The Rank Group Plc

Annual Report & Accounts 2005

Rank Group

Group at a glance

Rank is an international gaming and leisure group

Rank has one of the UK's leading gaming businesses, with strong positions in bingo, casinos and on-line gaming.

Mecca Bingo
117 clubs in the UK
11 clubs in Spain

meccabingo.com

Grosvenor Casinos
6 casinos in London
30 casinos in provincial UK
2 casinos in Belgium

grosvenor-casinos.co.uk

Blue Square
Integrated on-line, interactive and telephone sports betting and gaming company.

bluesq.com
meccagames.com
hardrockcasino.com

Hard Rock is one of the most globally recognised music, entertainment and dining brands.

Hard Rock Cafe
67 company-owned cafes
56 franchise cafes
41 countries

hardrock.com

Hard Rock Hotels and Casinos
3 Hard Rock Hotel & Casinos
4 Hard Rock Hotels
2 Hard Rock Casinos

Hard Rock Live!
4 Hard Rock Live! concert venues

Hard Rock Merchandise
A range of apparel and branded Hard Rock goods inspired by rock. Available at all Hard Rock locations and via the on-line Rock Shop at hardrock.com

Other businesses

US Holidays
Time-share accommodation, camping and hotels business in the Pocono Mountains, Pennsylvania, trading as Resorts USA.

resortsusa.com

Discontinued businesses

Deluxe Media Services
DVD and CD replication and distribution business, with operations in Europe and North America.

deluxemedia.com

Financial highlights

£810.3m

Revenue up 2.9%

(2004 – £787.6m)

Note: after restatement of Blue Square revenue

£127.5m

Group operating profit*

(2004 – £136.1m)

* before exceptional items

£85.4m

Adjusted profit before tax**

(2004 – £98.8m)

** adjusted profits and earnings per share – Profits and earnings before discontinued operations, exceptional items, foreign exchange on inter-company balances and amortisation of equity component of convertible bond.

10.1p

Adjusted earnings per share**

(2004 – 12.7p)

£64.1m

Adjusted profit after tax from continuing operations**

(2004 – £76.5m)

10.3p

Final dividend up by 5.1%

(2004 – 9.8p)
making a total for the year of 15.3p up 4.8%

£105.8m

Gaming operating profit* down 9.6%

£34.8m

Hard Rock operating profit* up 24.7%

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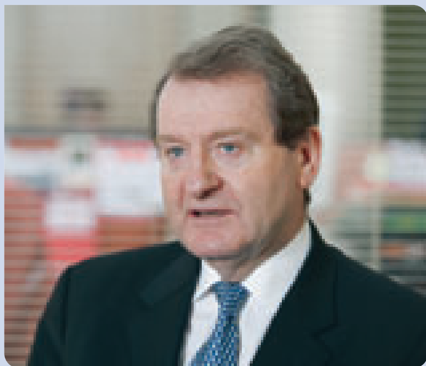
Chairman's statement



Alun Cathcart
Chairman

2005 has been a pivotal year for The Rank Group. The actions undertaken by the Company's management will enable Rank to move into an exciting new phase of its evolution. We agreed the sale of Deluxe Film, which allows us to return £200m to our shareholders through a share buy-back; and we have made a number of key changes to the management team of the ongoing Group.

Rank's Gaming division maintained revenue growth in 2005 but margins weakened, principally as a result of higher operating costs. The first benefits of gaming deregulation were introduced in our final quarter and the early signs are encouraging.

Over the course of recent years, we have established a strong position in the UK gaming market. We will continue to invest in this area to ensure that we maximise the opportunities for growth.

Hard Rock's continued progress has been pleasing to observe. Our cafes have grown like-for-like sales for the second year in succession and we are beginning to reap the rewards of our decision to leverage the strength of the brand in the international hotels and gaming markets.

During the course of the year we welcomed two new executive Directors to our main Board. David Boden, Managing Director of our Gaming division, joined in March and Peter Gill, our newly appointed Finance Director, joined in July.

In January 2006 John Warren became a non-executive Director while Bill Shannon is to join the Board as a non-executive Director from April 2006.

After seven and eight years respectively as non-executive Directors of Rank, Oliver Stocken and John Sunderland will be retiring from the Company at the conclusion of the Annual General Meeting. On behalf of the Board I wish to thank them for their dedication and integrity in the service of the Company.

On 6 March 2006, Ian Burke joined Rank as Chief Executive. With his track record in leisure and hospitality and his experience of brand development and franchising, Ian is well equipped to lead Rank's continuing development.

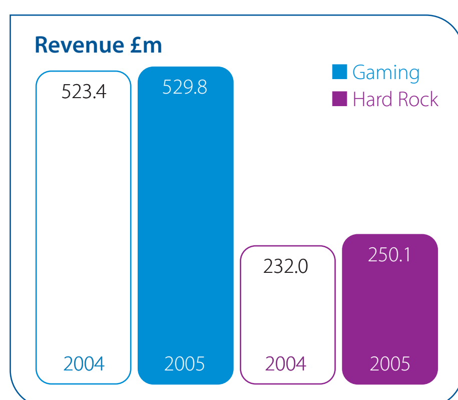
Mike Smith retires from the Company at the end of March, after almost seven years as Chief Executive. On behalf of the Board I wish to thank him for his leadership and his hard work during a transitional period for Rank, as the foundations have been laid for growth as a focused gaming and leisure business.

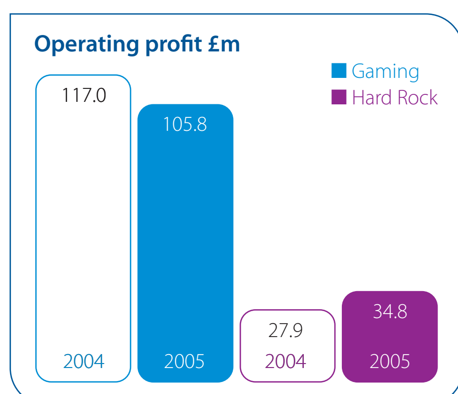
Following a period of restructuring, Rank is in a position to deliver growth and to create value for its shareholders. Each of our businesses faces its own specific challenges but the dynamics of the gaming and leisure markets, where our businesses occupy strong positions, give me and the rest of the Board confidence in the Group's prospects.

Alun Cathcart Chairman

Chief Executive's review

Mike Smith
Chief Executive





Introduction

The reporting of the Group's financial results for 2005 is affected by a number of changes to the Group's structure and by the introduction of International Financial Reporting Standards.

This is the first year that we have presented our accounts in accordance with International Financial Reporting Standards. As a consequence we have separated the performance of Deluxe Film and Deluxe Media Services (classified as "operations held for sale") within the income statement. This has reduced our adjusted pre-tax profits and earnings per share in 2005. The results for 2004 have been restated accordingly.

In addition we now report Blue Square's revenue as gross win where previously we had reported settled stakes. This has reduced Group revenues in 2004 and in 2005 but has no effect on reported profit.

Results – Continuing operations

The Group's 2005 adjusted operating profit was down 13.6% to £85.4m (2004 – £98.8m). Group operating profit before exceptional items was down 6.3% to £127.5m (2004 – £136.1m).

Hard Rock generated the strongest performance with increased revenues and operating profit rising 24.7% to £34.8m (2004 – £27.9m). This was driven by increased contributions from Hard Rock's hotel and gaming interests as well as the continued resurgence of our owned cafes.

Despite slightly higher revenue, operating profit within our Gaming division was 9.6% lower at £105.8m (2004 – £117.0m). Revenue in Mecca Bingo was broadly flat, with higher spend per head but lower admissions. In Grosvenor Casinos we experienced healthy rises in admissions but handle-per-head fell. Both businesses experienced margin pressure as a result of increases in operating costs (notably in energy procurement and from the rise in the National Minimum Wage).

Blue Square reported a small loss despite considerable gains in volume from on-line gaming, which for the first time exceeded sports betting in terms of total stakes.

Group structure and capital return

On 23 December 2005, we announced that we had reached agreement to sell Deluxe Film, our film processing and creative services business, to DX Holdings III Corporation, a subsidiary of MacAndrews & Forbes Holdings Inc. The transaction completed on 27 January 2006 for consideration of $750m (£420m).

The Board has confirmed that £200m of the proceeds will be returned to shareholders via a share buy-back. The decision to return capital to shareholders was undertaken as part of a review of the Group's capital structure. This process is explained in greater detail below.

Discontinued operations

Deluxe Film generated operating profit before exceptional items of £65.7m (2004 – £59.8m).

The sale of Deluxe Film is an important stage in the evolution of The Rank Group as we focus our investment and our efforts into the development of our gaming businesses and Hard Rock.

Deluxe Media reported an operating loss before exceptional items of £16.4m (2004 – £9.6m profit).

We have not yet been able to sell Deluxe Media but remain committed to this course of action. We are pursuing an exit and this may take the form of either a sale of the business in its entirety or, more probably, the separate disposals of individual businesses or assets. In the short term we are taking appropriate action to mitigate the impact on the Group of continuing to operate Deluxe Media, which will be lossmaking in 2006.

Pension fund

Following our agreement to sell Deluxe Film we entered into discussions with our Group pension plan trustee in relation to the funding requirements of the Group's defined benefit plan (which has been closed to new entrants since 2000).

As a result of these talks we have committed to make an additional one-off payment to the plan of £50m (this figure includes a £24m payment that, under Section 75 of the Pensions Act, was required following the sale of Deluxe Film). Also we have committed to a series of subsequent contributions totalling £50m which will be paid into the plan over the course of the next four years. These are in addition to the Company's normal annual contributions.

This agreement is subject to formal clearance from the Pensions Regulator, who has confirmed agreement in principle to this proposal.

We believe that by taking action to address our pension liability we are safeguarding the long term interests of our pensioners, our employees and our shareholders. As of 31 December 2005 our pension fund deficit was calculated under IAS 19 as £38.2m.

Review of capital structure and financing arrangements

The sale of Deluxe Film and our intention to sell Deluxe Media resulted in a review of the Group's financing arrangements. As a consequence of this review we have set out a capital structure appropriate for the Group as it develops into a focused gaming and leisure business.

We have agreed a new £650m unsecured banking facility, structured as a £400m five-year multi-currency revolving credit facility and a £250m three-year term loan. Also, we have repaid our $448m US private placement. Our £167.7m convertible bond (due 2009) and our $114.8m Yankee bonds (due 2008 and 2018) remain in issue.

Over the medium term the Group expects to operate in a range of 3.5 to 4.0 times net debt to EBITDA.

As part of the review, we have also considered our freehold and long leasehold properties. Currently we are evaluating a structured sale and leaseback transaction of a number of suitable properties.

Final dividend and review of dividend policy

We are pleased to announce a 5.1% increase in the final dividend to 10.3p per share, making a total dividend for the year of 15.3p per share. The dividend will be paid on 11 May 2006 to shareholders on the register at 18 April 2006.

As part of our capital structure review, we have considered the appropriate level of dividend payout for the ongoing Group. It is our intention to move to a dividend payout ratio of 50% of profit after tax (2.0 times dividend cover), which is competitive for the leisure sector.

Gambling Act

In April 2005, the 2005 Gambling Act was enacted in Parliament. The first changes to gaming regulations allowed under the new Act took effect from October 2005.

The abolition of the 24-hour membership rule means that new members may enter and play in a casino or bingo club upon production of suitable identification, without the need to register 24 hours in advance. The maximum limit on the number of jackpot machines permitted in any casino has been raised from ten to 20 machines. In addition the maximum levels of jackpot machine stakes and prizes have been increased.

As anticipated, these early reforms have had little impact on our bingo operations but the initial signs in our UK casinos are positive. During the final quarter of 2005, Grosvenor Casinos experienced 13.2% growth in admissions and significant uplift in gaming machine revenues. With new members tending initially to stake lower amounts we saw also the expected decline in handle-per-head.

Under the 2005 Gambling Act, further reforms of UK gaming will take effect from 2007: in bingo, the regulations governing the use of roll-over prizes are to be altered; and in casinos advertising restrictions are to be eased.

Because the 2005 Act is not fully in force it has been possible to obtain additional casino licences under the 1968 Act. We now have seven additional licences (and three certificates of consent with licences pending) for casinos that will be opening from 2007. Under the 2005 Act, 17 new casino licences will be made available. These casinos will enjoy greater freedoms than those currently allowed by existing casinos. Based upon current information, it is our intention to apply for all 17 of the new generation of casino licences.

Smoking ban

In Scotland from 26 March 2006, a ban will be imposed on smoking in public places. At present we operate 14 Mecca Bingo clubs in Scotland out of a total estate of 118 UK clubs (although the contribution to Mecca profits from these clubs is disproportionately greater). We have no casinos in Scotland, although we have been granted licences for new casinos in Aberdeen and in Dundee.

We are taking measures to manage the introduction of the smoking ban in our Scottish bingo clubs and will monitor their effectiveness as we prepare for a UK-wide smoking ban from the summer of 2007.

Due to the comprehensive nature of the legislation in Scotland we believe that our bingo clubs are not competitively disadvantaged by the smoking ban. In the short term it is likely to impact trading as our members and our employees adapt to the changes.

Changes to VAT and Gaming Duty

In December 2005 the VAT-exempt status of Section 21 gaming machines was withdrawn. For reasons of timing this had a minimal impact on results in 2005 but we believe that it could depress 2006 profits by as much as £5m.

The Government has stated that it will seek to align the level of Amusement Machine Licence Duty across all categories of gaming machine. We await news on how and when this will be implemented, but recognise that it could impact on the profitability of our gaming machines.

Current trading and outlook

Since the start of 2006, revenue in Mecca is up slightly, with higher spend per head compensating for a 2% drop in admissions. Casino admissions are up 16% year-on-year but spend per head is lower. In Blue Square, total stakes continue to grow and win margins are stronger than over the same period in 2005. In Hard Rock, like-for-like sales in company-owned cafes are up by more than 10% over the same period last year, although this is due in part to the performance of our relocated cafe in New York City, which was opened in the summer of 2005.

Looking ahead, we are encouraged by the trend towards higher admissions in our casinos and the opportunity to grow handle-per-head from new members. And in both Mecca Bingo and in Grosvenor Casinos revenue from gaming machines will continue to be a key driver of growth. The advent of a smoking ban in Scotland, prospective changes to duty rates and increasing cost pressures pose challenges in both of these businesses.

We expect Blue Square's sports betting and on-line gaming to benefit from a busy sporting calendar, which includes the 2006 FIFA World Cup in Germany.

In Hard Rock we expect to achieve improved results across all of our activities, but with no significant uplift from new hotels and casinos, growth is likely to be slower than in 2005.

Mike Smith Chief Executive

David Boden
Managing Director of Gaming

Rank is one of the UK's leading gaming companies, with strong positions in the bingo clubs and casinos markets through Mecca Bingo and Grosvenor Casinos. In addition we are developing an integrated multi-media gaming and sports betting business through Blue Square.

We are in a strong position from which to exploit growth opportunities in the gaming sector. Through the synergies that exist between our businesses, in terms of our people, our brands, our properties, our customers and the technology that we employ we aim to establish Rank as a truly world-class gaming company.

Revenue
£529.8m

Operating profit
£105.8m

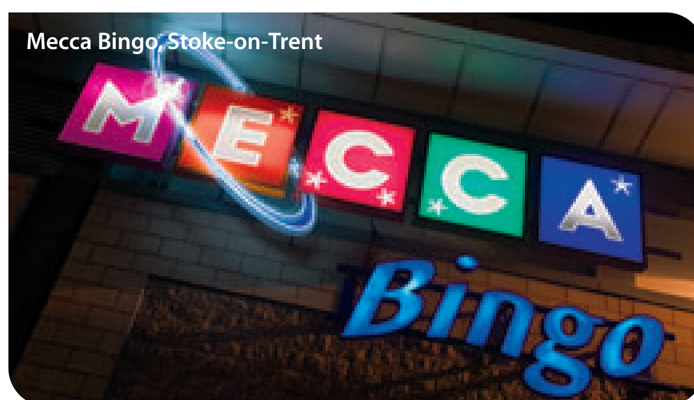
- 153 gaming outlets in the UK
- 9,000+ employees
- **Mecca Bingo** second-largest bingo clubs operator in UK
- **Grosvenor Casinos** second-largest casinos operator in UK
- **Blue Square** multi-media gaming and sports betting business

Gaming

	Revenue		Operating profit* (loss)	
	2005 £m	2004** £m	**2005 £m**	2004** £m
Mecca Bingo	**295.6**	292.6	**80.2**	81.0
Grosvenor Casinos	**207.9**	200.8	**27.3**	33.4
Blue Square	**26.3**	25.6	**(1.7)**	2.7
Total	**529.8**	519.0	**105.8**	117.1

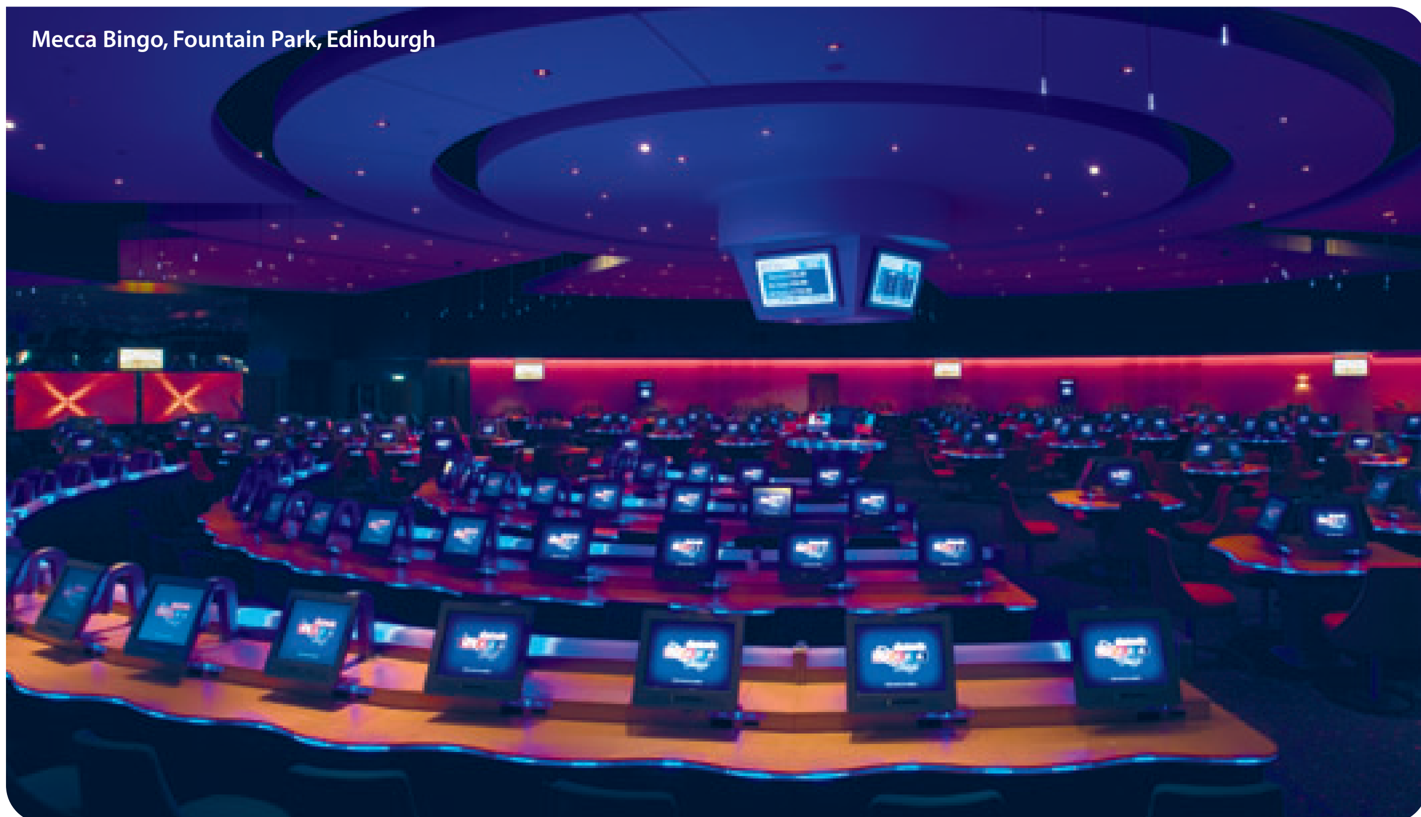
*excluding exceptional items
**excludes 2004 RLMS (revenue £4.4m, operating loss £0.1m)

In 2005 our Gaming division generated 2.1% growth in revenue, but with rising operating costs this was not translated into higher profits. Operating profit fell by 9.6% to £105.8m.



