share of net assets of associates		1,528	1,648	1,648	1,648
Investment in own shares		-	2,001	-	-
Other investments		2,257	29,537	20,686	49,436
Total investments	10	3,773	35,442	22,334	53,584
Total fixed assets and investments		170,098	196,718	22,337	53,592
Current assets					
Stocks	11	2,593	2,832	-	-
Debtors	12	16,355	19,346	109,876	110,000
Cash and short term deposits		105	3,566	-	-
Creditors: amounts falling due within one year	13	19,053 (74,719)	25,744 (37,311)	109,876 (81,534)	110,000 (23,177)
Net current (liabilities)/assets		(55,666)	(11,567)	28,342	86,823
Total assets less current liabilities		114,432	185,151	50,679	140,415
Creditors: amounts falling due after more than one year	14	-	(80,200)	-	(80,200)
Provisions for liabilities and charges	15	(11,379)	(10,351)	66	75
Minority interest		(361)	(327)	-	-
Net assets		102,692	94,273	50,745	60,290
Capital and reserves					
Called up share capital	19	3,169	3,014	3,169	3,014
Share premium account	20	32,606	27,613	32,606	27,613
Revaluation reserve	20	24,965	24,965	-	-
Profit and loss account	20	41,952	38,681	14,970	29,663
Shareholders' funds – all equity		102,692	94,273	50,745	60,290

These financial statements were approved by the board of directors on 28 April 2004 and were signed on its behalf by:


DJ Macdonald
Director

SS Christie
Director



Consolidated cash flow statement
for the 52 weeks ended 2 October 2003

	Note	52 weeks ended 2 October 2003 £000	£000	52 weeks ended 3 October 2002 £000	£000
Net cash inflow from operating activities	21		23,531		21,153
Net cash outflow from returns on investments and servicing of finance					
Interest received		3,533		2,917	
Interest paid		(5,681)		(5,364)	
			(2,148)		(2,447)
Taxation					
Corporation tax paid			(5,549)		(4,548)
Capital expenditure and financial investments					
Purchase of tangible fixed assets		(12,098)		(14,088)	
Disposal of tangible fixed assets		48		2,935	
Disposal of trade investments		-		3,000	
Investment in own shares		-		(1,188)	
Net cash outflow from capital expenditure and financial investments			(12,050)		(9,341)
Acquisitions and disposals					
Purchase of subsidiary undertakings		-		(3,672)	
Disposal of joint venture		31,250		-	
Investment in associated undertakings and other investments		(1,470)		(217)	
Net cash inflow/(outflow) from acquisitions and disposals			29,780		(3,889)
Equity dividends paid			(4,501)		(2,864)
Cash inflow/(outflow) before financing			29,063		(1,936)
Financing					
Share issue		5,148		203	
Receipt of inter company loans		52,650		5,000	
Repayment of loans		(84,800)		(900)	
Net cash inflow from financing			(27,002)		4,303
Increase in cash in the period	21		2,061		2,367

Consolidated statement of total recognised gains and losses
for the 52 weeks ended 2 October 2003

	52 weeks ended 2 October 2003 £000	52 weeks ended 3 October 2002 £000
Profit for the financial period	4,819	11,498
Prior period adjustment for deferred tax	-	(6,793)
	<hr/>	<hr/>
Total gains and losses recognised since last annual report	4,819	4,705
	<hr/>	<hr/>

Reconciliation of movements in shareholders' funds
for the 52 weeks ended 2 October 2003

	52 weeks ended 2 October 2003 £000	52 weeks ended 3 October 2002 £000
Profit attributable to shareholders	4,819	11,498
Dividends	(1,548)	(4,428)
	<hr/>	<hr/>
Retained profit for the period	3,271	7,070
Share issue	5,148	203
	<hr/>	<hr/>
Net increase in shareholders' funds	8,419	7,273
Opening shareholders' funds	94,273	87,000
	<hr/>	<hr/>
Closing shareholders' funds	102,692	94,273
	<hr/>	<hr/>

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group's financial statements.

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.