Mecca Bingo, Stoke-on-Trent

Grosvenor Casino, Stoke-on-Trent


Mecca Bingo, Fountain Park, Edinburgh

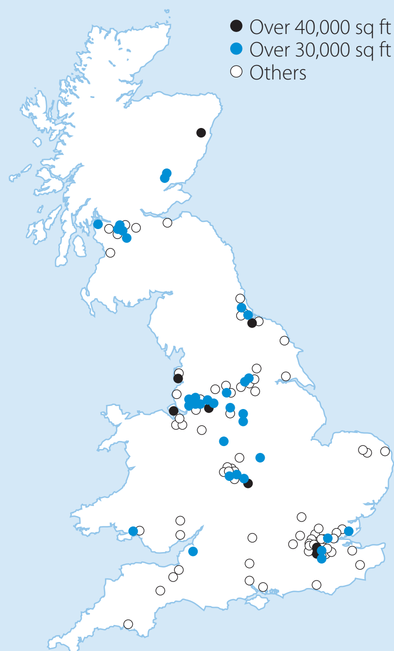
Mecca Bingo

Mecca Bingo is the second-largest bingo clubs business in the UK and one of the most well-known brands in the UK gaming industry. The business strategy is to drive club profits through sustainable growth in revenues from our one million strong membership base.

We will do this by creating a differentiated bingo experience with consistently high quality, high prize and high excitement bingo games. We are harnessing the power of developing gaming technology to provide greater choice for our members and more ways to win.

As we develop we will continue to focus on the quality of our bingo club estate and the quality of the member service and the leisure experience that we provide.

Mecca UK Locations

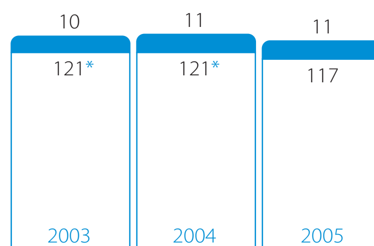


Mecca Bingo

Revenue
£295.6m

Operating profit
£80.2m

Mecca Bingo clubs over last 3 years



Mecca UK

- 117 bingo clubs**
- 1.1 million total members
- 19.7 million annual admissions

Top Rank Espana

- 11 bingo clubs

*includes seasonal club not opened in 2005
**excludes Mecca Bingo Crewe (opened January 2006)

Mecca Bingo

	Revenue		Operating profit	
	2005 £m	2004 £m	**2005 £m**	2004* £m
Mecca Bingo				
UK	**264.0**	265.3	**70.2**	73.3
Spain	**31.6**	27.3	**10.0**	7.7
	295.6	292.6	**80.2**	81.0

*excluding exceptional items

Total revenue of £295.6m in Mecca Bingo was slightly ahead of 2004 but operating profit edged down to £80.2m (2004 – £81.0m). This performance includes a strong contribution from our business in Spain, Top Rank Espana, which grew operating profit by 29.9% to £10.0m, partly as a result of a first full year of trading from our club in Sabadell, Catalonia, which was acquired in December 2004.

In the UK, revenue generation from a slightly smaller estate (three clubs were closed with no new openings) was broadly flat with spend per head up 5.6% and admissions declining by 5.8%. Cost pressures from higher energy prices and the increase in the National Minimum Wage contributed to a 4.2% decline in operating profit to £70.2m.

UK Bingo statistics	**2005**	2004	Change (%)
Admissions (000s)	**19,728**	20,933	-5.8
Spend per head (£)	**13.38**	12.67	5.6

Analysis of UK bingo revenue

	2005 £m	2004 £m	Change (%)
Interval games	**123.4**	126.3	(2.3)
Main stage bingo	**51.6**	53.6	(3.7)
Gaming machines	**64.5**	60.2	7.1
Food & beverage and other	**24.5**	25.2	(2.8)
	264.0	265.3	(0.5)

Operating & financial review – Gaming

Revenues from interval games, main stage bingo and food & beverage all declined in 2005 as a result of lower admissions.

Our focus on expanding and upgrading our gaming machine areas generated growth of 7.1% from gaming machines despite the fall in admissions. During the course of the year, we installed 719 new gaming machines, including 488 Section 21 machines, 205 new AWPs and 26 jackpot machines. Also, we increased electronic bingo from 60 positions to 140.

Our strategy is to drive spend per head and generate club loyalty by consistently providing high prize, high excitement bingo and more ways for our members to game. From March 2006 we are introducing a new linked game into each of our clubs with a minimum prize of £20,000 on every night of the week. In addition we can now operate Cashlink (linked mechanised bingo games) across our entire UK estate. And we aim to maintain the momentum we have established in machine revenues by installing in our clubs an additional 200 gaming machines over the course of the year.

We are opening two new Mecca clubs in 2006, at Crewe (opened in January) and at Paisley.

When it opens in March, the Mecca Fountain Park in Edinburgh (a licence relocated from the nearby Mecca Palais) will be the UK's first fully electronic bingo club. We believe that through innovative use of technology we have the potential to stimulate growth in both admissions and in spend per head. We will monitor closely the performance of the Fountain Park club as well as the trials of hand-held electronic bingo that we are undertaking in a number of traditional clubs.

In our Scottish clubs we will be adopting a number of measures to help manage the impact of the smoking ban. These include the expansion of bingo sessions to allow us to create scheduled breaks without reducing the number of games we are able to offer, and the use of Cashlink games across all of our clubs in Scotland.

Market insight – Bingo

In the year to 31 March 2005 the number of bingo clubs known to be operating within Great Britain declined 2.6% to 678. Of this number, 586 were in England and Wales and 92 were in Scotland.

Although the market remains fragmented there has been some consolidation. As of March 2005, the top five bingo club operators accounted for 52% of the total supply of clubs, up 3% points on the previous year.

Mecca Bingo's share of the total clubs stayed broadly flat, despite the closure of three clubs. It remains the second-largest bingo clubs operator in the country, with 17% of the total.

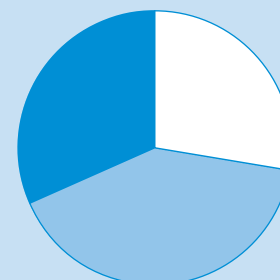
Since the publication of The Gaming Board's annual report (from which the market share statistics are drawn) there has been further consolidation.

Company	Clubs
Gala	168
Mecca	**117**
Top Ten	38
Carlton	18
Cambos	10
Others	327

Source: Report of The Gaming Board for Great Britain 2004/5

In 2005 Mecca and Gala, the two biggest bingo operators in the UK, maintained their share of National Game ticket sales at more than two-thirds of the total. Mecca's share of ticket sales is disproportionately higher than its share of clubs.

- Mecca: 28%
- Gala: 41%
- Others: 31%



Source: National Game

Mecca Bingo, Fountain Park, Edinburgh

Investment in technology

In 2005 Mecca stepped up its investment in gaming technology, once again taking the lead in bingo's evolution.

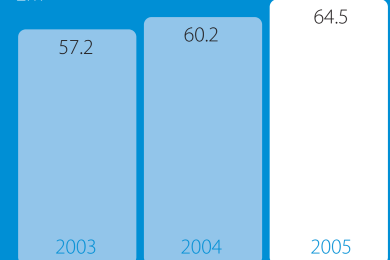
By putting Cashlink technology into each of its clubs, Mecca is now able to operate linked mechanised bingo games across local groups of clubs or its entire UK estate. This creates high prize, high excitement interval games, which in turn drives admissions growth and enhances spend per head.

We have continued to increase the number of gaming machines installed in our clubs. In 2005 gaming machines contributed nearly one-quarter of Mecca UK's total revenue.

In 2005 the development of electronic bingo gathered pace. At Mecca Bingo Wood Green, in north London, 80 "ebingo" positions were installed, following a successful trial at the Mecca Quay in Glasgow (which has 60 positions). The popularity of this new twist on the classic game has prompted Mecca to build the UK's first fully electronic bingo club at Fountain Park in Edinburgh. Electronic bingo allows players to play as many as 72 cards in any one game, which in turn generates higher prize boards. Members at Fountain Park will be able to play a range of Section 21 games from any of the 521 ebingo terminals and even order food and drink to be delivered to their tables.

A hand-held version of electronic bingo underwent trials in 2005 and is now being rolled out across Mecca's clubs in Scotland.

Gaming machine revenues
£m



Hard Rock Casino, Leicester Square, London

Grosvenor Casinos

Through new legislation, advances in technology and changing life-styles, the UK casinos market is undergoing a transformation. Grosvenor, with its large and high-quality estate of casinos is well placed to maximise the benefits of industry-wide admissions growth and a range of new opportunities to drive customer spending.

We have increased the availability and attractiveness of electronic gaming machines, while our network of card rooms is enabling us to take advantage of the rise in the popularity and profile of poker. And we are focusing on our bar and restaurant operations to benefit from the heightened propensity for members to dine out as part of their night at the casino.

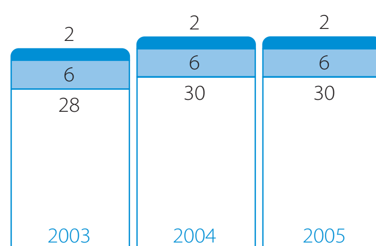
Starting in 2007 we expect to grow our operations, adding at least seven new casinos. And, through selected relocations of casino licences, we will continue to add capacity to our existing estate.

Grosvenor UK Locations

Grosvenor Casinos

Revenue
£207.9m

Operating profit
£27.3m



Grosvenor UK

- 36 casinos
- 384 gaming tables
- 1,319 gaming machines*
- 455,000 active members
- 1.5 million total members

Belgium

- 2 casinos

*includes electronic roulette

Grosvenor Casinos

	Revenue		Operating profit	
	2005 £m	2004 £m	**2005 £m**	2004 £m
UK				
London – upper	**24.9**	23.4	**4.8**	3.8
London – other	**56.0**	56.7	**9.6**	11.3
Provincial	**101.1**	97.3	**22.4**	24.7
Hard Rock	**13.0**	11.0	**0.3**	(0.5)
Overheads	**–**	–	**(11.2)**	(7.6)
	195.0	188.4	**25.9**	31.7
Belgium	**12.9**	12.4	**1.4**	1.7
Total	**207.9**	200.8	**27.3**	33.4

Strong growth in admissions in Grosvenor's provincial casinos contributed to a 3.5% rise in revenue for the year, but operating cost increases and a £3.2m impairment charge caused operating profit to decline to £27.3m.

As a result of increased promotional activity and the benefits of deregulation, active membership of our UK casinos finished the year up 46% at more than 455,000. For the first time, annual admissions to our UK casinos exceeded 4 million (admissions totalled 4.4 million – an increase of 9.8% on the previous year), but handle-per-head declined by 7.7%. Despite regional fluctuations, gross win margin in Grosvenor of 17.2% was broadly in line with 2004.

	Admissions		Handle-per-head		Win	
	2005 000s	2004 000s	**2005 £**	2004 £	**2005 %**	2004 %
UK						
London – upper	**59**	58	**2,166**	2,152	**19.4**	18.6
London – other	**626**	630	**479**	475	**17.3**	17.6
Provincial	**3,287**	2,910	**150**	169	**16.5**	16.8
Hard Rock	**395**	377	**155**	142	**17.7**	17.2

Operating & financial review – Gaming

London upper – our London upper casinos have performed well. Gains in admissions, handle-per-head and an improvement in win margin pushed revenues up by 6.4%. Operating profit increased by 26.3%.

London other – revenue from our mainstream London casinos, the Victoria, the Gloucester and the Connoisseur, was broadly flat for the year with admissions down 0.6% and handle-per-head up 0.8%. Operating profit was down 15.0%, due in part to lower second half win margin.

Provincial – we generated 13.0% growth in admissions across our estate of 29 provincial casinos, driven in part by the performances of the two casinos that we opened in 2004, at Stoke and at Bolton. An increase in lower-staking members caused handle-per-head to be diluted by 11.2%, while win margin of 16.5% was lower than in the previous year. Revenues grew by 3.9% but with higher costs and an increasingly competitive trading environment, operating profit dropped 9.3% to £22.4m.

Hard Rock – our Hard Rock casinos grew admissions and handle-per-head for the third year in succession. Our Hard Rock Casino in Leicester Square had a particularly strong year.

Belgium – our two casinos in Belgium, at Middlekerke and Blankenberge, improved markedly after a slow start to 2005, with strong year-on-year growth in second-half revenue and operating profit. For the year as a whole, revenue was up 4.0% to £12.9m, but operating profit fell £0.3m to £1.4m.

During the final quarter of 2005 we grew overall UK admissions by 13.2%, membership rose by 23% and gaming machine revenues increased significantly. As anticipated, handle-per-head (which does not include machines revenue) declined in this period with new members tending to stake lower amounts on table gaming.

We increased the number of electronic gaming machines across the estate from 913 to 1,319. This total comprises 524 jackpot machines and 710 electronic roulette terminals. In the majority of our clubs, we have achieved (or are close to achieving) the maximum permissible number of jackpot machines, although we have identified the opportunity to add to the 85 Section 21 machines that we had installed by year-end.

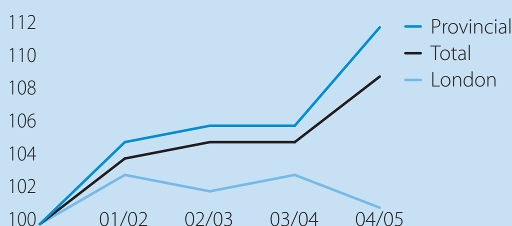
In 2006 we plan to relocate two existing casinos, in Manchester and Luton, as well as completing the extension of our existing casino in Reading. These projects will increase the total gaming area of our casino estate by 3.5% to approximately 565,000 square feet.

In addition to our existing estate of 36 casinos we have been granted seven new casino licences under the 1968 Gambling Act and have certificates of consent for a further three. We expect the first of these new casinos to open during 2007.

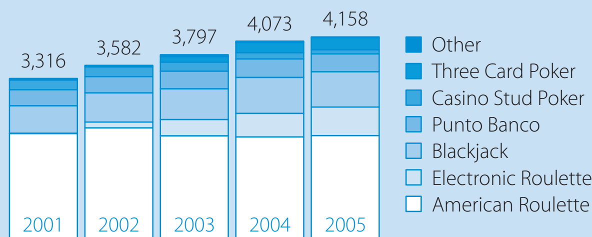
Market insight – Casinos

In 2005 the UK casinos market has continued to grow, both in terms of supply and demand. Growth in casino admissions has been driven by higher penetration of casino membership and the total amount staked has continued to move ahead.

The growth trend in admissions (index-linked) in London and provincial casinos since 2000 is shown in the chart below.



An analysis of total amount (£m) staked by type of casino game (excludes gaming machines) is shown below



Between March 2004 and March 2005, five new companies entered the UK market, increasing the number of casino operators in the country from 19 to 24. The ownership structure of the market is summarised in the table below (figures in brackets show the number of London casinos included within the total).

Company	2004/5	
Stanley Leisure	41	(4)
Grosvenor	**36**	**(6)**
Gala	28	(5)
London Clubs International	7	(5)
A&S	6	(1)
Others	20	(3)
Total licences in operation	138	(24)

Source: Report of The Gaming Board for Great Britain 2004/5

By March 2005, the number of casinos operating in the UK had risen to 138, representing an increase of 17% on 2000 figures. This trend seems likely to continue in the near term, as a result of the increase in the number of casino licence applications being submitted under the 1968 Gambling Act.

Grosvenor Casinos, Poker Room

Deregulation

Under the 2005 Gambling Act, which Parliament passed on 7 April 2005, a number of changes are being made to the regulations that govern the UK casino industry. The key measures are explained below.

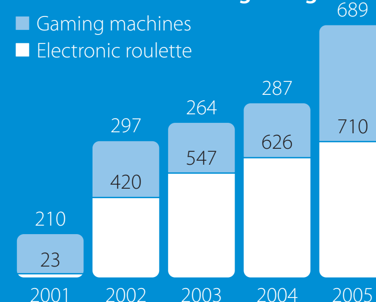
24-hour membership rule rescinded (from October 2005)
New members no longer have to wait for 24 hours following registration before they are permitted to play in a casino. Valid photo identification remains a requirement for entry to a casino.

Gaming machine limits raised (from October 2005)
The number of Section 31 or "Jackpot" gaming machines permitted in a casino has been raised from ten to 20. Maximum stakes for these machines have been raised from 50p to £2; maximum prizes have been raised from £2,000 to £4,000.

Advertising restrictions to be relaxed (expected in 2007)
The regulations that govern the nature of advertisements for casinos are to be relaxed. The exact changes have yet to be determined.

New casino licence classifications to be introduced (expected in 2007)
Three new classes of casino are to be introduced, each with progressively broader entitlements with regard to numbers and types of gaming products. Initially 17 new licences will be granted: eight "Small"; eight "Large"; and one "Regional".

Increase in electronic gaming



FIFA World Cup

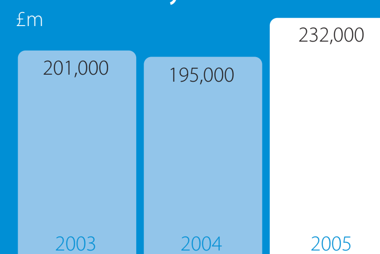
Blue Square

When it was acquired by Rank in 2003, Blue Square was predominantly a sports betting business. Over the last two years we have focused on building an on-line gaming business, investing in research and development and using The Rank Group's Mecca and Hard Rock brands to create differentiated products. In 2005, on-line gaming contributed around 50% of Blue Square's gross win.

Sports betting remains an important aspect of Blue Square's business in its own right, but our ability to migrate customers from sportsbook to gaming has been central to the business's transformation. We were one of the first companies to develop a "shared purse" that allows customers to place bets on sport events or on-line gaming from the same account.

The FIFA Football World Cup in Germany this summer will help us to grow revenues in sports betting but also provides a major opportunity to recruit a higher number of members to Blue Square on-line gaming.

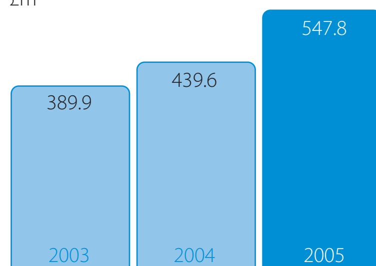
Blue Square active membership over last three years
£m



Blue Square

Stakes placed
£547.8m

Gross win revenues
£26.3m



- Integrated sports betting and on-line gaming
- Shared purse across on-line platforms
- 232,000 active members
- 123 employees
- £547.8m total stakes

Blue Square

	Stakes placed*		Gross win revenues	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Internet	**488.6**	375.9	**22.5**	20.8
Telebet	**59.2**	63.7	**3.8**	4.8
Total	**547.8**	439.6	**26.3**	25.6
Operating (loss) profit			**(1.7)**	2.7

*excludes betting shop and rails business

After a difficult first half, Blue Square's performance improved in the second half. For the year as a whole, the business recorded revenue growth of 2.7% and an operating loss of £1.7m (2004 – operating profit of £2.7m). This resulted from weaker sportsbook margins, initial losses from the Blue Square betting shop and increased investment in marketing and product development.

We are encouraged by Blue Square's continued development in on-line gaming, and in particular our poker and casino products. We have grown active membership by 18.9% (finishing the year with more than 232,000 members) and our strategy of migrating customers from on-line sports betting to on-line gaming is proving successful.

In 2006 we will seek to accelerate the momentum we have created in on-line gaming with the launch of a range of new products. A busy sporting calendar, which includes the 2006 FIFA World Cup in Germany, is expected to provide a boost to sports betting and creates an opportunity to drive membership growth in on-line gaming.

Operating & financial review – Hard Rock

Hamish Dodds
President and Chief Executive of Hard Rock

Hard Rock's greatest asset is the global impact of its brand image. Since it was founded in 1971, Hard Rock has evolved into a world famous dining and entertainment destination, yet it has always stayed true to its rock and roll roots.

The success of the Hard Rock Cafe has enabled Hard Rock to develop in relevant areas of the leisure market, including hotels, casinos and on-line gaming. The business strategy is to build on Hard Rock's brand strengths, improving the quality of company-owned cafes in key marketplaces; extending the cafes portfolio, chiefly through franchise; and by continuing to develop world-class hotels and casinos through management and licensing arrangements.

In pursuing this strategy we are creating a branded leisure and lifestyle business that, crucially, remains grounded in the passionate and irreverent founding spirit of Hard Rock.

Revenue
£250.1m

Operating profit
£34.8m

- 123 Hard Rock Cafes
- 41 countries world-wide
- 3 Hard Rock Hotel & Casinos
- 4 Hard Rock Hotels
- 2 Hard Rock Casinos*
- 4 Hard Rock Live! concert venues
- 70,000 pieces of rock memorabilia
- 50 million+ guest visits
- 6,000+ employees
- Since 1971

*operated as part of Grosvenor Casinos

Hard Rock

	Revenue		Operating profit	
	2005 £m	2004 £m	**2005 £m**	2004* £m
Company operated				
Cafes	**228.2**	216.4	**29.2**	25.4
Third party operated				
Cafes	**6.3**	5.2	**5.0**	5.3
Hotels/casinos	**15.6**	10.4	**12.5**	7.4
Equity distributions			**4.5**	2.2
Overheads			**(16.4)**	(12.4)
	250.1	232.0	**34.8**	27.9
Lifestar Joint Venture – share of post tax results			**(1.4)**	(0.5)

*excluding exceptional items

Hard Rock has enjoyed another good year with operating profit up by 24.7% on revenue growth of 7.8%. A substantial increase in profits from our hotel and gaming interests and the continued improvement of our company-owned cafes were the key drivers behind this performance. Divisional overheads increased as a result of continued investment in the Hard Rock brand, both in terms of marketing expenditure and development resources for hotels and casinos.

Hard Rock Cafe advertising

Hard Rock Cafe

Our strategy for owned cafes is to generate sustainable growth by enhancing the product offering in dining and merchandise; strengthening our brand marketing; and improving the quality of our portfolio. In 2005 this approach yielded a 15.0% rise in operating profit on revenue growth of 5.5%.

Hard Rock like-for-like cafe sales %

To 31 December 2005	Food & Beverage %	Merchandise %	Total %
North America	5.8	-1.7	3.3
Europe	4.6	10.9	6.5
Total	**5.5**	**1.3**	**4.1**

Company-owned like-for-like sales grew 4.1%, with improved performances in both food and beverage and in merchandise.

In the summer of 2005 we re-launched the Hard Rock Cafe menu across all of our owned cafes. This allowed us in the second half of the year to realise a pricing opportunity in many of our cafes in North America. These actions contributed to like-for-like food and beverage sales increases of 5.8% in North America and 5.5% across our owned estate.

In merchandise we have developed a more diverse range of Hard Rock apparel and branded goods, with an increased emphasis on fashion and clothing inspired by recording artists. At the same time we have sharpened our retail focus through more efficient stock churn and a redesign of our "Rock Shops". These actions have helped to generate like-for-like sales growth in merchandise for the first time in ten years.

Royalties and fees from our franchise cafes increased by 21.2% to £6.3m. Investment in organisational support, marketing and brand standards compliance caused operating profit for the year to dip to £5.0m.

We continue to upgrade the quality of our cafe portfolio through selective new openings, relocations and the closure of under-performing sites. In August we relocated our cafe in New York City. After 22 years on West 57th Street, the Hard Rock Cafe moved to a new flagship location in the legendary Paramount Theater on Times Square, with room for 708 diners, an 1,800 square foot Rock Shop and a Hard Rock Live! concert venue.

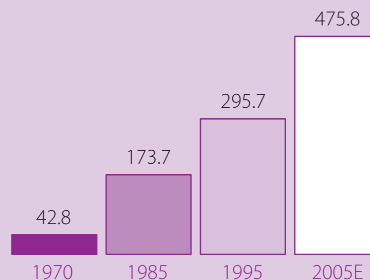
We ended 2005 with 123 Hard Rock Cafes, including 67 company-owned and 56 under franchise. These figures include two franchise cafes in Mexico that have been closed temporarily due to damage inflicted by Hurricane Wilma. In 2006 we expect to add between 5 and 7 new cafes to the Hard Rock portfolio with the majority added in international markets by our franchise partners.

Market insight – Hard Rock

The United States of America is the largest single market for Hard Rock. Over 35% of all Hard Rock Cafes are located in the USA, including a high proportion of company-owned cafes. A further 10% of Hard Rock Cafes are located in the North and Central American region (mainly Canada and Mexico).

With more than 925,000 restaurants, the USA remains the world's largest dining-out market. Total sales across the nation's restaurant sector in 2005 were estimated at $475.8bn, with US citizens spending an average of $974 per year on food prepared away from the home.

Total US restaurants sales growth 1970–2005



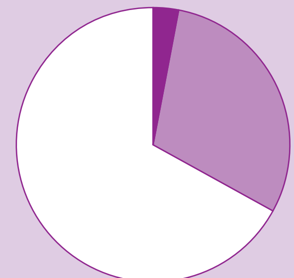
Source: National Restaurant Association, Bureau of Economic Analysis, KPMG analysis

Hard Rock Cafe sits within casual dining, the largest segment of the full-service restaurants market. In 2005 casual dining accounted for approximately two-thirds of all restaurant operations in the USA. Estimated total sales for this segment in 2005 totalled $110bn.

USA full-service restaurants by type 2005

- Fine dining: 3%
- Mid-scale: 30%
- Casual dining: 67%

Source: Technomic, National Restaurant Association



Hard Rock Cafe, New York City

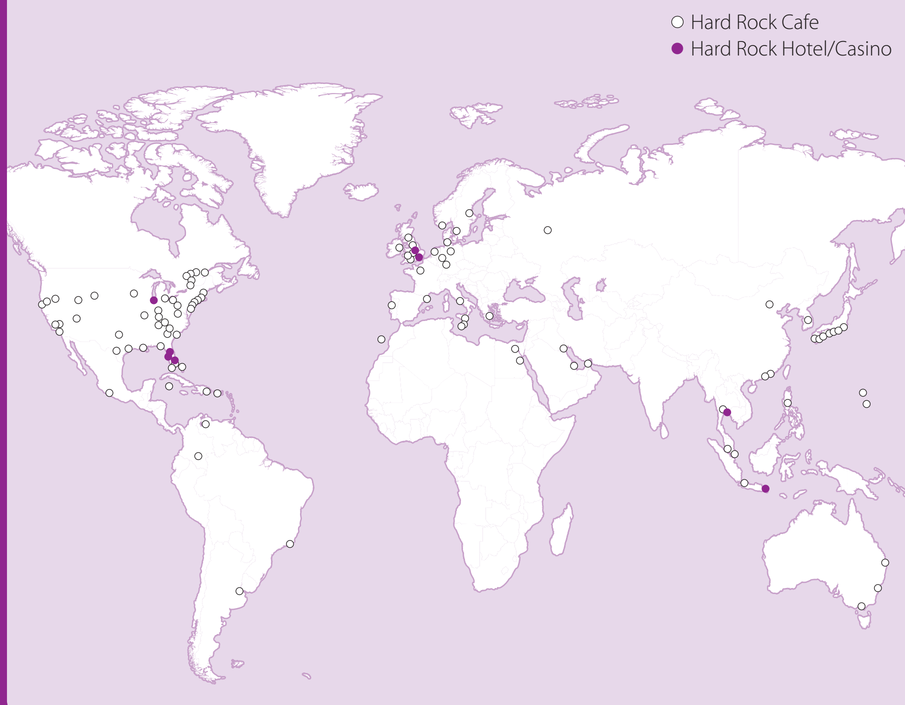
Rockin' all over the world

Hard Rock has come a long way since the eponymous cafe on Piccadilly in London first opened its doors in 1971.

Today Hard Rock is one of the most recognised music, entertainment and dining brands on the planet. Its mission is to provide "authentic experiences that rock". In recent years this has encompassed a broader range of activities than the sale of great American food and branded clothing. Harnessing the power of the brand, Hard Rock has moved successfully into hotels, casinos and on-line gaming.

Yet the heart of Hard Rock remains its cafes business, which continues to provide the majority of Hard Rock profits. The enduring success of the Hard Rock Cafe has taken the brand into 41 countries around the globe, bringing Hard Rock's "kick-ass" service to millions of guests every year.

Hard Rock Locations



Hard Rock Hotel

Hotels and casinos

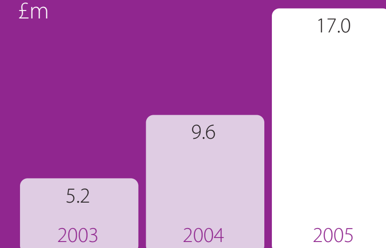
In 2005, Hard Rock's hotels and gaming interests contributed 33% of Hard Rock's operating profit*. Yet although the concept of the Hard Rock Hotel and Casino has existed for more than a decade, it is only in recent years that it has become a key strategic platform for the Group.

The opening in 2004 of two Hard Rock Hotel and Casinos at Tampa and at Hollywood (both in Florida) provides a glimpse of the potential of the Hard Rock brand in combined hotel and casino operations. The performance of these businesses, which are owned and operated by the Seminole Indian Nation, was a key contributor to Hard Rock's 2005 profits.

The formation of Lifestar LLC, a joint venture with Spanish hotels group Sol Meliá has created a strategic vehicle for the expansion of stand-alone hotels. Through Lifestar, we will open in 2006 the Hard Rock Hotel Madrid and further developments are planned from 2007 in San Diego, in New York City and in the Copper Mountain ski resort in Colorado. These are in addition to the Hard Rock Hotel Chicago, which is already operating under the joint venture.

* before overheads

Hard Rock EBIT from hotels and gaming
£m



Hard Rock Hotel, Chicago

Save the planet

In 2005, Hard Rock's commitment to "Save the Planet" was put to the test as a series of humanitarian disasters from around the world prompted an unprecedented response from the employees, guests and partners of Hard Rock. These are just a few of the examples.

In January 2005, Lenny Kravitz, the Grammy award-winning recording artist played a benefit concert at the Hard Rock Cafe in Dallas to raise more than $22,000 for UNICEF. The funds were directed to the relief of suffering caused by the Tsunami that hit southern Asia in December 2004.

In 2005, Hard Rock launched the latest item from its "Signature Series" of apparel. Sales of the Bruce Springsteen Signature Series t-shirt, inspired by the "Boss's" trademark "telecaster" guitar, raised more than $450,000 for World Hunger Year.

In September the rock supergroup Velvet Revolver performed at Hard Rock Live! in Orlando, Florida to raise money for victims of Hurricane Katrina. The concert was the centrepiece of a series of events which raised more than $250,000 for the American Red Cross Disaster Relief Fund.

Hard Rock Hotels and Casinos

A full year contribution from the two Hard Rock Hotel and Casinos operated by the Seminole Indian Nation in Florida has helped drive an improvement in operating profit from our hotels and casinos. Equity distributions from our 25% share in Universal Rank Hotels (comprising three hotels in Orlando, Florida) increased by £2.3m, reflecting continued strong performance.

In 2006, we will open the 192-bedroom Hard Rock Hotel Madrid, through our Lifestar joint venture with Sol Meliá. Plans to open additional hotels include the Paramount Hotel in New York and the first Hard Rock condo-hotel in San Diego, California. We expect these hotels to open under the Hard Rock brand during 2007 and 2008.

In addition we plan to open a 318-bedroom Hard Rock Hotel and Casino in Biloxi, Mississippi. This development was in the middle of its opening programme in September 2005 when it sustained major damage as a result of Hurricane Katrina.

Other operations: US holidays

	Revenue		Operating profit	
	2005 £m	2004 £m	**2005 £m**	2004 £m
US Holidays	**30.4**	32.2	**2.2**	4.1

Revenue declined by 5.6% in US Holidays, our time-share accommodation, camping and hotels business in the Pocono Mountains, Pennsylvania. Operating profit fell to £2.2m (2004 – £4.1m), in part due to costs relating to an aborted gaming licence application.

Operating & financial review – Finance

Peter Gill
Finance Director

Following clarification of IAS 39, betting and internet gaming transactions are now shown net within the revenue line of the income statement i.e. stakes less payouts, known as gross win. There is no impact on reported profit. For the purposes of meaningful comparison, 2004 comparatives have been restated. The effect is to decrease 2004 revenue and cost of sales by £414m. Details of stakes placed are provided in the Gaming operating review.

Group revenue from continuing operations was up 2.9% mainly due to an increase in owned cafe revenue at Hard Rock.

Group operating profit before exceptional items was down 6.3% to £127.5m. Operating profit fell in Mecca Bingo, Grosvenor Casinos and Blue Square. Hard Rock generated significantly higher profits from its hotels and casinos and its owned cafes but this was not sufficient to offset the decline in the Gaming division. Central costs increased to £15.3m (2004 – £12.9m) due largely to increased compliance costs and share-based payment charges.

Adjusted Group profit before tax was down 13.6% at £85.4m, with the managed business interest charge £3.9m higher than in 2004 due to increased average levels of debt and higher US dollar interest rates.

The effective tax rate on adjusted profit is 24.9% (2004 – 22.7%). The tax rate is lower than the Group's expected structural rate of above 30% as a consequence of certain prior year credits partially offset by a write off of the deferred tax asset following a review of the deferred tax position in light of the disposal of the Deluxe Film business.

Adjusted earnings per share before exceptional items was 10.1p (2004 – 12.7p), reflecting the lower level of Group operating profit.

As required by IFRS, foreign exchange movements on certain inter-company loans are recognised in the income statement as financial gains or losses. This has resulted in a £16.0m charge (2004 – £5.9m gain), net of hedging gains, being recognised against the results of the continuing Group. In addition, the amortisation of the Group's £167.7m convertible bond's equity component has resulted in a £3.0m (2004 – £nil) charge being recognised in this income statement.

In light of the reduced opportunities presented by the 2005 Gambling Act, we have reviewed the Group's onerous lease provisions against vacant properties. As a result, the Group recognised an onerous lease charge of £12.1m within continuing operations. These costs have been shown as exceptional items.

The Group also incurred exceptional financing costs of £3.6m as a result of the closure of an outstanding issue with the tax authorities.