Basis of consolidation

The consolidated financial statements include the financial statements of the company and its subsidiary undertakings made up to 2 October 2003. 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 ventures, undertakings over which it exercises joint control, associate undertakings and undertakings over which it exercises significant influence are included in the consolidated profit and loss account and in investments in the balance sheet under the equity method of accounting. No profit and loss account is presented for Macdonald Hotels and Resorts Limited as permitted by Section 230 of the Companies Act 1985.

Turnover

Turnover represents the invoiced value of sales excluding value added tax. Timeshare sales are disclosed net of discounts granted.

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. In the company's financial statements investments in subsidiary undertakings, associates and joint ventures are stated at cost.

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. Costs incurred during the construction of hotels and other properties are recorded as projects in progress. On completion the costs are re-allocated to the appropriate fixed asset category.

Notes (continued)

1 Accounting policies (continued)

Fixed assets and depreciation (continued)

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 period 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 construction or redevelopment of trading units are capitalised up to the point of practical completion. All other interest is charged to the profit and loss account as incurred.

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 period. In accordance with FRS 19, deferred tax is recognised, without discounting, for all material timing differences in respect of the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date except as otherwise required by FRS 19.

Stocks

Stocks, including unsold timeshare weeks, 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.

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 based on their contracted rates together with the cost of the instrument.

Notes (continued)

2 Segmental analysis

	Turnover		Profit before interest	
	52 weeks ended 2 October 2003 £000	52 weeks ended 3 October 2002 £000	52 weeks ended 2 October 2003 £000	52 weeks ended 3 October 2002 £000
Owned hotels	65,879	66,248	14,199	15,006
Resorts (including joint ventures)	15,957	16,339	2,027	2,928
Management contracts	7,887	8,972	3,224	3,362
Central costs	-	-	(3,001)	(2,802)
Acquisition/transaction costs	-	-	(9,440)	-
	<hr/>	<hr/>	<hr/>	<hr/>
Share of Ledge 563 joint venture	89,723	91,559	7,009	18,494
Share of associate	42,904	48,189	6,016	7,475
Profit on sale	-	-	(240)	(177)
	<hr/>	<hr/>	<hr/>	<hr/>
	132,627	139,748	17,573	27,642
	<hr/>	<hr/>	<hr/>	<hr/>

Acquisitions/transaction costs primarily consist of costs relating to the cancellation of share options for cash (£4.4 million), bank arrangement fees (£2.5 million) and other legal and professional fees (£2.5 million).

Turnover represents the invoiced value of sales excluding value added tax. Resorts turnover has been restated to reflect sales net of discounts granted. All turnover originated in the United Kingdom. The Spanish subsidiary acts as an agent on behalf of its immediate parent company in the UK.

Net assets

The net assets of the group are located in the United Kingdom and Spain. Of the group net assets, Owned Hotels total £91,242,000 (3 October 2002: £83,444,000) and Owned Resorts £11,450,000 (3 October 2002: £10,829,000). The net assets attributable to the management contracts business are not material.

3 Net interest payable

	52 weeks ended 2 October 2003 £000	52 weeks ended 3 October 2002 £000
Receivable – loan stock	(2,450)	(2,820)
Payable – bank borrowings	4,200	5,206
Capitalised	-	(29)
	<hr/>	<hr/>
Net group interest payable	1,750	2,357
Share of joint venture's bank borrowings interest	6,071	6,254
Share of joint venture's interest rate swap provision (see below)	2,105	-
Share of joint venture's loan stock interest	2,427	2,744
Share of associate's interest	391	168
	<hr/>	<hr/>
Net interest payable	12,744	11,523
	<hr/>	<hr/>

The share of the joint venture's interest rate swap provision relates to the estimated cost at 3 September 2003 of exiting swaps held by Ledge 563 Limited.

Notes (continued)

4 Profit/(loss) on ordinary activities before taxation

	52 weeks ended 2 October 2003 £000	52 weeks ended 3 October 2002 £000
<i>Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):</i>		
Depreciation	7,001	6,527
Operating lease rentals:		
- plant and machinery	185	160
- property	161	145
Gain on sale of tangible fixed assets	-	(560)
Auditors' remuneration – audit services	87	72
Other fees paid to the auditors and their associates	216	163

In addition to the above, the auditors received audit and non-audit fees in relation to the joint venture company, Ledge 563, of £25,000 (3 October 2002: £30,000) and £42,000 (3 October 2002: £266,000) respectively. The parent company audit fee was £12,000 (3 October 2002: £12,000).