The performance and operations of Gaming and Hard Rock have been covered in more detail earlier in the operating and financial review.

Summary of results (from continuing operations)

			Operating profit			
	Revenue		Before exceptionals		After exceptionals	
	2005 £m	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m
Gaming	**529.8**	523.4	**105.8**	117.0	**105.8**	110.6
Hard Rock	**250.1**	232.0	**34.8**	27.9	**34.8**	(3.1)
US Holidays	**30.4**	32.2	**2.2**	4.1	**2.2**	4.1
Central costs and other	**–**	–	**(15.3)**	(12.9)	**(27.4)**	(17.0)
Continuing operations	**810.3**	787.6	**127.5**	136.1	**115.4**	94.6
Net loss from associates and joint venture			**(1.4)**	(0.5)	**(1.4)**	(0.5)
Managed businesses' interest (net)			**(40.7)**	(36.8)	**(44.3)**	(36.8)
Adjusted profit before tax			**85.4**	98.8	**69.7**	57.3
Foreign exchange on inter-company balances			**(16.0)**	5.9	**(16.0)**	5.9
Amortisation of equity component of convertible bond			**(3.0)**	–	**(3.0)**	–
Profit before tax and exceptional items			**66.4**	104.7	**50.7**	63.2
Exceptional items			**(15.7)**	(41.5)	**–**	–
Profit before tax on continuing operations			**50.7**	63.2	**50.7**	63.2
Adjusted earnings per share			**10.1p**	12.7p		
Basic earnings per share – continuing operations			**5.7p**	15.0p	**7.1p**	9.9p

Discontinued operations

Deluxe Film and Deluxe Media Services are classified as businesses held for sale. As a consequence, both businesses are reported as discontinued operations. The disposal of Deluxe Film was completed on 27 January 2006.

Deluxe Film

Deluxe Film, the film services business, delivered 13.4% growth in revenue to £415.7m (2004 – £366.6m) and operating profit before exceptional items of £65.7m (2004 – £59.8m), an uplift of 9.9% driven by a 51.3% increase in revenue and a 77.6% increase in operating profit in Creative Services. The Group has reported a pre-tax provision for loss on disposal of Deluxe Film of £150.4m.

Deluxe Media Services

Deluxe Media Services, our DVD and CD manufacturing and distribution business, made an operating loss before exceptional items of £16.4m (2004 – £9.6m profit). The Group reported a pre-tax £136.5m exceptional charge which included the revision to the expected net realisable value of the business (£80.2m), European restructuring (£27.5m) and US bad debt and restructuring costs (£28.8m).

Cash flow and net debt

	2005 £m	2004 £m
Cash inflow from operating activities		
Before Deluxe contact advances	**202.5**	245.5
Deluxe contract advances, net of repayments	**(27.2)**	17.8
	175.3	263.3
Capital expenditure	**(88.0)**	(115.6)
Fixed asset disposals	**1.6**	7.4
Operating cash flow	**88.9**	155.1
Acquisitions and investments	**(32.6)**	(74.8)
Disposals and refinancing proceeds	**18.5**	29.9
	74.8	110.2
Interest, tax and dividend payments	**(139.9)**	(118.7)
Cash outflow	**(65.1)**	(8.5)

Operating cash flow was £66.2m lower than 2004. This is largely due to a net outflow in respect of contract advances in Deluxe and costs relating to the disposal of the discontinued businesses.

Capital expenditure

	2005 £m	2004 £m
Continuing operations		
Gaming (excluding RLMS)	**28.2**	58.9
Hard Rock	**16.8**	13.3
US Holidays	**1.1**	2.8
	46.1	75.0
Discontinued operations	**41.9**	40.6
Total	**88.0**	115.6

Net debt

Net debt at 31 December 2005 was £739.4m compared with £641.8m at 31 December 2004. The increase is principally due to contract advance payments, costs associated with the discontinued businesses and foreign exchange translation of US debt as a consequence of a stronger US dollar.

Treasury policy

Rank seeks to achieve certainty of value on its foreign currency purchases and sales by buying or selling forward a portion of its estimated net currency requirements up to a year ahead, or longer where an external currency exposure exists, or is forecast to exist. Balance sheet currency exposure in respect of investments in overseas subsidiaries is minimised by hedging the underlying asset postion with currency borrowings or through the use of currency swaps.

Rank seeks to protect itself against material adverse movements in interest rates by undertaking controlled management of the interest rate structure on Group investments and borrowings. This exposure is managed by fixing interest rates on a portion of the Group's borrowings dependent on the level of gearing.

The Directors review and agree the broad policies and guidelines for all significant areas of treasury activity, including key ratios, funding and risk management. Implementation of these policies is carried out by the Group treasury department, under close management direction. The treasury function is not operated as a profit centre.

Rank uses financial instruments, including foreign exchange forward contracts and interest rate swaps, in its management of exchange rate and interest rate exposures. Financial instruments are only used to hedge underlying commercial exposures. Therefore, while these instruments are subject to the risk of loss from changes in exchange rates and interest rates, such losses would be offset by gains in the related exposures. Rank does not speculate in derivative financial instruments. Realised and unrealised gains and losses on foreign exchange forward contracts that hedge firm third party commitments are recognised in income in the same period as the underlying transaction. Net interest paid or received on interest swap contracts is included in net interest expense.

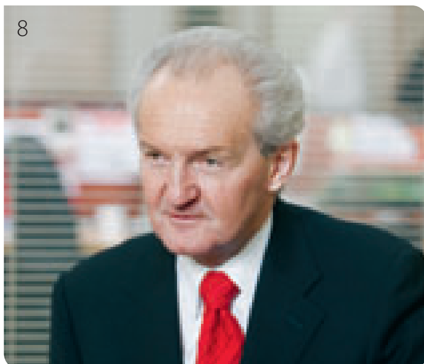
Rank uses derivatives to manage the level of fixed and floating rate debt within the Group. These derivatives are deemed to be highly effective and will result in minimal income statement volatility.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

Further information on borrowings and financial instruments is contained in notes 20 and 21 to the accounts.

Peter Gill Finance Director

Board of Directors



1 Alun Cathcart Non-executive Chairman
Age 62. Joined Rank as Chairman in May 2001. Alun Cathcart is also Chairman of Avis Europe Plc and Palletways Group Limited and Deputy Chairman of Emap plc. He first joined Avis Europe in 1980, and as Chief Executive led the company through two successful flotations, in 1986 and again in 1997.

2 Mike Smith Chief Executive until 6 March 2006
Age 59. Appointed Chief Executive in April 1999. Mike Smith is also non-executive Chairman of communisis plc. He began his career at the Ford Motor Company, following which he held senior positions at both British Leyland and Grand Metropolitan plc before being appointed an executive director of Bowater. He joined Ladbroke Group in 1994, where he was Chief Executive of that company's betting and gaming division. He handed over the role of Chief Executive of Rank to Ian Burke on 6 March 2006 and will leave the Company at the end of March.

3 David Boden Executive Director
Age 49. Joined Rank in 1977 and was appointed Managing Director of Gaming in January 1998 and to the Executive Committee in January 1999. He was appointed to the Board as an executive Director in March 2005. He is a director of British Casino Association Limited, The National Bingo Game Association Limited and Business in Sport and Leisure Limited.

4 Peter Gill Finance Director
Age 50. Appointed Finance Director in July 2005. Peter Gill is a chartered accountant and was formerly Group Finance Director of Xansa plc, prior to which he was with Pearson plc, initially as Director of Financial Operations and then as Chief Financial Officer of the Penguin Group, its consumer books division.

5 Richard Greenhalgh Non-executive Director
Age 61. Appointed an independent non-executive Director in July 2004. Previously, Richard Greenhalgh worked for Unilever for over 30 years and was Deputy Director of Personnel for Unilever Plc prior to his appointment as Chairman of Unilever UK in 1998. He retired from Unilever in 2004. He is Chairman of First Milk, Templeton College Oxford, The Council for Industry and Higher Education, CARE International UK, and Vice Chairman, Qualifications and Curriculum Authority.

6 Brendan O'Neill Non-executive Director
Age 57. Appointed an independent non-executive Director in October 2004. He is Chairman of RAC Pension Trustees Limited and a non-executive director of Tyco International Ltd, Aegis Group plc and of Endurance Speciality Holdings Limited, a Bermudan-based insurance company. He was formerly Chief Executive of ICI Plc until 2003 and prior to joining ICI Plc in 1998, he was Chief Executive of Guinness Ltd, the Guinness Group's worldwide business brewing interest, and a member of the Guinness Plc board.

7 Oliver Stocken Non-executive Director
Age 64. An independent non-executive Director since 1998. Oliver Stocken is also Deputy Chairman of 3i Plc, non-executive Chairman of Rutland Trust Plc, and a non-executive director of GUS Plc, Pilkington Plc, Standard Chartered Plc and Stanhope Plc. He joined Barclays Merchant Bank in 1979 as head of its Corporate Finance Division and, following various senior positions in investment banking, in 1993 was appointed Group Finance Director of Barclays Plc, from which he retired in 1999.

8 John Sunderland Non-executive Director
Age 60. An independent non-executive Director since 1998, he is also the Senior Independent Director. John Sunderland is Chairman of Cadbury Schweppes plc, a non-executive director of Barclays Plc, President of the Confederation of British Industry and a director of the Financial Reporting Council. He joined Cadbury Schweppes in 1968 and, following a succession of senior positions in the UK and overseas, was appointed its Group Chief Executive from September 1996 until May 2003.

9 John Warren Non-executive Director
Age 52. Appointed as an independent non-executive Director in January 2006. John Warren was previously Group Finance Director of WH Smith PLC and United Biscuits plc and a non-executive director of RAC plc and Rexam plc. Currently, he also holds non-executive directorships at Arla Foods UK plc, Bovis Homes Group plc and Spectris Plc.

10 Ian Burke Chief Executive from 6 March 2006
Age 49. Ian was formerly Chief Executive of Holmes Place Health and Fitness Limited. Before joining Holmes Place he was Chief Executive of Thistle Hotels plc. He has also held the position of managing director of Gala Clubs, the bingo operator.

11 Pamela Coles Company Secretary

Executive Committee
Ian Burke
David Boden
Peter Gill

Pamela Coles Age 45. Joined Rank as Company Secretary in November 2005. She was formerly Company Secretary of RAC plc.

Hamish Dodds Age 49. Appointed to the Executive Committee in March 2004 as President and Chief Executive Officer of Hard Rock. He joined Rank in 2004 and was previously Chief Executive Officer of Cabcorp and President of Pepsico's South American beverage division. Based in Orlando, Florida.

Christine Ray Age 58. Appointed to the Executive Committee as Group Human Resources Director in February 2001. Formerly Human Resources Director of Rank's Holidays Division, having joined Rank following the acquisition of Mecca Leisure in 1990.

Audit Committee
Oliver Stocken – Chairman
Brendan O'Neill
John Sunderland
John Warren

Finance Committee
Alun Cathcart – Chairman
Ian Burke
Peter Gill

Nominations Committee
Alun Cathcart – Chairman
Ian Burke
Richard Greenhalgh
John Sunderland

Remuneration Committee
John Sunderland – Chairman
Richard Greenhalgh
Oliver Stocken

Directors' report

The Directors submit their report and statement of accounts for the year ended 31 December 2005.

Principal activities and business review
Rank is one of the UK's leading leisure and entertainment companies. In 2005, leisure and entertainment activities included casinos, bingo clubs, and Hard Rock Cafes and global rights to the Hard Rock brand. Rank operates primarily in the UK and North America, although it also has activities in continental Europe and other parts of the world.

On 23 December 2005 the Company announced that it had reached agreement to sell Deluxe Film, a film processing and creative services business, to DX Holdings III Corporation, a subsidiary of MacAndrews & Forbes Holdings Inc. The transaction completed on 27 January 2006 for consideration of $750m (£420m). The Board has confirmed that £200m of the proceeds will be returned to shareholders via a share buy-back.

The Board remains committed to a sale of Deluxe Media however an exit may take the form of a sale of the business in its entirety or the separate disposal of individual businesses or assets.

At an extraordinary general meeting held on 4 August 2005, a resolution was passed approving amendments to the Company's Articles of Association to facilitate termination of its registration with the US Securities Exchange Commission (the "SEC"). The amendment to the Articles of Association included a provision conferring upon Rank's Board the power to require Ordinary shares which are held directly or indirectly by US residents ("US Holders") to be sold to reduce the number of such shareholders to below three hundred, as presently required by the SEC for termination of registration.

In order to avoid the costs of complying with SEC registration requirements for the financial year ended 31 December 2005 and to suspend its SEC reporting and other applicable US obligations, the Company intends to commence exercising the compulsory transfer provisions.

The Board has identified the US Holders who will be required to dispose of their Ordinary shares (selected on the basis of relative size of holding and taking smallest holdings first) in the current exercise of the compulsory transfer provisions and notices will be despatched to affected shareholders imminently. Affected US Holders who do not dispose of their shares within 21 days in accordance with the notice may have their shares compulsorily transferred by the Company. Subject to the price at which such shares are purchased being no worse than the price reasonably obtainable in the market, the Company may itself purchase Ordinary shares from US Holders whose shares are being compulsorily transferred.

An analysis of turnover, profit, operating assets and net cash flow by business activity is given on pages 53 to 56. The Group's continuing activities and businesses are reported on in the Operating and Financial Review on pages 6 to 25.

Result and equity dividends
The loss for the year after tax and minority interests was £209.7m (2004 – £15.0m loss).

The Directors recommend a final dividend of 10.3p per Ordinary share which, together with the interim dividend of 5.0p already paid, makes a total for the year of 15.3p per Ordinary share (2004 – 14.6p). Subject to approval at the Annual General Meeting, the final dividend will be paid on 11 May 2006 to those shareholders whose names are on the register on 18 April 2006.

As part of the capital structure review the Board has considered the appropriate level of dividend payout for the ongoing Group. It is the Board's intention to move to a dividend payout ratio of 50% of profit after tax (2.0 times dividend cover).

Directors
The current Directors of the Company are listed on page 27. All of them were Directors of the Company throughout the year save for David Boden, Peter Gill, John Warren and Ian Burke who were appointed Directors with effect from 1 March 2005, 11 July 2005, 1 January 2006 and 6 March 2006 respectively. Ian Burke was appointed Chief Executive on 6 March 2006 in place of Mike Smith who will leave the Company at the end of March 2006. Bill Shannon will join the Board as a non-executive Director with effect from 3 April 2006. Peter Gill, John Warren (a member of the Audit Committee), Ian Burke and Bill Shannon (who will be a member of the Audit, Remuneration and Nominations Committees with effect from his date of appointment) will retire at the Annual General Meeting and, being eligible, will offer themselves for re-appointment. John Warren and Bill Shannon do not have service agreements with the Company. Both Peter Gill and Ian Burke have service agreements with the Company which, during the period of 12 months following from their appointments on 11 July 2005 and 6 March 2006 respectively are terminable on 24 months' notice. After that period they are terminable on 12 months' notice. The Company is satisfied that each non-executive Director is able to devote the necessary amount of time required to attend to the Company's affairs.

Alun Cathcart will retire by rotation at the Annual General Meeting and, being eligible, will offer himself for re-appointment. Alun Cathcart has a service agreement with the Company terminable on 12 months' notice. During the year Alun relinquished the role of Deputy Chairman of Belron International Limited. He joined the Board of Emap plc in June 2005 and became Deputy Chairman on 24 February 2006.

John Sunderland and Oliver Stocken will both be retiring from the Board at the conclusion of the 2006 Annual General Meeting.

Peter Jarvis served as a non-executive Director until 27 April 2005 and Ian Dyson was Finance Director until 24 June 2005.

The interests of the Directors in the shares of the Company, together with their remuneration and, where applicable, details of their service agreements, are shown in the Remuneration Report. Biographical details of each Director are given on page 27.

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

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

The Company believes it benefits substantially from having a diverse workforce and therefore endorses the active application of equal opportunities policies and programmes to provide fair and equitable conditions for all employees regardless of gender, family status, religion, creed, colour, ethnic origin, age, disability or sexual orientation.

In line with the Company's legal obligations in the appropriate countries all reasonable adjustments are made to accommodate the disabilities of any employees whether those disabilities arose before or during their employment with Rank.

Health and safety
The Board receives regular reports on health and safety matters. The Chief Executive has been nominated by the Board as the main Board Director responsible for health and safety across the Group. The Group requires each division to develop and implement its own safety policy, organisation and arrangements, and to respond to its particular health and safety risks. The Board also requires an annual report from each division on the health and safety performance for the year.

Environment
The Group's policy is to encourage respect for the environment and Rank adopts an environmentally responsible attitude in the fulfilment of its business objectives. Close attention is paid to energy and water conservation and recycling of waste material where economically practical.

Corporate social responsibility
The Company's risk assessment processes take account of the significance of social, environmental and ethical matters to the businesses of the Company. Through these processes and the information thereby provided, the Board can identify and assess if there are any significant risks to the Company's short and long term value arising from social, environmental and ethical matters, as well as opportunities to enhance value.

During 2005, the Group commissioned an independent review by GoodCorporation of Hard Rock's management practices regarding the communities and environment in which it operates, and the treatment of its stakeholders, including customers, suppliers and employees.

Share capital
Details of the new Ordinary shares issued pursuant to the exercise of options under Rank's share option schemes are set out in note 33 on pages 83 to 85.

A resolution will be proposed at the Annual General Meeting to authorise the Directors to allot and grant rights over the unissued share capital and to authorise the Directors to allot and grant rights over Ordinary shares for cash up to a maximum nominal amount representing 5% of the issued Ordinary share capital, without first making a pro rata offer to all existing Ordinary shareholders.

A special resolution will also be proposed at the Annual General Meeting to authorise the Company to purchase up to 15% of its Ordinary shares at or between the minimum and maximum prices specified in the resolution set out in the notice of meeting. The authority would only be exercised by the Directors if they considered it to be in the best interests of shareholders generally and if the purchase could be expected to result in an increase in earnings per share.

Fixed assets
The Directors have considered the market value of land and buildings and are satisfied that a surplus over net book value exists but have not quantified the excess.

Payment of suppliers
The Company and its subsidiaries agree terms and conditions for their business transactions with their suppliers. Payment is then made on these terms, subject to the terms and conditions being met by the supplier. Given the diversity of the Group's businesses and the widely differing credit terms which apply in the various industries and territories in which they operate, the Directors consider that it is not meaningful to disclose an average period of credit taken. The Company has no trade creditors.

Significant shareholdings
At the date of this report the Company has been notified of the following interests over its Ordinary shares in accordance with Sections 198 to 208 of the Companies Act 1985:

FMR Corp and Fidelity International Limited (85,766,225 – 13.70%)
The Capital Group Companies, Inc (31,303,400 – 5.02%)
Prudential Plc (31,025,051 – 5.00%)
Legal & General Group Plc (29,917,337 – 4.97%)
HBOS Plc (26,629,046 – 4.26%)
Deutsche Bank AG (25,282,245 – 4.04%)
Aviva plc (19,270,367 – 3.08%)

Charitable and political donations
Charitable donations made in the UK during the year amounted to £269,000 (2004 – £233,000). The largest single donation was £220,000 (2004 – £200,000) in favour of Responsibility in Gambling Trust.

Overseas companies supported a variety of local and national charities and, in particular, Hard Rock Cafe International (USA) Inc. donated approximately US$1,065,000 (2004 – US$550,000), continuing its focus on humanitarian and environmental causes. The Company made no political donations in the year.

Annual General Meeting
The 2006 Annual General Meeting will be held on 26 April and the business to be transacted at that meeting will include, as a special resolution, a proposal to adopt new Articles of Association. The full text of the notice of the meeting, together with explanatory notes, is set out in a separate document which, for shareholders, is enclosed with this Report and Accounts.

Auditors
The auditors, PricewaterhouseCoopers LLP, are willing to continue in office and a resolution that they be re-appointed at a remuneration to be agreed by the Directors will be proposed at the Annual General Meeting.

By order of the Board

Pamela Coles
Secretary, The Rank Group Plc, Registered No. 3140769
Registered Office:
6 Connaught Place, London W2 2EZ

15 March 2006

Remuneration report

This report sets out the Company's executive remuneration policy and structure and details the remuneration received by the Directors for the year ended 31 December 2005, in compliance with the Directors' Remuneration Report Regulations 2002.

Remuneration Committee

The Board has overall responsibility for determining the framework of executive remuneration and its cost, and is required to take account of any recommendations made by the Remuneration Committee. The Board has delegated to the Committee (through formal terms of reference which are available on request in writing to the Company Secretary and on the Company's website) determination of the specific remuneration, benefits and employment packages for the Chairman, executive Directors and other senior executives.

The Remuneration Committee consists solely of independent non-executive Directors. It is chaired by John Sunderland and its other members are Oliver Stocken and Richard Greenhalgh. Peter Jarvis retired from the Committee and the Board after the Annual General Meeting in April 2005. Details of attendances at Committee meetings are contained in the report on Corporate Governance on page 39. Alun Cathcart and Mike Smith normally attend meetings of the Remuneration Committee, as do Christine Ray (Group Human Resources Director), Roger Fairhead (Director of Group Compensation & Benefits), and Pamela Coles (Company Secretary), although they are not present at any discussion concerning their own remuneration.

Towers Perrin has been appointed by the Committee to advise it, and the Board, on remuneration issues, and New Bridge Street Consultants provide advice on share-based incentive arrangements for executives and the wider employee population. Neither adviser provided any other services to the Company during 2005. Christine Ray and Roger Fairhead assisted the Committee by preparing reports on remuneration and employment conditions within the Group; internal support is provided by Pamela Coles.

Remuneration policy

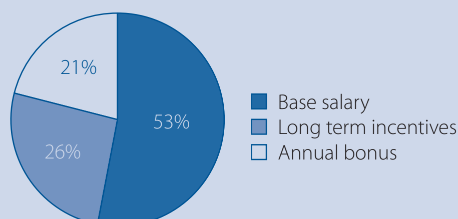
a) Executive Directors

David Boden was appointed an executive Director on 1 March 2005. On 24 June 2005, Ian Dyson left the Company and on 11 July 2005 was replaced by Peter Gill as Group Finance Director. Ian Burke joined as Group Chief Executive on 6 March 2006.

The Committee aims to ensure that the remuneration and incentive arrangements for executive Directors are market-competitive and support the interests of shareholders. In practice, executive remuneration must reflect the competitive practices of the Company's principal competitors and the other businesses with which it competes for talent. The Committee believes that a significant emphasis on variable remuneration linked to the performance of the Company, together with shareholding guidelines for the executive Directors, is the best way to incentivise and reward executives for the achievement of immediate and longer term strategic objectives of the Company. It is not the Company's intention to pay more than is necessary, and the reward structure and potential size of awards are regularly reviewed by the Committee to ensure that they meet these objectives.

Excluding pension entitlements, the target value for each executive Director's remuneration and the shareholding guidelines are:

	Fixed	Performance-related			
	Base salary %	Annual bonus %	Long term incentives %	Total %	Shareholding guidelines
Group Chief Executive	53	21	26	100	1.5 x base salary
Other executive Directors	53	21	26	100	1 x base salary



In the table above, the target value for annual bonus has been calculated as the annual cash bonus payable for achieving all targets as described on page 31 (i.e. 40% of base salary). The target value for long term incentives is calculated as the estimated fair value of grants made under the Company's Executive Share Option Scheme and Long Term Incentive Plan during 2005, as described in note 33 to the accounts, consistent with the basis under IFRS 2 "Share Based Payments". The calculated target values, expressed as a percentage of total remuneration, have not changed since 2004.

The reward structure for around 30 senior executives below Board level is generally the same although the level of remuneration may differ. The shareholding guidelines for Executive Committee members (other than executive Directors) is 0.75 times base salary.

The Committee will continue to review the level and structure of remuneration to ensure that it remains appropriate.

b) Non-executive Directors

The Chairman and non-executive Directors receive fees only, and are not eligible to participate in any bonus plan, pension plan, share plan, or long term incentive plan of the Company. The Chairman and executive Directors determine the fees paid to the non-executive Directors. The Chairman's fee is determined by the Remuneration Committee. The Chairman also receives an expense allowance towards his travel and communication expenses.

Fees paid to non-executive Directors are aligned to reflect the time commitment and responsibility associated with each role. 30% of the net base fees (after tax) paid to non-executive Directors are used to purchase Ordinary shares in the Company on a quarterly basis. These shares must be retained throughout service. The fees paid to the Chairman and each non-executive Director during 2005 and their base fees with effect from 1 January 2006 (including any part used to purchase shares) are disclosed in the Directors' remuneration summary on page 35.

Remuneration structure

a) Base salary and benefits

Base salaries are reviewed annually with effect from 1 January, taking into account individual performance, and paid at a market-competitive level. The Committee receives comparator group information (comprising the Company's principal competitors and other companies of similar size and complexity) compiled by independent remuneration consultants, with a view to maintaining target total remuneration at the mid-market level. The Committee is also guided by salary levels of other executives and across the organisation as a whole. With effect from 1 January 2006, Peter Gill and David Boden received a 4% increase, and Mike Smith received no increase in base salary.

Benefits are provided in line with normal market practice, including a car allowance, and health, disability and life insurance.

b) Annual cash bonus

The annual cash bonus for executive Directors and senior executives is aligned to the achievement of various business strategy objectives expressed as financial targets for the year. For executive Directors and most senior executives below Board level, the annual cash bonus for achieving all of the targets is 40% of base salary, with a maximum bonus equal to 80% of base salary for significantly exceeding all of the targets.

For 2005, operating profit targets (accounting for three-quarters of any bonus) plus a secondary performance measure (accounting for one-quarter of any bonus) were used. The secondary performance measures are specific to each division and relate to quantifiable targets for cashflow, cost reduction and turnover. The annual cash bonus for Mike Smith was 33.5% of base salary, and for David Boden was 6.5% of base salary, commensurate with only some of the financial targets being achieved. In accordance with the terms of his service contract, Peter Gill received a bonus equivalent to 40% of his full annual base salary for 2005 – the standard bonus arrangements shall apply for 2006 onwards. The annual cash bonuses are disclosed in the Directors' remuneration summary on page 35.

c) Long term incentives

The Company operates a Save-As-You-Earn (SAYE) share option scheme in which all UK employees can participate. Participants save a fixed amount of up to £250 per month for either three or five years and are then able to use these savings to buy shares in the Company at a price fixed at a 20% discount to the market value at the start of the savings period. In line with market practice, the exercise of these options is not subject to any performance condition.

The executive Directors and selected senior executives also participate in an Executive Share Option Scheme (ESOS) and a Long Term Incentive Plan (LTIP) designed to retain management and to reward longer term performance over three years or more. In 2005, 123 (2004 – 205) executives received grants under the ESOS and 25 (2004 – 33) received conditional awards under the LTIP.

The ESOS and LTIP were reviewed during 2005 and a new LTIP was approved by shareholders in April 2005. The rules of the ESOS were amended during 2005, to remove the provision for the retesting of performance conditions for all ESOS awards granted in or after 2005.

The level of awards granted to executive Directors and selected senior executives is determined by the Remuneration Committee each year, taking into account the market competitive situation, share dilution limits and Company performance.

Executive Share Option Scheme (ESOS)

The executive Directors and selected senior executives are granted options to purchase shares in the Company at a price fixed at the market value at the date of grant. For options to vest, there must be an average increase in normalised earnings per share (EPS) above the growth in the UK Retail Price Index (RPI) over a three year period, as follows:

Total exercise price	Performance condition
– up to 1 x base salary	RPI + 3% per annum
– up to 2 x base salary	RPI + 5% per annum
– up to 3 x base salary	RPI + 7% per annum

The maximum grant permitted under the ESOS is three times base salary. For options granted before 2005, if the EPS condition is not met at the end of three years, the performance period may be extended for one further year, measuring EPS growth from the original base year. If this condition is not met at the end of the fourth year, the options will lapse. For options granted in or after 2005, this retesting provision has been removed and EPS performance is measured only over the three year performance period. EPS was determined by the Committee to be the appropriate criterion given its linkage with shareholder value. With the introduction of International Financial Reporting Standards from 2005, the Committee will satisfy itself that EPS is consistently measured over a performance period by calculating EPS for the base period and at the end of the performance period on a consistent basis.

Mike Smith and David Boden were granted ESOS awards in 2002 with a performance condition of real EPS growth of at least 5% per annum. Sufficient EPS growth was not achieved for the performance period ended 31 December 2005, and therefore these ESOS awards have lapsed. Ian Dyson left the Company in June 2005 and therefore under the rules of the Scheme, all of his unvested ESOS awards have lapsed.

SAYE and ESOS options are satisfied through the issue of new shares. In accordance with the Association of British Insurers Guidelines on Executive Remuneration, grants of options are carefully planned so as not to exceed 5% of the issued Ordinary share capital in any rolling 10 year period for the ESOS, and 10% of the issued Ordinary share capital in any rolling 10 year period overall. The Committee has regard

to appropriate annual flow-rates to ensure that these limits are not breached. The utilisation of shares against these limits as at 31 December 2005 is shown below:

	5% in 10 years	10% in 10 years
Limit	31,301,041	62,602,081
Utilised	18,898,620	25,244,110
Available	12,402,421	37,357,971

The executive Directors' interests in the ESOS and SAYE are:

	Plan	Date of grant	Exercise price (p)	Number at 1.01.05	Number granted (exercised) during 2005	Number (lapsed) during 2005	Number at 31.12.05	Performance period ending 31 December (maximum)	Earliest exercise date	Exercise period end date
Mike Smith	ESOS	1 Apr 99	226.25	600,000	–	–	600,000	Vested	1 Apr 02	31 Mar 09
	ESOS	24 May 02	271.00	195,571	–	–	195,571	Vested	24 May 05	23 May 12
	ESOS	24 May 02	271.00	48,893	–	(48,893)	–	Lapsed		
	ESOS	27 Mar 03	239.92	178,184	–	–	178,184	2006	27 Mar 06	26 Mar 13
	ESOS	11 Mar 04	320.33	112,383	–	–	112,383	2007	11 Mar 07	10 Mar 14
	ESOS	18 Mar 05	277.83	–	146,666	–	146,666	2007	18 Mar 08	17 Mar 15
Ian Dyson*	ESOS	13 Sep 99	248.00	278,225	(278,225)	–	–	Vested	13 Sep 02	12 Sep 09
	ESOS	24 May 02	271.00	138,376	–	(138,376)	–	Lapsed		
	ESOS	27 Mar 03	239.92	100,033	–	(100,033)	–	Lapsed		
	ESOS	11 Mar 04	320.33	–	63,684	(63,684)	–	Lapsed		
David Boden	ESOS	8 Aug 97	346.96	33,144	–	–	33,144	Vested	8 Aug 00	7 Aug 07
	ESOS	20 Feb 98	338.72	47,236	–	–	47,236	Vested	20 Feb 01	19 Feb 08
	ESOS	24 May 02	271.00	94,095	–	–	94,095	Vested	24 May 05	23 May 12
	ESOS	24 May 02	271.00	23,524	–	(23,524)	–	Lapsed		
	ESOS	27 Mar 03	239.92	85,966	–	–	85,966	2006	27 Mar 06	26 Mar 13
	ESOS	11 Mar 04	320.33	54,318	–	–	54,318	2007	11 Mar 07	10 Mar 14
	ESOS	18 Mar 05	277.83	–	83,144	–	83,144	2007	18 Mar 08	17 Mar 15
	SAYE	1 Jun 04	268.00	3,516	–	–	3,516	–	1 Jun 07	30 Nov 07
Peter Gill	ESOS	22 Sep 05	303.25	–	230,831	–	230,831	2007	22 Sep 08	21 Sep 15
	SAYE	1 Dec 05	225.00	–	7,155	–	7,155	–	1 Dec 10	31 May 11

*resigned 24 June 2005. Vested options exercised in March 2005 at a market price of 273.10p.

The market value of one Ordinary share was 305.75p at 31 December 2005. The highest market value during 2005 was 322.50p and the lowest was 250.00p. No ESOS or SAYE options were exercised by executive Directors other than Ian Dyson during the year.

Long Term Incentive Plan (LTIP)

The executive Directors and selected senior executives are awarded shares in the Company subject to achieving a total shareholder return (TSR) target. To ensure these awards do not vest at a time of overall unsatisfactory financial performance, there must also be an increase in normalised EPS of at least 2% per annum above the growth in RPI over a three year period.

The TSR target measures the Company's growth relative to 19 comparator companies. 100% of the shares vest if the Company achieves upper quartile performance, 30% of the shares vest at median performance, and awards vest on a straight line basis for performance in between. No shares vest if performance is below median. The TSR ranking for awards that vested for the year ended 31 December 2005 and for those not yet vested are:

Performance period ending	TSR ranking at 31 December 2005	Vesting
31 December 2005	12th out of 20	0% (final vesting)
31 December 2006	14th out of 20	0% (provisional)
31 December 2007	11th out of 20	0% (provisional)

Accordingly, in 2006 Mike Smith and David Boden will not receive any of the shares conditionally awarded to them in 2003. Ian Dyson left the Company in June 2005, and therefore under the rules of the Plan, all of his LTIP awards lapsed.

TSR is measured by independent consultants with reference to the change in the price of Ordinary shares over the performance period and the gross value of dividends assuming they are immediately reinvested in shares during that period. In order to reduce the effects of short term volatility in TSR, the averages of the daily closing prices of shares for the previous three months are used.

A TSR criterion was selected by the Committee because of its link with shareholder value, and a secondary criterion of EPS growth was selected to ensure that awards would not vest at a time of overall unsatisfactory financial performance.

The comparator group of the companies against which TSR is measured currently comprises BAA, Boots, De Vere, DSG International, EMI, GUS, Hilton, InterContinental Hotels, ITV, Kingfisher, Luminar Leisure, Mothercare, MyTravel, Next, Pearson, Scottish & Newcastle, Stanley Leisure, WH Smith and Whitbread. This comparator group of companies was selected by the Committee at commencement of the plan in 2000 because of similarities in market sector and/or market capitalisation at that time. The replacement LTIP approved by shareholders at the 2005 Annual General Meeting will permit the Committee to select comparator companies appropriate at the time of each grant.

The maximum award under the plan is one and a half times base salary, and the executive Directors' interests in the LTIP are:

	Date of award	Market price at award (p)	Market price at vesting (p)	Number at 1.01.05	Number awarded (vested) during 2005	Number (lapsed) during 2005	Number at 31.12.05	Status/ Performance period ending 31 December
Mike Smith	12 Mar 02	275.00	276.95	96,363	(82,872)	(13,491)	–	86% vested
	20 Mar 03	238.50	–	179,245	–	–	179,245	0% vesting
	11 Mar 04	323.50	–	111,282	–	–	111,282	2006
	18 Mar 05	275.50	–	–	134,460	–	134,460	2007
Ian Dyson*	12 Mar 02	275.00	276.95	54,545	(46,908)	(7,637)	–	86% vested
	20 Mar 03	238.50	–	100,628	–	(100,628)	–	Lapsed
	11 Mar 04	323.50	–	63,060	–	(63,060)	–	Lapsed
David Boden	12 Mar 02	275.00	276.95	46,363	(39,872)	(6,491)	–	86% vested
	20 Mar 03	238.50	–	86,477	–	–	86,477	0% vesting
	11 Mar 04	323.50	–	53,786	–	–	53,786	2006
	18 Mar 05	275.50	–	–	76,225	–	76,225	2007
Peter Gill	22 Sep 05	303.75	–	–	115,226	–	115,226	2007

*resigned 24 June 2005.

d) Pension

Mike Smith, David Boden and Ian Dyson are members of the Rank Pension Plan, which is a defined benefit plan, providing benefits based on number of years' service and base salary (restricted by the earnings cap imposed by the Finance Act 1989 for Mike Smith and Ian Dyson). The accrual rate does not exceed 1/30th for each year of service.

In addition, the Company pays into a funded unapproved retirement benefit scheme (FURBS), which is a defined contribution scheme, on behalf of Mike Smith. The Company also paid a salary supplement in lieu of additional pension contributions to Ian Dyson. Peter Gill does not participate in the Company's pension arrangements and instead receives a salary supplement in lieu of pension provision. These amounts are disclosed in the Directors' remuneration summary on page 35.