5 Staff numbers and costs

The average number of persons employed by the group (including directors) during the year, analysed by category, was as follows:

	Number of employees 52 weeks ended 2 October 2003 £000	52 weeks ended 3 October 2002 £000
Owned hotels	2,820	2,877
Joint ventures and management contracts	3,084	3,360
	<u>5,904</u>	<u>6,237</u>

The aggregate payroll costs of these persons were as follows:

	52 weeks ended 2 October 2003 £000	52 weeks ended 3 October 2002 £000
Wages and salaries	65,168	63,329
Social security costs	5,557	5,092
Other pension costs (note 17)	921	1,201
	<u>71,646</u>	<u>69,622</u>
Of which recharged under management contracts	(36,086)	(35,177)
	<u>35,560</u>	<u>34,445</u>

Notes (continued)

6 Remuneration of directors

	52 weeks ended 2 October 2003 £000	52 weeks ended 3 October 2002 £000
Directors' emoluments	1,273	1,257
Amounts receivable under long term incentive schemes, crystallising following the acquisition by Macdonald Hotels plc	2,157	-
	<u>3,430</u>	<u>1,257</u>
Company contributions to money purchase pension schemes	282	137
Excess retirement benefits over original entitlement	141	118
Compensation for loss of office	-	131
Amounts paid to third parties in respect of directors' services	84	84
	<u>3,937</u>	<u>1,727</u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was £479,000 (2002: £443,000) and £788,000 (2002: £nil) respectively, and company pension contributions of £29,000 (2002: £29,000) were made to a money purchase scheme on his behalf. During the year, the highest paid director exercised share options over 193,103 shares at 145p, 438,217 shares at 157p and 148,634 shares at 183p. The market price at the date of exercise was 260p.

	52 weeks ended 2 October 2003	52 weeks ended 3 October 2002
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	<u>5</u>	<u>5</u>
The number of directors who exercised share options was	<u>5</u>	<u>3</u>
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was	<u>5</u>	<u>5</u>

Notes (continued)

7 Taxation

The taxation charge comprises:

	52 weeks ended 2 October 2003			52 weeks ended 3 October 2002
	Group £000	Share of JV £000	Total £000	£000 £000
Current tax - current year	2,065	(1,770)	295	4,331
- prior year	(147)	(409)	(556)	(200)
Total current period tax charge/(credit)	1,918	(2,179)	(261)	4,131
Deferred tax: - current year	734	(280)	454	481
- prior year	(217)	-	(217)	-
Total deferred tax charge/(credit)	517	(280)	237	481
Total tax charge/(credit)	2,435	(2,459)	(24)	4,612

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (3 October 2002: lower) than the standard rate of corporation tax in the UK (30%). The differences are explained below.

	52 weeks ended 2 October 2003			52 weeks ended 3 October 2002
	Group £000	Share of JV £000	Total £000	£000 £000
<i>Current tax reconciliation:</i>				
Profit on ordinary activities before tax	10,945	(6,116)	4,829	16,119
Current tax at 30%	3,284	(1,835)	1,449	4,836
<i>Effects of:</i>				
Expenses not deductible for tax purposes	535	37	572	113
Capital allowances for the period (in excess of) or below depreciation	(734)	280	(454)	(481)
Adjustments to tax charge in respect of prior periods	(147)	(407)	(554)	(200)
Gains on fixed asset disposals not subject to tax	(1,183)	(254)	(1,437)	(164)
Unutilised losses in associates	90	-	90	-
Other differences	73	-	73	27
Current period tax charge	1,918	(2,179)	(261)	4,131

8 Dividends

	52 weeks ended 2 October 2003 £000	52 weeks ended 3 October 2002 £000
Interim dividend of 2.62p net per share paid (2002: 2.5p)	1,548	1,475
Final dividend of nil p net per share proposed (2002: 5.0p)	-	2,953
Total dividend	1,548	4,428

Notes (continued)