Pension entitlements and corresponding transfer values for the Rank Pension Plan during the year were:

	Age at 31.12.05	Gross increase in accrued pension during 2005 £000	Increase in accrued pension (net of inflation) during 2005 £000	Total accrued pension at 31.12.05 £000	Value of net increase in accrued pension (net of Directors' contributions) £000	Value of accrued pension at 1.01.05 £000	Transfer value of accrued pension at 31.12.05 £000	Directors' contributions during 2005 £000	Increase in transfer value (net of Directors' contributions) £000
Mike Smith	58	2	2	12	27	166	226	8	52
Ian Dyson*	43	2	2	20	15	149	203	4	50
David Boden	49	10	6	168	59	1,721	2,204	29	455

*resigned 24 June 2005.

Accrued pension is the amount which would be paid annually on retirement based on service to the end of the year. The value of net increase in accrued pension represents the incremental value to the executive Director of his service during the year, assuming service is terminated at the year-end. Transfer values have been calculated in accordance with paragraph 1.5 of guidance note GN11 issued by the actuarial profession. The increase in transfer value (net of Directors' contributions) includes the effect of fluctuations due to factors beyond the control of the Company and Directors, such as stock market movements.

As a result of the changes to the taxation of pensions from April 2006, the Company will allow employees, including executive Directors, to opt-out of the Company's pension arrangements providing they have made adequate pension provision, and opt instead for a salary supplement. The salary supplement rate has been set at the same level as the pension funding cost less employers' National Insurance contributions, such that the total cost to the Company is no more than the cost of the Company's regular pension contributions.

Service contracts and external directorships

It is the Company's policy that the Chairman and executive Directors have service contracts with notice periods not exceeding one year. However, the Company recognises that for appointments from outside the Company, a longer initial notice period may be necessary, reducing to one year or less after an initial period. There are no predetermined compensation provisions for early termination, and any compensation payable will be determined on an individual basis taking into account length of service, the circumstances surrounding termination and an individual's duty to mitigate losses.

	Date of service contract	Unexpired term	Notice period
Alun Cathcart	10 April 2001	12 months	12 months
Mike Smith	25 February 1999	12 months	12 months
David Boden	1 March 2005	12 months	12 months
Peter Gill	11 July 2005	24 months*	24 months*

*reduces to 12 months from 11 July 2006.

Non-executive Directors do not have service contracts but serve the Company under letters of appointment. These appointments may be terminated without liability for compensation.

The Company recognises that its Directors may be invited to become non-executive Directors of other companies, or become involved in charitable or public service organisations. These appointments can broaden the knowledge and experience of the Directors to the benefit of the Company. Providing there is no conflict of interest and the commitment is not excessive, the executive Directors are permitted to accept one external appointment and to retain any fees received. During the year, Mike Smith served as non-executive Chairman of communisis plc and retained fees of £100,000.

Directors' interests in Ordinary shares

The total interests of executive and non-executive Directors in the issued share capital of the Company are:

	Ordinary shares 31 December 2005	Ordinary shares 1 January 2005 (or date of appointment if later)	Shareholding as multiple of base salary at 31 December 2005
Chairman:			
Alun Cathcart	**100,000**	100,000	
Executive Directors:			
Mike Smith	**400,000**	400,000	1.98x
David Boden	**115,673**	92,149	1.01x
Peter Gill	**–**	–	–
Non-executive Directors:			
Richard Greenhalgh	**2,806**	797	
Brendan O'Neill	**2,316**	393	
Oliver Stocken	**44,166**	42,680	
John Sunderland	**4,351**	2,642	
Total	**669,312**	638,661	

Pursuant to the Companies Act 1985, each executive Director is also deemed to be interested in the Ordinary shares of the Company held by the Rank Group Employee Benefit Trust. At 1 January 2005, the Trust held 824,895 Ordinary shares. At 31 December 2005, and at the date of this Report, 202,852 Ordinary shares were held in the Trust.

The Rank Group Employee Benefit Trust holds shares to satisfy the awards vesting from the Long Term Incentive Plan. Periodically, an estimate is made of the awards likely to vest, and shares are purchased as appropriate.

Directors' remuneration summary

The cash emoluments received by the Directors and the aggregate cash emoluments received by members of the Executive Committee (other than executive Directors) for 2005 are shown below with the annual rate of base pay from 1 January 2006:

	Base salary/ base fees £000	Committee Chairman's fees £000	Benefits £000	Expense allowances (including car allowance) £000	Annual bonus £000	FURBS/ salary supplement £000	Total emoluments (excluding pensions) **Total 2005 £000**	Total 2004 £000	Annual rate of base pay from 1.01.06 £000
Chairman:									
Alun Cathcart	185	–	–	13	–	–	**198**	185	193
Executive Directors:									
Mike Smith	497	–	28	19	207	398	**1,149**	1,041	617
Ian Dyson	175	–	6	9	–	35	**225**	508	–
David Boden	292	–	8	15	19	–	**334**	–	364
Peter Gill	173	–	5	9	140	34	**361**	–	364
Ian Burke	–	–	–	–	–	–	**–**	–	510
Non-executive Directors:									
Richard Greenhalgh	35	–	–	–	–	–	**35**	17	38
Peter Jarvis	12	2	–	–	–	–	**14**	36	38
Brendan O'Neill	35	–	–	–	–	–	**35**	8	38
Oliver Stocken	35	8	–	–	–	–	**43**	41	38
John Sunderland	38	7	–	–	–	–	**45**	41	41
Total	1,477	17	47	65	366	467	**2,439**	1,877	2,241
Executive Committee (excluding executive Directors):									
Aggregate	1,151	–	163	59	582	41	**1,996**	2,008	

Notes

Ian Dyson resigned on 24 June 2005

Peter Jarvis resigned on 27 April 2005

David Boden appointed on 1 March 2005

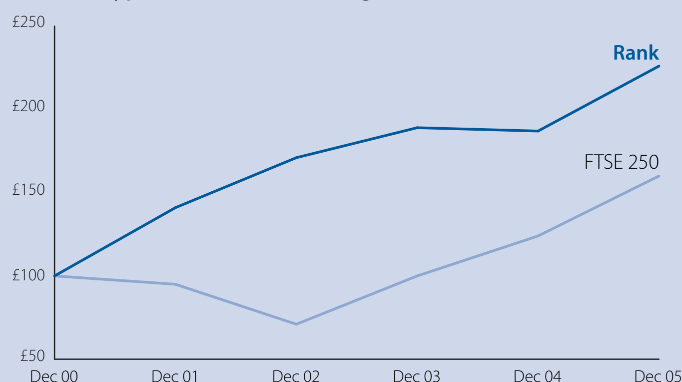
Peter Gill appointed on 11 July 2005

In 2005, Mike Smith waived £120,000 of his gross base salary (£617,400 per annum) in lieu of additional contributions to his FURBS. There was no additional cost to the Company. Mike Smith's base salary is shown net of the waiver, and FURBS are shown inclusive of the additional contributions in the table above. There were no payments in respect of termination or compensation for loss of office paid to, or receivable by, Directors during the year. John Garrett, a former executive Director, received £26,029 (2004 – £61,283) and his widow received £18,555 (2004 – nil) in respect of an unfunded pension obligation. The aggregate number of Executive Committee members (excluding executive Directors) during 2005 was 6 (2004 – 6).

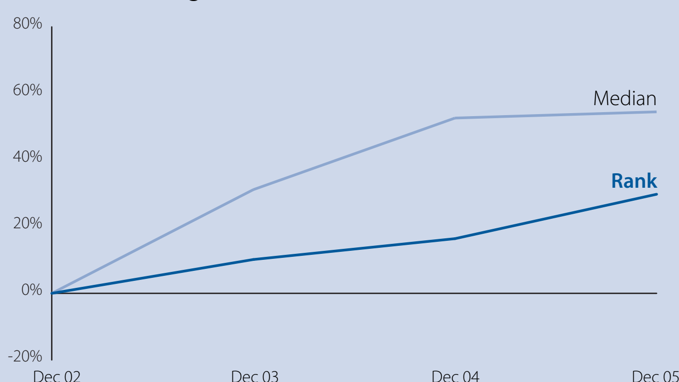
Company performance

Shown below is the Company's TSR performance compared with the FTSE-250 index (excluding investment companies) for the five years to 31 December 2005. The Committee has selected this index as the Company was a constituent of the FTSE-250 throughout this period. As described on page 32, shares vest under the LTIP only if the Company's relative TSR performance is at or above the median. The Company's relative TSR for the three year performance period ending 31 December 2005 is also shown below.

Value of hypothetical £100 holding



LTIP: relative TSR growth



PricewaterhouseCoopers LLP
In their audit opinion on page 42 PricewaterhouseCoopers LLP refer to their audit of the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985. These comprise the following disclosures in this Remuneration Report:

– the table above showing cash emoluments received by the Directors in 2005;
– the disclosures under the headings "Executive Share Option Scheme (ESOS)" and "Long Term Incentive Plan (LTIP)" on pages 31 to 33; and
– the disclosures under the heading "Pension" on pages 33 and 34.

On behalf of the Board

John Sunderland
Chairman of the Remuneration Committee

15 March 2006

Corporate governance

The policy of the Board is to manage the affairs of the Company in accordance with the principles of the Combined Code on Corporate Governance issued in July 2003 and annexed to the Listing Rules of the Financial Services Authority (the Code). This statement explains how the Company applies the principles of the Code.

Board

The Directors believe that it is essential that the Company should be both led and controlled by an effective Board. The Board has adopted a formal statement of its powers, duties and responsibilities, and recognises that its main functions are as follows:

- agreeing objectives, policies and strategies, and monitoring the performance of the executive management;
- keeping under review the general progress and long term development of the Group in light of the political, economic and social environments in which it operates;
- controlling and monitoring the financial state and performance of the Group (including investment and financing plans), determining the desired financial ratios, approving the objectives of the Group Five Year Business Plan;
- deciding on major changes in organisation and the shape of the Group, including entry into new fields of operation and departure from those which are no longer appropriate;
- approving major expenditure and transactions with other companies including, for example, acquisitions, disposals, joint ventures and significant supply arrangements;
- ensuring that the Group pursues sound and proper policies in relation to:

  (a) safety, health and environmental matters; and

  (b) corporate governance;
- delegating clear responsibility and authority to the Chairman, Committees of the Board, the Chief Executive, Directors or groups of Directors, Officers and others; and
- giving approval or support, as appropriate, to the most senior appointments in the Group and ensuring that adequate career development, succession and remuneration arrangements exist for them.

There is a formal schedule of matters reserved for the Board's decision.

Regular Board meetings are held (not less than eight meetings in a year). At least one meeting is devoted to strategy, and is held offsite from the Company's London office. The Board also aims to hold at least one meeting a year outside the UK to enable the Board to meet overseas management. Ad hoc meetings are also convened to attend to any matters requiring Board consideration in between regular meetings. The Chairman holds at least one meeting a year with the non-executive Directors without the executive Directors being present and, led by the Senior Independent Director, the non-executive Directors meet without the Chairman present at least once a year to appraise his performance.

The Company has arranged insurance cover in respect of legal action against its Directors. To the extent permitted by UK law, the Company also indemnifies the Directors. Neither the insurance nor the indemnity provides cover in situations where a Director has acted fraudulently or dishonestly.

Chairman and Chief Executive

There is a clear division of responsibilities at the head of the Company, with the Chairman responsible for the effective operation of the Board, encouraging the active participation of all Directors, and the Chief Executive responsible for the running of the Company's businesses. The Board has approved formal statements describing the role and remit of both the Chairman and the Chief Executive, which emphasise this division of their responsibilities.

The Board is mindful of the need to ensure that the Chairman has enough time available to devote to the job. Alun Cathcart's other significant commitments are described in his brief biography shown on page 27. The changes to those commitments that took place during the year are shown in the Directors' Report on page 28. These changes had no material impact upon the amount of time that he was able to devote to his chairmanship of The Rank Group Plc during 2005.

Board balance and independence

The Board includes a balance of executive and independent non-executive Directors, whose biographical details are given on page 27. John Sunderland has been nominated as the Senior Independent Director. Richard Greenhalgh will assume the role of Senior Independent Director, following John Sunderland's retirement at the conclusion of the upcoming Annual General Meeting. The Directors have wide-ranging business experience, and no individual, or group of individuals, dominates the Board's decision-making process.

Appointment of the Board

The Board accepts that there should be a formal, rigorous and transparent procedure for the appointment of new Directors.

The Board has formalised and adopted terms of reference for its Nominations Committee which are available on request to the Company Secretary and are included on the Company's website. A report of the Nominations Committee's work during 2005 is given on page 38.

The Board has agreed the terms and conditions for the appointment of non-executive Directors, which are also available for inspection and comply with the Code.

Information and professional development

The Board receives a steady flow of information to enable it to discharge its duties, including a monthly report detailing current and forecast trading results and treasury positions. It also receives regular updates on shareholders' views as part of the monthly report, and more formal briefings on shareholders' views are given to the Board following the presentation of the Company's interim and annual results. Board papers are generally distributed not less than five days in advance of the relevant meeting to allow the Directors fully to prepare for meetings, and minutes of Committee meetings are circulated to all Directors. The Board is kept fully informed of developments within the Company's businesses through regular presentations by divisional management. Induction programmes for newly-appointed Directors are devised to ensure that Directors spend time with divisional management and can visit operational sites.

All Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring that Board procedures are followed, and to independent professional advice, if required, at the Company's expense.

Performance evaluation
The evaluation process for the performance of the Board as a whole, and that of individual Directors, was carried out through one-on-one meetings between the Chairman and each Director. In addition, led by John Sunderland, the Chairman's performance was evaluated by means of one-on-one meetings between John Sunderland and the other non-executive Directors. The views of the executive Directors were also taken into account during this process.

The Audit Committee's performance and the effectiveness of the external audit process were evaluated through the completion of suitable questionnaires. The Remuneration Committee considered and appraised its own performance during the year. The results of these evaluations, which were carried out by the members of the Committees, were reviewed by the Board.

Re-election of Directors
All Directors are subject to re-appointment by shareholders at the first Annual General Meeting after their appointment, and thereafter at intervals of not more than three years. Non-executive Directors are appointed for an initial period of three years, subject to re-appointment.

The Audit Committee
Rank's Audit Committee is comprised solely of independent non-executive Directors. Details of the Committee's membership throughout 2005 are as follows:

	Date first appointed	Date of appointment as Chairman
Oliver Stocken	October 1998	May 2000
Brendan O'Neill	October 2004	N/A
John Sunderland	February 1998	N/A

John Warren became a member of the Committee following his appointment to the Board in January 2006 and he will take over chairmanship of this Committee when Oliver Stocken and John Sunderland retire from the Board at the conclusion of the upcoming Annual General Meeting. Bill Shannon will also join the Committee from the date of his appointment on 3 April 2006. The Board is satisfied that all members of the Committee have recent and relevant financial experience. Normally the Chairman, Chief Executive, Finance Director, Director of Finance and Taxation, Director of Risk Management and the Head of Internal Audit attend Committee meetings, as do representatives of the external auditors.

The Audit Committee's terms of reference are available on request to the Company Secretary, and are included on the Company's website.

In summary, the Committee assists the Board in reviewing the effectiveness of internal control systems. The Committee also reviews financial statements to be published externally before their submission to the Board, to ensure that they present a fair assessment of the Group's position and prospects. It also authorises any change in accounting policies. The Committee meets at least annually with the Head of Internal Audit and the external auditors without management being present.

The Committee also keeps under review the independence and objectivity of the external auditors, and their effectiveness. In particular, the Committee oversees the nature and amount of non-audit work undertaken by PricewaterhouseCoopers LLP each year to ensure that external auditor independence is safeguarded. All non-audit services above a value of £50,000 to be performed by the external auditors are required to be approved by the Audit Committee and the Group's policy is that, where appropriate, non-audit work is put out to competitive tender. Details of the year's fees paid to the external auditors are given in note 3 on page 57.

In addition to more routine items of business, in 2005 the Committee received regular reports on the actions being taken to comply in due course with the internal controls requirements of S.404 of the U.S. Sarbanes-Oxley Act. The Committee also regularly reviewed arrangements by which employees may confidentially raise concerns about possible improprieties in matters of financial reporting or other matters under the Group's whistleblowing policy.

The Finance Committee
The Finance Committee is an executive Committee to which certain specific authorities have been delegated by the Board, principally in respect to capital expenditure authorisation and the financing of the Group. The current members of the Committee are Alun Cathcart, Peter Gill and Ian Burke, who took over from Mike Smith on 6 March 2006.

The Nominations Committee
The Nominations Committee is responsible for identifying and nominating, for the approval of the Board, all new Board appointments. The Board believes that it is helpful for both the Chairman and the Chief Executive to be formally involved in this process and thus both Alun Cathcart and Ian Burke are members of the Committee; its other members are Richard Greenhalgh and John Sunderland. This composition does not comply with the Code in that the majority of members of the Committee are not independent non-executive Directors. However, Brendan O'Neill and John Warren will become members of the Committee at the conclusion of the 2006 Annual General Meeting and the Committee membership will thereafter comply fully with the Code. Bill Shannon will join the Committee from the date of his appointment on 3 April 2006.

The Committee met formally on five occasions during 2005 and agreed specifications for new executive and non-executive Directors, taking into account the existing balance of skills, knowledge, and experience on the Board, and engaged an external search consultant to assist in the process of identifying suitable candidates which led to the appointments of David Boden and Peter Gill. The Committee also recommended and endorsed the appointments of John Warren, Ian Burke and Bill Shannon to the Board with effect from 1 January, 6 March and 3 April 2006 respectively.

The Remuneration Committee
In 2005, Rank's Remuneration Committee was comprised solely of independent non-executive Directors. The Committee is chaired by John Sunderland and its other members are Richard Greenhalgh and Oliver Stocken. The Remuneration Committee meets not less than twice a year and is responsible for determining the remuneration packages of the Chairman, the executive Directors, and other members of the Executive Committee. Details of the Remuneration Committee's deliberations during 2005 are contained in the Remuneration Report on pages 30 to 36, which also summarises the Company's remuneration policy and contains details of Directors' remuneration. The Committee met formally five times during 2005.

John Sunderland and Oliver Stocken are both retiring from the Board at the end of the 2006 Annual General Meeting, at which

point John Warren will join the Remuneration Committee and Richard Greenhalgh becomes its Chairman. Bill Shannon will join the Committee from the date of his appointment on 3 April 2006.

Attendance

Details of attendances of Directors and Committee members at the principal Board and Committee meetings in 2005 are as follows:

	Board (Total 9)	Audit (Total 4)	Remuneration (Total 5)	Nominations (Total 5)	Finance (Total 15)
Alun Cathcart	9	–	–	5	15
David Boden*	7	–	–	–	–
Peter Gill**	5	–	–	–	7
Richard Greenhalgh***	9	–	4	4	–
Brendan O'Neill	8	4	–	–	–
Mike Smith	9	–	–	3	15
Oliver Stocken	8	4	4	–	–
John Sunderland	9	3	5	5	–

*appointed 1 March 2005
**appointed 11 July 2005
***member of the Nominations Committee from 28 April 2005

In the very few instances when a Director was not able to attend Board or Committee meetings, his comments on the papers to be considered at that meeting were relayed in advance to the relevant Chairman.

The Executive Committee

The Executive Committee is not a committee of the Board. Its role is to assist the Chief Executive in fulfilling his responsibilities for directing and promoting the profitable operation and development of the Group, consistent with the primary objective of creating long term shareholder value. It currently consists of the Chief Executive, Finance Director, Company Secretary, Group Human Resources Director, and the Managing Directors of the Group's divisions.

Accountability and audit

The process by which the Board applies the principles of accountability and audit is set out below, including a statement of the Directors' responsibilities in relation to the accounts.

Relations with shareholders

The Company maintains an active dialogue with its institutional shareholders and city analysts through a planned programme of investor relations, and regular meetings are held with principal shareholders. The outcome of these meetings is reported to the whole Board to ensure it keeps in touch with shareholder opinion. The programme includes formal presentations of the interim and the full year results.

All shareholders are welcome to attend the Annual General Meeting and private investors are encouraged to take advantage of the opportunity given to ask questions. The Chairmen of the Audit, Remuneration and Nominations Committees attend the meeting and are available to answer questions, as appropriate. A summary presentation of the Company's results and development plans is given by the Chief Executive at the Annual General Meeting prior to the commencement of the formal business of that meeting.

Compliance with the Code provisions

Save in respect of the composition of the Nominations Committee and the length of the notice period of the newly-appointed Finance Director's service contract, the Company has, throughout the year, complied with the provisions of the Code.

Risk management and internal control

The Board maintained the procedures necessary to comply with the requirements of the existing code relating to internal control as described in the September 1999 guidance "Internal Control: Guidance for Directors on the Combined Code" (Turnbull Report). In relation to Code provision C.2.1, the Board reports below on the procedures that have been applied in reviewing the effectiveness of the system of internal control.

The Board confirms that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company. The process has been in place throughout the year and up to the date of approval of the Annual Report and Accounts. It is regularly reviewed by the Board and accords with the guidance set out in the Turnbull Report.

The Directors acknowledge that they are responsible for the Group's system of internal control, for setting policy on internal control and for reviewing the effectiveness of internal control. The role of management is to implement Board policies on risk and control. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

Considerable importance is placed on maintaining a strong control environment. In particular, there is a simple organisational structure with clearly drawn lines of accountability and delegation of authority; adherence to specified codes of conduct is required at all times and the Board actively promotes a culture of quality and integrity.

A Group risk management policy has been produced and regular meetings of the Group Risk Management Committee take place, chaired by the Group Finance Director.

The Group Risk Management Committee directs and reviews risk management activities within the Group, so that the significant risks facing the Group can be reported to the Audit Committee and the Board. The Group-wide risk assessment process includes a review that covers all controls, including financial, operational and compliance controls and risk management. The report to the Audit Committee also provides information on the management and control of significant risks and monitors compliance with the Group risk management policy.

The Group has established an internal audit function that reports to the Company Secretary. Detailed control procedures exist throughout the operations of the Group and compliance is monitored by management, internal auditors and, to the extent they consider necessary to support their audit report, the external auditors. Additionally, the Gaming division has a compliance function that monitors day-to-day adherence to control procedures.

The Board recognises its obligations as a foreign registrant under the US Securities and Exchange Commission, including the requirement to comply where appropriate with the Sarbanes-Oxley Act. A Disclosures Committee was established in 2003 to evaluate the effectiveness of the Group and divisional disclosure controls and procedures; the Committee met four times in 2005. Additionally, work has continued to document and test the internal control structure and procedures to comply with Section 404 of the Sarbanes-Oxley Act.

The Company has announced its intention to terminate its registration with the US Securities and Exchange Commission ("SEC") and thereby

suspend its SEC reporting and other applicable US obligations, including compliance with the Sarbanes-Oxley Act. This is reliant upon the successful conclusion of the reduction of US holders to fewer than three hundred as set out in the Directors' Report on page 28.

The Audit Committee has reviewed the effectiveness of the system of internal control during the year ended 31 December 2005. This has included consideration of the Group-wide risk assessment and the results of self-certification of internal control exercises undertaken throughout the Group. The Audit Committee has also considered reports from the internal and external auditors.

The Audit Committee has reported the results of its work to the Board. The Board has considered these reports when undertaking its review of the effectiveness of the Group's system of internal control.

Going concern

After reviewing the Group's budget for 2006 and its medium term plans, the Directors are confident that the Company and the Group have adequate financial resources to continue in operational existence for the foreseeable future. They have therefore continued to adopt the going concern basis in preparing the accounts.

Directors' responsibilities in relation to the accounts

The Directors are required by the Companies Act 1985 to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for the financial year.

In preparing the accounts the Directors are required to select appropriate accounting policies and apply them consistently, to make reasonable and prudent judgements and estimates, and to state that the accounts comply with International Financial Reporting Standards where applicable, save as disclosed in the notes to the accounts. The Directors are also required to prepare the accounts on the going concern basis unless it is inappropriate to do so. The Directors confirm that they have complied with the above requirements in preparing the accounts.

The Directors have responsibility for ensuring that the Company and the Group keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group and which enable them to ensure that the accounts comply with the Companies Act 1985.

The Directors also have 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.

Independent report of the auditors

to the members of The Rank Group Plc

We have audited the Group and Company financial statements (the "financial statements") of The Rank Group Plc for the year ended 31 December 2005 which comprise the Group Income Statement, the Group and Company Balance Sheets, the Group and Company Cash Flow Statements, the Group Statement of Recognised Income and Expense and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of Directors and auditors
The Directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRS) as adopted for use in the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. 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 other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the 2003 FRC Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover 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 other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises only the Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Statement, the operating and financial review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements and the part of the Directors' Remuneration Report to be audited. 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 and Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Directors' Remuneration Report to be audited 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 and the part of the Directors' Remuneration Report to be audited.

Opinion
In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union, of the state of the Group's affairs as at 31 December 2005 and of its loss and cash flows for the year then ended;

- the Company financial statements give a true and fair view, in accordance with IFRS as adopted for use in the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the Company's affairs as at 31 December 2005 and cash flows for the year then ended; and

- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

15 March 2006

Group income statement

for the year ended 31 December 2005

	Note	2005 Before exceptional items £m	2005 Exceptional items (note 4) £m	2005 Total £m	2004 Before exceptional items £m	2004 Exceptional items (note 4) £m	2004 Total £m
Continuing operations							
Revenue	2	**810.3**	**–**	**810.3**	787.6	–	787.6
Cost of sales		**(494.0)**	**–**	**(494.0)**	(469.4)	(31.0)	(500.4)
Gross profit (loss)		**316.3**	**–**	**316.3**	318.2	(31.0)	287.2
Other operating costs	3	**(188.8)**	**(12.1)**	**(200.9)**	(182.1)	(10.5)	(192.6)
Group operating profit (loss)	2	**127.5**	**(12.1)**	**115.4**	136.1	(41.5)	94.6
Financing:	5						
– interest payable		**(47.9)**	**(3.6)**	**(51.5)**	(49.6)	–	(49.6)
– interest receivable		**7.2**	**–**	**7.2**	12.8	–	12.8
– amortisation of equity component of convertible bond		**(3.0)**	**–**	**(3.0)**	–	–	–
– foreign exchange (loss) gain on inter-company loans net of hedging		**(16.0)**	**–**	**(16.0)**	5.9	–	5.9
Total net financing charge	5	**(59.7)**	**(3.6)**	**(63.3)**	(30.9)	–	(30.9)
Share of post tax loss of joint ventures		**(1.4)**	**–**	**(1.4)**	(0.5)	–	(0.5)
Profit (loss) before taxation	3	**66.4**	**(15.7)**	**50.7**	104.7	(41.5)	63.2
Taxation	6	**(29.4)**	**24.3**	**(5.1)**	(13.5)	10.3	(3.2)
Profit (loss) for the year from continuing operations		**37.0**	**8.6**	**45.6**	91.2	(31.2)	60.0
Discontinued operations							
Profit (loss) for the year on operations held for sale	7	**12.0**	**(266.1)**	**(254.1)**	50.8	(125.1)	(74.3)
Profit (loss) for the year		**49.0**	**(257.5)**	**(208.5)**	142.0	(156.3)	(14.3)
Profit (loss) attributable to minority interest	26	**1.2**	**–**	**1.2**	1.4	(0.7)	0.7
Profit (loss) attributable to equity shareholders	25	**47.8**	**(257.5)**	**(209.7)**	140.6	(155.6)	(15.0)
		49.0	**(257.5)**	**(208.5)**	142.0	(156.3)	(14.3)
Loss per share	10						
– basic				**(33.6)p**			(2.5)p
– diluted				**(33.5)p**			(1.7)p
Earnings per share – continuing operations	10						
– basic				**7.1p**			9.9p
– diluted				**7.1p**			9.8p

Details of dividends payable to equity shareholders are disclosed in note 9.

The notes on pages 47 to 97 are an integral part of these consolidated financial statements.

Balance sheet

at 31 December 2005

	Note	Group 2005 £m	Group 2004 £m	Company 2005 £m	Company 2004 £m
Assets					
Non-current assets					
Intangible assets	11	**178.2**	252.3	**–**	–
Property, plant and equipment	12	**480.9**	577.1	**–**	–
Financial assets – investments	14	**45.1**	55.3	**1,843.6**	1,762.7
Deferred tax assets	15	**62.5**	59.4	**1.4**	–
Trade and other receivables	17	**28.7**	261.1	**–**	–
		795.4	1,205.2	**1,845.0**	1,762.7
Current assets					
Financial assets					
– derivative financial instruments	21	**5.2**	–	**–**	–
– cash and cash equivalents	28	**117.7**	75.6	**0.8**	–
Inventories	16	**33.0**	51.7	**–**	–
Trade and other receivables	17	**44.7**	204.9	**80.9**	44.7
		200.6	332.2	**81.7**	44.7
Assets of disposal groups held for sale	7	**512.1**	174.0	**–**	–
		712.7	506.2	**81.7**	44.7
Total assets		**1,508.1**	1,711.4	**1,926.7**	1,807.4
Current liabilities					
Financial liabilities					
– derivative financial instruments	20, 21	**(6.1)**	–	**–**	–
– loan capital and borrowings	20	**(13.5)**	(19.8)	**(2.7)**	–
Trade and other payables	18	**(158.8)**	(271.2)	**(380.3)**	(785.1)
Current tax liabilities	19	**(2.8)**	(9.5)	**–**	–
		(181.2)	(300.5)	**(383.0)**	(785.1)
Liabilities of disposal groups held for sale	7	**(209.1)**	(142.8)	**–**	–
		(390.3)	(443.3)	**(383.0)**	(785.1)
Net current assets (liabilities)		**322.4**	62.9	**(301.3)**	(740.4)
Non-current liabilities					
Financial liabilities					
– derivative financial instruments	20, 21	**(2.2)**	–	**–**	–
– loan capital and borrowings	20	**(836.2)**	(692.1)	**(154.9)**	(164.6)
Other non-current liabilities	22	**(69.2)**	(139.6)	**–**	–
Provisions for other liabilities and charges	23	**(42.1)**	(36.4)	**(1.0)**	(1.1)
Total non-current liabilities		**(949.7)**	(868.1)	**(155.9)**	(165.7)
Total liabilities		**(1,340.0)**	(1,311.4)	**(538.9)**	(950.8)
Net assets		**168.1**	400.0	**1,387.8**	856.6
Equity					
Capital and reserves attributable to the Company's equity shareholders					
Ordinary shares	24	**62.6**	62.4	**62.6**	62.4
Share premium	25	**93.1**	88.3	**93.1**	88.3
Other reserves	25	**1.0**	240.6	**1,232.1**	705.9
Total shareholders' equity		**156.7**	391.3	**1,387.8**	856.6
Minority interests	26	**11.4**	8.7	**–**	–
Total equity		**168.1**	400.0	**1,387.8**	856.6

The notes on page 47 to 97 are an integral part of these consolidated financial statements.

These accounts were approved by the Board on 15 March 2006 and signed on its behalf by:
Alun Cathcart, Chairman
Peter Gill, Finance Director

Statement of Group recognised income and expense

for the year ended 31 December 2005

	Note	**2005 £m**	2004 £m
Loss for the financial year		**(208.5)**	(14.3)
Currency translation net of tax and hedging		**45.0**	(21.2)
Actuarial (loss) gain on defined benefit pension scheme net of tax	34	**(13.4)**	21.0
Revaluation of available-for-sale securities	14	**6.8**	–
Tax on non-qualifying leasehold property		**4.3**	–
Total recognised expense for the year		**(165.8)**	(14.5)

Effects of changes in accounting policy:			
Equity shareholders of the parent			
– net gain on available-for-sale financial assets on first-time adoption of IAS 39		**2.5**	
– net gain on recognising the equity component of convertible bonds on first-time adoption of IAS 39		**13.6**	
– net gain on recognition of derivatives at fair value		**0.1**	
		16.2	

Gain attributable to minority interest totals £1.2m (2004 – £0.7m).

The notes on pages 47 to 97 are an integral part of these consolidated financial statements.

Cash flow statements

for the year ended 31 December 2005

	Note	Group		Company	
		2005 £m	2004 £m	**2005 £m**	2004 £m
Cash flows from operating activities					
Cash generated from operations	27	**175.3**	263.3	**(4.1)**	(2.3)
Interest received		**5.5**	9.0	**–**	–
Interest paid		**(45.1)**	(53.2)	**(6.9)**	(13.6)
Tax (paid) received		**(7.8)**	11.9	**–**	–
Net cash from operating activities		**127.9**	231.0	**(11.0)**	(15.9)
Cash flow from investing activities					
Acquisition of subsidiaries (net of cash acquired)	31	**(25.9)**	(69.6)	**–**	–
Proceeds from sale of property, plant and equipment		**1.6**	7.4	**–**	–
Purchase of property, plant and equipment		**(88.0)**	(115.6)	**–**	–
Proceeds from sale of business (net of cash disposed)		**–**	29.9	**–**	–
Investments in associates and joint ventures		**(6.7)**	(5.1)	**–**	–
Purchase of investments		**–**	(0.1)	**–**	–
Capital distribution from trade asset investment		**18.5**	–	**–**	–
Net cash used in investing activities		**(100.5)**	(153.1)	**–**	–
Cash flows from financing activities					
Net proceeds from issue of ordinary share capital		**5.0**	2.8	**5.0**	2.8
Debt due within one year					
– repayment of sterling borrowings		**(10.5)**	(82.9)	**–**	–
– repayment of dollar borrowings		**–**	(104.2)	**–**	–
Debt due after more than one year					
– repayment of dollar borrowings		**(51.9)**	–	**–**	–
– drawdown on syndicated facilities		**328.9**	153.8	**–**	–
– repayment of syndicated facilities		**(153.8)**	(200.0)	**–**	–
– net movements on other long term facilities		**–**	4.6	**–**	–
– new sterling convertible bond		**–**	164.6	**–**	164.6
– other		**(7.3)**	(4.9)	**–**	–
Finance lease principal payments		**(3.0)**	(5.1)	**–**	–
Dividends paid to shareholders		**(92.5)**	(84.5)	**(92.5)**	(84.5)
Amounts received from (by) subsidiaries		**–**	–	**99.3**	(67.1)
Dividends paid to minority interests		**–**	(1.9)	**–**	–
Net cash from (used in) financing activities		**14.9**	(157.7)	**11.8**	15.8
Effects of exchange rate changes		**1.6**	(1.2)	**–**	–
Net increase (decrease) in cash and cash equivalents		**43.9**	(81.0)	**0.8**	(0.1)
Cash and cash equivalents at 1 January	28	**65.5**	146.5	**–**	0.1
Cash and cash equivalents at 31 December	28	**109.4**	65.5	**0.8**	–

Details of cash flows relating to discontinued operations are provided in note 7.

The notes on pages 47 to 97 are an integral part of these consolidated financial statements.

Notes to the financial statements

1 General information and accounting policies

The Rank Group Plc is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 100. The nature of the Group's operations and its principal activities are set out in note 2 and in the operating and financial review on pages 6 to 25.

Statement of compliance

The Group accounts have been prepared in accordance with International Accounting and Financial Reporting Standards ("IFRS") and IFRIC interpretations as adopted for use in the European Union and with those parts of the Companies Act 1985 applicable to companies reporting under IFRS.

The principal accounting policies adopted in the preparation of these financial statements are set out below.

A Basis of preparation of the Group's financial statements

The financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale investments, financial assets and liabilities held for trading, and non-current assets held for sale and discontinued operations. A summary of the Group's significant accounting policies is set out below. Except where noted below, these policies have been consistently applied.

The preparation of financial information, in conformity with IFRS, requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial information and the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are set out in the relevant accounting policies discussed below. The best estimates of the Directors may differ from the actual results.

B Changes in accounting policy: First-time adoption of IFRS

On transition to IFRS, the Group recognised all assets and liabilities as required by IFRS and de-recognised all assets and liabilities not permitted by IFRS. Assets and liabilities were all measured in accordance with IFRS. Except where noted below, IFRS recognition and measurement principles were applied retrospectively.

The impact of transition to IFRS on the Group's shareholders' funds as at 1 January 2004, and 31 December 2004, and the Group's income statement for the year ended 31 December 2004 is discussed in note 40.