9 Tangible fixed assets

	Group			Company	
	Freehold properties	Projects in progress	Vehicles, fittings and equipment	Total	Vehicles, fittings and equipment
	£000	£000	£000	£000	£000
Cost or valuation					
At beginning of period	141,001	4,234	48,619	193,854	54
Additions	402	9,942	1,754	12,098	-
Reclassification	624	(938)	314	-	-
Disposals	-	-	(265)	(265)	-
At end of period	142,027	13,238	50,422	205,687	54
<i>At cost since 1996</i>	80,072	13,238	50,422	143,732	54
<i>At valuation since 1996</i>	61,955	-	-	61,955	-
Depreciation					
At beginning of period	7,753	-	24,825	32,578	46
On disposals	-	-	(217)	(217)	-
Charge for period	1,566	-	5,435	7,001	5
At end of period	9,319	-	30,043	39,362	51
Net book value					
At 2 October 2003	132,708	13,238	20,379	166,325	3
At 3 October 2002	133,248	4,234	23,794	161,276	8

In accordance with FRS 15: Tangible Fixed assets, the group has followed the option of retaining the book value of land and buildings, certain of which were valued in February 1996 by an independent firm of chartered surveyors, Robert Barr & Co. The freehold property element (ie 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 of freehold properties category is made up of £19,952,000 (3 October 2002: £20,364,000) of land which is not depreciated, £26,466,000 (31 October 2002: £25,473,000) of building surfaces and finishes and £95,609,000 (3 October 2002: £95,164,000) of hotel buildings.

On an unmodified historical cost basis the net book amount of the group tangible fixed assets at 2 October 2003 would be £144,424,000 (3 October 2002: £139,375,000).

The gross amount of depreciable assets is £185,735,000 (3 October 2002: £173,490,000). Fixed assets at cost include capitalised interest of £516,000 (3 October 2002: £516,000).

Notes (continued)

10 Fixed asset investments

	Subsidiaries Shares £000	Joint ventures Shares £000	Loans £000	Associates Shares £000	Loans £000	Trade investments £000	Own shares £000	Total £000
Group								
<i>Cost</i>								
At 3 October 2002	-	2,256	28,750	155	1,493	787	2,001	35,442
Additions	-	-	1,470	-	-	-	-	1,470
Disposals (see (a) below)	-	1,443	(28,750)	-	-	-	(2,001)	(29,308)
Share of losses	-	(3,711)	-	(120)	-	-	-	(3,831)
At 2 October 2003	-	(12)	1,470	35	1,493	787	-	3,773
Company								
<i>Cost</i>								
At 3 October 2002	19,899	2,500	28,750	155	1,493	787	-	53,584
Disposals	-	(2,500)	(28,750)	-	-	-	-	(31,250)
At 2 October 2003	19,899	-	-	155	1,493	787	-	22,334

(a) The disposal of the shares results in a positive balance as the group has recognised its share of the loss in the joint venture for the year.

At 2 October 2003 the following companies were the principal subsidiaries, joint ventures, associated undertakings and investments, either operating in the UK or Spain. All of the entities are included in the consolidation and are 100% owned unless noted below.

Subsidiaries

Intra Inns Limited	(i)
Kilhey Court Hotels Limited	(i) (iv)
Macdonald Hotels (UK) Limited	(i)
Macdonald Hotels (Management) Limited	(iii)
Leisure Resorts Management Limited	(iii)
Aviemore Leisure Management Limited	(iii)
Macdonald Resorts Limited	(ii)
Pittodrie Group Limited (50%)	(iii)
Pittodrie House Hotel Limited (57.5%)	(i) (iv)
Pittodrie Estates Limited (50%)	(i) (iv)

Associates

Holyrood Hotels Limited (19%)	(i)
Cardrona Hotel, Golf & Country Club Limited (15%)	(i)
Aviemore Highland Resort Limited (33%)	(ii) (iv)

Investments

Topco (No 1) Limited (15%)	(ii)
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Joint ventures

Holland House Hotels (Cardiff) Limited (49%) ("HHH Cardiff")	(ii)
Barratt International Resorts Ermita Limited (50%) ("BIREL")	(ii) (iv)

The nature of the business is as noted.

- (i) Hotels
- (ii) Hotels and Leisure
- (iii) Management Services
- (iv) Held through intermediate subsidiary

A full list of subsidiary undertakings will be included in the company's annual return.

Trade investments relate to the group's interest in Topco (No 1) Limited (of which £675,000 is deferred).

Notes (continued)

10 Fixed asset investments (continued)

Share of joint ventures

Share of joint ventures

	52 weeks ended 2 October 2003				52 weeks ended 3 October 2002			
	Ledge 563 £000	BIREL £000	HHH Cardiff £000	Total £000	Ledge 563 £000	BIREL £000	Total £000	
Share of turnover	42,904	63	38	43,005	48,189	195	48,384	
Share of operating profit/(loss)	3,646	(65)	7	3,588	7,475	(5)	7,470	
Share of profit on sale of properties	845	-	-	845	1,586	-	1,586	
Share of (loss)/profit before interest	4,491	(65)	7	4,433	9,061	(5)	9,056	
Share of net interest payable	(10,607)	-	4	(10,603)	(8,998)	-	(8,998)	
Share of (loss)/profit on ordinary activities before tax	(6,116)	(65)	11	(6,170)	63	(5)	58	
Taxation	2,459	-	-	2,459	-	-	-	
Share of profit/(loss) on ordinary activities after tax	(3,657)	(65)	11	(3,711)	63	(5)	58	
	At 2 October 2003				At 3 October 2002			
Share of gross assets:								
Fixed assets	-	1,918	8,319	10,237	243,971	1,918	245,889	
Current assets	-	444	548	992	22,467	440	22,907	
Gross assets	-	2,362	8,867	11,229	266,438	2,358	268,796	
Share of gross assets	-	1,181	4,345	5,526	133,219	1,179	134,398	
Share of gross liabilities:								
Creditors: due within one year	-	(1,193)	(5,844)	(7,037)	(17,244)	(1,130)	(18,374)	
Creditors: due after more than one year	-	(1,215)	(3,000)	(4,215)	(244,766)	(1,144)	(245,910)	
Gross liabilities	-	(2,408)	(8,844)	(11,252)	(262,010)	(2,274)	(264,284)	
Share of gross liabilities	-	(1,204)	(4,334)	(5,538)	(131,005)	(1,137)	(132,142)	
Net investment in joint ventures	-	(23)	11	(12)	2,214	42	2,256	

11 Stocks

	Group		Company	
	2 October 2003 £000	3 October 2002 £000	2 October 2003 £000	3 October 2002 £000
Unsold timeshare weeks for resale	1,468	1,562	-	-
Goods for resale	1,125	1,270	-	-
	<u>2,593</u>	<u>2,832</u>	<u>-</u>	<u>-</u>

Notes (continued)

12 Debtors

	Group		Company	
	2 October 2003 £000	3 October 2002 £000	2 October 2003 £000	3 October 2002 £000
Trade debtors	6,311	6,154	163	-
Other debtors and prepayments	5,717	8,597	326	590
Amounts due from subsidiary undertakings	-	-	105,754	106,775
Amounts due from joint ventures	1,902	4,595	330	2,635
Corporation tax	2,425	-	3,303	-
	<u>16,355</u>	<u>19,346</u>	<u>109,876</u>	<u>110,000</u>

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: amounts falling due within one year

	Group		Company	
	2 October 2003 £000	3 October 2002 £000	2 October 2003 £000	3 October 2002 £000
Bank overdrafts	1,181	6,703	21,615	10,601
Loans repayable within one year	-	4,600	-	4,600
Trade creditors	5,505	4,963	-	1
Proposed dividend	-	2,953	-	2,953
Corporation tax	-	4,049	-	2,613
Other taxation and social security	5,214	2,573	1,133	86
Other creditors	4,506	4,589	1,502	1,598
Accruals and deferred income	8,323	6,881	5,172	725
Amounts owed to parent undertaking	49,990	-	52,112	-
	<u>74,719</u>	<u>37,311</u>	<u>81,534</u>	<u>23,177</u>

As a condition to the availability of facilities under the Macdonald Hotels plc Facility Agreements, Bank of Scotland hold fixed and floating charges over all of the assets of Macdonald Hotels plc incorporating both Macdonald Hotels and Resorts Limited and Ledge 563 Limited.

Notes (continued)

14 Creditors: amounts falling due after more than one year

	Group		Company	
	2 October 2003 £000	3 October 2002 £000	2 October 2003 £000	3 October 2002 £000
Bank loans	-	80,200	-	80,200
Analysis of debt:				
	Group		Company	
	2 October 2003 £000	3 October 2002 £000	2 October 2003 £000	3 October 2002 £000
Bank loans repayable:				
within one year	-	4,600	-	4,600
between one and two years	-	9,200	-	9,200
between two and five years	-	27,600	-	27,600
after five years	-	43,400	-	43,400
	-	84,800	-	84,800

	2 October 2003 £000	3 October 2002 £000	Rate	Repayment
Bank loans				
Term loans - Tranche A	-	32,000	LIBOR or Base + 1.5%	Equal quarterly instalments commencing two years from drawdown to January 2008
- Tranche B	-	14,000	LIBOR or Base + 2.5%	Equal quarterly instalments commencing two years from drawdown to January 2008
- Tranche C	-	20,000	LIBOR or Base + 0.9%	One single instalment in December 2018
Revolving credit	-	18,800	LIBOR or Base + 0.9%	One single instalment in December 2018
Total bank loans	-	84,800		

All bank loans were repaid by Macdonald Hotels plc in September 2003 following the acquisition of the group.

Notes (continued)

15 Provisions for liabilities and charges

	Group		Company	
	2 October	3 October	2 October	3 October
	2003	2002	2003	2002
	£000	£000	£000	£000
Deferred tax	10,423	9,906	(66)	(75)
Associate: share of net liabilities	956	445	-	-
	<u>11,379</u>	<u>10,351</u>	<u>(66)</u>	<u>(75)</u>

Associate refers to the group's share of Aviemore Highland Resort Limited

The deferred tax balance and movements during the year were as follows:

	Group		Company	
	2 October	3 October	2 October	3 October
	2003	2002	2003	2002
	£000	£000	£000	£000
At 3 October 2002			9,906	(75)
Charge for period			517	9
			<u>10,423</u>	<u>(66)</u>
At 2 October 2003				
	Group		Company	
	2 October	3 October	2 October	3 October
	2003	2002	2003	2002
	£000	£000	£000	£000
Difference between accumulated depreciation and capital allowances	10,507	10,062	(4)	(5)
Other timing differences	(84)	(156)	(62)	(70)
	<u>10,423</u>	<u>9,906</u>	<u>(66)</u>	<u>(75)</u>

Notes (continued)

16 Financial commitments

(1) Capital commitments

	Group		Company	
	2 October 2003 £000	3 October 2002 £000	2 October 2003 £000	3 October 2002 £000
Contracted but not provided for	1,862	300	-	-

(2) Operating lease commitments

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

	Properties		Plant and equipment	
	2 October 2003 £000	3 October 2002 £000	2 October 2003 £000	3 October 2002 £000
Operating leases which expire:				
within one year	31	31	80	53
between two and five years	-	-	63	69
after five years	120	120	-	-
	151	151	143	122

17 Pension commitments

The company operates two defined contribution occupational pension schemes, the MHL Pension Scheme and the Macdonald Hotels plc Group Pension Scheme. The assets of each scheme are held in independently administered funds. Pension costs represent contributions payable by the group to each 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 £921,000 (2002: £1,201,000). Contributions totalling £238,000 (2002: £15,000) remain unpaid at 2 October 2003 and are included in accruals.

Following a strategic review of the company's pension provision, undertaken following the acquisition of Barratt International Resorts Limited and the Heritage Hotels in a joint venture with the Bank of Scotland, the company closed the MHL Pension Scheme to new entrants after 31 October 2001. The payment of further contributions to the MHL Pension Scheme also ceased with effect from that date. The scheme trustees have since started to wind up the scheme. Following consultation with the trustees' professional advisers the contributions held on deposit in the trustees' bank account with Bank of Scotland representing the period December 2000 to October 2001 were invested in the Equitable Life Building Society Fund. Scheme members have been offered the option of transferring their scheme entitlement to another pension arrangement of their choice failing which the trustees will arrange for the remaining entitlements to be secured via the application of individual policies.

With effect from 1 November 2001 the company introduced the Macdonald Hotels plc Group Pension Scheme, which effectively replaces the MHL Pension Scheme.

Notes (continued)

18 Contingent liabilities

The company is party to joint and several guarantees with other group members, including Macdonald Hotels plc, in respect of bank borrowings. The company's liability in respect of these guarantees at 2 October 2003 amounted to £472 million (2002: £nil).

The company is party to an unlimited joint and several guarantee with its wholly owned subsidiary Macdonald Resorts Limited to the Civil Aviation authority in respect of third party liabilities associated with that company's Air Tour Operator's Licence.

19 Called up share capital

	Group and Company	
	2 October 2003 £000	3 October 2002 £000
<i>Authorised</i>		
78,000,000 ordinary shares of 5p each	3,900	3,900
<i>Allotted, called up and fully paid</i>		
At 3 October 2002 - 60,287,336 ordinary shares of 5p each	3,014	3,008
Allotted during the year	155	6
At 2 October 2003 - 63,370,864 ordinary shares of 5p each	3,169	3,014

During the year the company issued 3,083,528 shares for a total cash consideration of £5,148,000, the proceeds of which were used for working capital purposes.

20 Reserves

	Group £000	Company £000
Share premium account		
At 3 October 2002	27,613	27,613
Premium on shares issued in period	4,993	4,993
At 2 October 2003	32,606	32,606
Revaluation reserve		
At 2 October 2003 and 3 October 2002	24,965	-
Profit and loss account		
At 3 October 2002	38,681	29,663
Profit/(loss) for the period	4,819	(13,145)
Dividends paid	(1,548)	(1,548)
At 2 October 2003	41,952	14,970

The cumulative total of goodwill written off against reserves in respect of acquisitions prior to 3 April 1998 when FRS 10: Goodwill and intangible assets, was adopted amounts to £80,000 (3 October 2002: £80,000).

Notes (continued)

21 Consolidated cash flow statement

(1) Reconciliation of operating profit to operating cash flows

	52 weeks ended 2 October 2003 £000	52 weeks ended 3 October 2002 £000
Operating profit	9,437	18,499
Depreciation charged for period	7,001	6,527
Gain on disposal of tangible fixed assets	-	(296)
Movement in:		
Stocks	239	(258)
Debtors	4,586	(2,181)
Creditors	2,268	(1,138)
Net cash inflow from operating activities	<u>23,531</u>	<u>21,153</u>

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

	52 weeks ended 2 October 2003 £000	52 weeks ended 3 October 2002 £000
Increase in cash in the period	2,061	2,367
Cash used to repay loans	84,800	900
New term loans	-	(5,000)
Change in net debt	<u>86,861</u>	<u>(1,733)</u>
Opening net debt	(87,937)	(86,204)
Closing net debt	<u>(1,076)</u>	<u>(87,937)</u>

(3) Analysis of net debt

	3 October 2002 £000	Cash flows £000	2 October 2003 £000
Cash and short term deposits	3,566	(3,461)	105
Overdrafts	(6,703)	5,522	(1,181)
Loans due within one year	(4,600)	4,600	-
Loans due after one year	(80,200)	80,200	-
Net debt	<u>(87,937)</u>	<u>86,861</u>	<u>(1,076)</u>

Notes (continued)

22 Related party transactions

In acquiring 50% of the share capital of Ledge 563 Limited ('Ledge 563') in April 2001, the group subscribed for 2,500,000 ordinary shares of £1 each and for loan stock of £28,750,000. Interest on the loan stock was payable by Ledge 563 at 5% above base rate up to the date of sale of 3 September 2003.

During the period the group received £2,410,000 in loan stock interest from Ledge 563, of which £nil (3 October 2002: £939,000) was outstanding at the year end.

The group had 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. Total fees charged to Ledge 563 up to 3 September 2003 amounted to £5,640,000 (3 October 2002: £6,340,000), of which £nil (3 October 2002: £916,000) was outstanding at the year end. The group also leases information technology equipment to Ledge 563 for which amounts received during the year amounted to £672,000 (3 October 2002: £672,000), of which £1,344,000 (3 October 2002: £2,016,000) was prepaid at the year end.

23 Ultimate parent undertaking

The largest group in which the results of the company are consolidated is that headed by Macdonald Hotels plc (formerly Skye Leisure Ventures plc), incorporated in Scotland on 8 April 2003, established to acquire Macdonald Hotels and Resorts Limited and Ledge 563 Limited. The consolidated accounts of this company are not currently filed.