In accordance with IFRS 1, management has elected not to apply IAS 32, "Financial Instruments: Disclosure and Presentation" and IAS 39, "Financial Instruments: Recognition and Measurement" to the Group's shareholders' funds as at 1 January 2004 and 31 December 2004, and the Group's income statement for the year ended 31 December 2004. For these periods, the Group has recognised Financial Instruments as previously accounted for under UK GAAP. IAS 32 and 39 have been applied from 1 January 2005. The re-classifications relating to the adoption of IAS 32 and 39 and the nature of the main adjustments that would be required had IAS 32 and 39 been adopted from 1 January 2004 are discussed in note 40.

Following clarification of IAS 39, betting and internet gaming transactions are now shown net within the revenue line of the income statement i.e. stakes less payouts, known as gross win. There is no impact on gross profit. For the purposes of meaningful comparison, 2004 comparatives have been presented on a comparable basis. The impact is to decrease both revenue and cost of sales by £414.0m.

In accordance with IFRS 1, management has also elected not to apply IFRS 3, "Business Combinations" to business combinations that occurred before the date of transition, 1 January 2004. Business combinations that occurred before the date of transition are consolidated in accordance with UK GAAP. Any unamortised goodwill at 1 January 2004, calculated in accordance with UK GAAP, has now been deemed to be cost.

In accordance with the amendment to IAS 19, "Employee Benefits", the Group has recognised in full those actuarial gains and losses relating to employee benefit schemes at 1 January 2004.

The Group has applied the exemption available and the provisions of IFRS 2 "Share Based Payments" only to those equity settled awards granted after 7 November 2002.

Management has elected to take advantage of IFRS 1 exemption from the provisions of IAS 21, "The Effects of Changes in Foreign Exchange Rates" for the cumulative translation differences that existed at the date of IFRS transition. Consequently, cumulative translation differences on retranslation of subsidiaries' net assets as at 1 January 2004 have been set to zero.

C Consolidation

(a) Subsidiaries

Subsidiaries are entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. All subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired, liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies as applied to subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Associates and joint ventures

Joint ventures are all entities over which the Group exercises joint control. Associates are all entities over which the Group exercises significant influence. Investments in joint ventures and associates are accounted for by the equity method of accounting and are initially recognised at cost, in accordance with the alternative treatment allowed by IAS 31

1 General information and accounting policies continued
and IAS 28. The Group's investment in joint ventures includes goodwill identified on acquisition (net of any accumulated impairment loss).

The Group's share of its associates and joint ventures' post-acquisition profits or losses after tax is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses after tax in an associate or joint venture equals or exceeds its interest or participation, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate or joint venture.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest or participation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies as applied to associates and joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

D Revenue recognition
Revenue consists of the fair value of sales of goods and services, net of value added tax, contract advance amortisation, rebates and discounts.

(a) Sale of goods
Revenue from the sale of goods is recognised when the significant risks and benefits of ownership of the product have transferred to the buyer, which may be upon shipment or upon completion of the product and the product being ready for delivery, based on the specific contract terms.

(b) Rendering of services
Revenue from services is recognised in the accounting year the services have been rendered, by reference to the stage of completion of the transaction at the balance sheet date.

(c) Gaming win
Revenue for casinos includes the gaming win before deduction of gaming duty and revenue for bingo is net of prizes and includes gross profits tax. Revenue for Blue Square including sportsbetting and online casinos represents gross win margin. Although disclosed as revenue, gaming win meets the definition of a gain under IAS 39.

(d) Sale of recovered materials (discontinued operations only)
Recovered products are deemed to have an immaterial realisable value compared with the cost of production materials. Income from the sale of recovered materials is not recognised as such, being offset against the materials cost.

(e) Interest income
Interest income is recognised on a time proportion basis using the effective interest method.

E Contract advances (discontinued operations only)
The Deluxe businesses enter into trade contracts with major customers that span several years. As part of these contracts, Deluxe provides advance cash payments to the customers.

Deluxe capitalises the total commitment payable under each contract within debtors at the date of the agreement and records a corresponding liability on the balance sheet for any outstanding unpaid amounts.

These capitalised contract advances are amortised over the life of the contract on the basis of management's estimates of total units (Deluxe Media) and footage (Deluxe Film), unless the terms of the contract indicate an alternative treatment would be more appropriate.

Revenue recognised in the income statement is stated net of contract advance amortisation.

F Segmental reporting
Management has identified business segments as its primary reporting segments. A business segment is defined as a group of assets and operations engaged in providing products and services that are subject to risks and returns different from those of the other business segments.

Management has identified geographical segments as its secondary reporting segments. A geographical segment is engaged in providing products and services in a particular economic environment, that are subject to risks and returns different from those of a segment operating in other economic environments.

Segment assets and liabilities are the result of segment operating activities and are either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment revenue is revenue from operating activities directly attributable to a segment and the relevant portion of enterprise revenue that can be allocated on a reasonable basis to a segment, whether from sales to external customers or from transactions with other segments of the same enterprise.

Segment expense is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to sales to external customers and expenses relating to transactions with other segments of the same enterprise.

G Foreign currency translation
(a) Functional and presentation currency
Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in UK sterling, which is the Company's functional and presentational currency.

(b) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement in finance costs, except where hedging criteria are met.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

1 General information and accounting policies continued

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet. The closing US Dollar rate against Sterling in the year was 1.72 (2004 – 1.92);

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions). The average US Dollar rate against Sterling in the year was 1.81 (2004 – 1.84); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

H Financial instruments

To 1 January 2005 Management has elected not to apply IAS 32, "Financial Instruments: Disclosure and Presentation" and IAS 39, "Financial Instruments: Recognition and Measurement" to the Group's shareholders' funds as at 1 January 2004 and 31 December 2004, and the Group's income statement for the year ended 31 December 2004. For these dates, the Group has recognised Financial Instruments as previously accounted for under UK GAAP. Gains and losses on forward foreign exchange contracts are recognised as they arise and offset against gains and losses in the related underlying exposure.

The interest rate differentials from interest rate swaps used to manage the amounts and periods for which interest rates on underlying debt is fixed are recorded through an adjustment of next interest payable.

The underlying principal amounts of short term currency swaps are revalued at the exchange rates as at the balance sheet date and included in current asset investments or creditors to the extent that they are not related to underlying debt. The interest rate element of these contracts is recognised as part of net interest payable over the term of the agreement.

Rank uses derivatives to manage the level of fixed and floating rate debt within the Group. These derivatives are deemed to be highly effective and will result in minimal income statement volatility.

Rank also hedges the translation risk from its net investment in overseas subsidiaries using foreign exchange forwards and swaps. The Group also hedges material currency sales and purchases of subsidiary entities using foreign exchange derivatives.

From 1 January 2005, all derivatives are initially recorded at fair value and remeasured to fair value at subsequent balance sheet dates.

Changes in the fair value of derivatives that are designated and effective as cash flow hedges of highly probable forecast transactions are recognised directly in equity. Amounts deferred in this way are recognised in the income statement in the same period in which the hedged or forecast transaction is recognised in the income statement.

From 1 January 2005, all non-derivative financial assets and liabilities, including non-equity accounted investments have been designated and measured as appropriate under IAS 39. Investments classified as available for sale are initially recognised at fair value plus transaction costs. After initial recognition they are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is de-recognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Where financial instruments are remeasured to reflect the fair value of the instrument, any changes in fair value are taken to the income statement or directly to reserves, as appropriate.

The equity component of the Group's £167m 3.875% convertible bond was valued at the date of issue and has been classified as equity. This results in a higher interest cost over the life of the bond as an equal and opposite amount to the equity component is amortised through the income statement as a financing cost.

Income from gaming win is also recognised under IAS 39 as gaming win falls within the definition of financial instruments.

I Leases

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

(a) Finance leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property, plant and equipment or the present value of minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant periodic rate of interest on the remaining balance of the liability for each period. The corresponding rental obligations, net of finance charges, are included on other long term borrowings. The interest element of the finance cost is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

(b) Operating leases

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

J Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Where the obligation is expected to be settled over a period of years, e.g.

1 General information and accounting policies continued

onerous contracts, the provision is discounted using a discount rate appropriate to the nature of the provision.

Onerous contracts

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

K Property, plant and equipment

All property, plant and equipment is stated at historical cost less depreciation and any impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

– freehold and leasehold property 50 years or their useful life if less;
– refurbishment of property 3 to 15 years;
– fixtures, fittings, plant and equipment and others 3 to 20 years.

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

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

Pre-opening costs are expensed to the income statement as incurred.

L Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, joint venture or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of joint ventures is included in investments in joint ventures. Goodwill is tested annually for impairment and carried at amortised cost as at 1 January 2004 plus cost for any acquisition completed after 1 January 2004 less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold, except where goodwill has been previously written off directly to reserves under previous GAAP.

Goodwill is allocated to the relevant cash-generating unit or group of cash-generating units for the purpose of impairment testing. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

Goodwill arising on acquisitions made before 31 December 1997 has been written off directly to reserves.

(b) Computer software and other development costs

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their estimated useful lives (3 to 5 years).

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

Computer software development costs recognised as assets are amortised over their estimated useful lives, estimated at between 2 to 5 years.

(c) Casino and other gaming licences

The Group capitalises acquired casino and other gaming licences. The amount capitalised is the difference between the price paid for a property or business and the associated licence and the fair value of a similar property or business without a licence. Management believes that licences have indefinite lives as there is no foreseeable limit to the period over which the licences are expected to generate net cash inflows and each licence holds a value outside the property in which it resides. Each licence is reviewed annually for impairment.

Any costs incurred to obtain a "cold" casino licence or renewing casino licences annually are expensed as incurred, except for the cost of the licence at acquisition.

(d) Other purchased intangible assets

If acquired, the Group capitalises the costs of other intangible assets such as brands, trademarks and customer relationships. Costs incurred to internally generate these intangible assets are expensed as incurred. For business combinations occurring after 1 January 2004, purchased intangible assets are capitalised on the balance sheet at fair value on acquisition. The valuation of purchased intangible assets and determining the useful economic life involves management making assumptions and estimates, which are highly judgemental and susceptible to change. Purchased intangible assets with finite lives are amortised over their useful economic lives, estimated at between 2 to 9 years.

M Impairment of intangible assets and property, plant and equipment

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised as the amount by which an asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped

1 General information and accounting policies continued

at the lowest levels for which there are separately identifiable cash flows (cash generating units). The expected cash flows generated by the assets are discounted using appropriate discount rates, which reflect the risks associated with the groups of assets.

If an impairment loss is recognised, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

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

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

N Employee benefit costs

(a) Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the statement of recognised income and expense over the employees' expected average remaining working lives.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight line basis over the vesting period.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Share-based compensation

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

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

(c) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(d) Bonus plans

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

(e) Holiday pay

The Group recognises an appropriate liability for the cost of holiday entitlements not taken at the balance sheet date.

O Inventories

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

The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overhead (based on normal operating capacity) but excludes borrowing costs.

Completed properties for resale relates to unsold periods and properties within the Group's US Holiday division which operates a time-share business.

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

1 General information and accounting policies continued

P Taxation including deferred tax

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

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

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

Deferred tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Q Cash and cash equivalents

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

R Trade receivables

Trade receivables are carried at original invoice amount, including value added tax, less an estimate made for doubtful receivables based on a review of all outstanding amounts at the period end and on historical performance. Bad debts are written off during the period in which they are identified.

Management assesses the maturity of instalment sale debtors and notes receivable and consequently reports them as current, if falling due within one year, or non-current, as appropriate.

S Borrowings

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

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

T Discontinued operations and non-current assets held for sale

The Group early adopted IFRS 5 "Non-current assets held for sale and discontinued operations", in the year ended 31 December 2004. Operations of the Group are recognised as discontinued operations if the operations have been disposed of or meet the criteria to be classified as held for sale. Operations held for sale are held at the lower of their carrying amount on the dates they are classified as held for sale and fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

U Dividends

Dividends proposed by the Board of Directors and unpaid at the period end are not recognised in the financial statements until they have been approved by shareholders at the Annual General Meeting. Interim dividends are recognised when paid.

V Exceptional items

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

W New standards and interpretations not applied

During the year, the IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements:

		Effective date
IFRS 7	Financial Instruments: Disclosures	1 January 2007
IAS 1	Amendment – Presentation of Financial Statements: Capital Disclosures	1 January 2007
IAS 39	Fair Value Option	1 January 2006
IAS 39	Cash Flow Hedge Accounting	1 January 2006
IFRIC 4	Determining whether an arrangement contains a lease	1 January 2006
IAS 21	Amendment – The effects of change in foreign exchange rates: Net Investment in a Foreign Operation	1 January 2006

In addition, the IASB and IFRIC have issued a number of standards and interpretations that are not applicable to The Rank Group Plc.

Upon adoption of IFRS 7, the Group will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks to which they give rise to. More specifically the Group will need to disclose the fair value of its financial instruments and its risk exposure in greater detail. There will be no effect on reported income or net assets.

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

2 Segmental reporting

Primary reporting format – business segments

	31 December							
	Mecca		Grosvenor		Blue Square		Hard Rock	
	2005 £m	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m
Continuing operations								
Segment revenue	**295.6**	292.6	**207.9**	200.8	**26.3**	25.6	**250.1**	232.0
Operating profit (loss) before exceptional items	**80.2**	81.0	**27.3**	33.4	**(1.7)**	2.7	**34.8**	27.9
Exceptional operating costs	**–**	(6.4)	**–**	–	**–**	–	**–**	(31.0)
Segment result	**80.2**	74.6	**27.3**	33.4	**(1.7)**	2.7	**34.8**	(3.1)
Share of post tax results of joint ventures	**–**	–	**–**	–	**–**	–	**(1.4)**	(0.5)
Interest payable								
Interest income								
Foreign exchange (loss) gain on inter-company loans								
Amortisation of equity component of convertible bond								
Profit before taxation								
Taxation								
Profit for the year from continuing operations								
Assets and liabilities								
Segment intangible assets:								
Intangible assets with indefinite useful lives*	**19.9**	20.4	**94.3**	94.3	**53.8**	54.4	**–**	–
Intangible assets with finite useful lives	**1.4**	1.5	**1.0**	1.1	**7.1**	6.5	**0.6**	1.2
Property, plant and equipment	**238.1**	238.2	**105.8**	111.2	**2.9**	2.6	**123.3**	110.9
Financial assets – investments	**–**	–	**–**	–	**–**	–	**35.7**	25.7
Other segment assets (including cash)	**31.4**	30.0	**27.3**	25.4	**12.3**	8.0	**42.6**	35.0
Total segment assets	**290.8**	290.1	**228.4**	232.0	**76.1**	71.5	**202.2**	172.8
Unallocated assets								
Total assets – continuing operations	**290.8**	290.1	**228.4**	232.0	**76.1**	71.5	**202.2**	172.8
Assets of disposal group held for sale (see note 7)								
Deluxe Film assets (2004)								
Total assets	**290.8**	290.1	**228.4**	232.0	**76.1**	71.5	**202.2**	172.8
Total segment liabilities	**(47.6)**	(44.3)	**(27.7)**	(26.7)	**(10.1)**	(8.5)	**(32.6)**	(27.9)
Unallocated liabilities								
Total liabilities – continuing operations	**(47.6)**	(44.3)	**(27.7)**	(26.7)	**(10.1)**	(8.5)	**(32.6)**	(27.9)
Liabilities of disposal group held for sale (see note 7)								
Deluxe Film liabilities (2004)								
Total liabilities	**(47.6)**	(44.3)	**(27.7)**	(26.7)	**(10.1)**	(8.5)	**(32.6)**	(27.9)
Net assets								
Other segment items – continuing operations								
Capital expenditure	**15.7**	35.2	**8.9**	19.6	**3.6**	4.1	**16.8**	13.3
Depreciation (excluding impairment)	**14.8**	18.0	**9.4**	8.6	**3.0**	5.1	**13.3**	15.7
Impairment losses	**0.6**	6.4	**3.2**	–	**–**	–	**–**	23.3

*Intangible assets with indefinite useful lives include £53.8m (2004 – £54.4m) goodwill relating to Blue Square.

Segmental information for discontinued operations is disclosed in note 7.

2 Segmental reporting continued

	31 December					
	Resorts		Other		Total	
	2005 £m	2004 £m	**2005 £m**	2004 £m	**2005 £m**	2004 £m
Continuing operations						
Segment revenue	**30.4**	32.2	**–**	4.4	**810.3**	787.6
Operating profit (loss) before exceptional items	**2.2**	4.1	**(15.3)**	(13.0)	**127.5**	136.1
Exceptional operating costs	**–**	–	**(12.1)**	(4.1)	**(12.1)**	(41.5)
Segment result	**2.2**	4.1	**(27.4)**	(17.1)	**115.4**	94.6
Share of post tax results of joint ventures	**–**	–	**–**	–	**(1.4)**	(0.5)
Interest payable (including exceptional interest payable of £3.6m in 2005)					**(51.5)**	(49.6)
Interest receivable					**7.2**	12.8
Foreign exchange (loss) gain on inter-company loans net of hedging					**(16.0)**	5.9
Amortisation of equity component of convertible bond					**(3.0)**	–
Profit before taxation					**50.7**	63.2
Taxation					**(5.1)**	(3.2)
Profit for the year from continuing operations					**45.6**	60.0
Assets and liabilities						
Segment intangible assets:						
Intangible assets with indefinite useful lives	**–**	–	**–**	–	**168.0**	169.1
Intangible assets with finite useful lives	**0.1**	0.1	**–**	–	**10.2**	10.4
Property, plant and equipment	**9.4**	7.8	**1.4**	1.2	**480.9**	471.9
Financial assets – investments	**–**	–	**9.4**	22.4	**45.1**	48.1
Other segment assets (including cash)	**33.4**	31.0	**82.3**	73.3	**229.3**	202.7
Total segment assets	**42.9**	38.9	**93.1**	96.9	**933.5**	902.2
Unallocated assets					**62.5**	59.4
Total assets – continuing operations	**42.9**	38.9	**93.1**	96.9	**996.0**	961.6
Assets of disposal group held for sale (see note 7)					**512.1**	174.0
Deluxe Film assets (2004)						575.8
Total assets	**42.9**	38.9	**93.1**	96.9	**1,508.1**	1,711.4
Total segment liabilities	**(11.6)**	(8.5)	**(29.2)**	(35.4)	**(158.8)**	(151.3)
Unallocated liabilities					**(972.1)**	(897.4)
Total liabilities – continuing operations	**(11.6)**	(8.5)	**(29.2)**	(35.4)	**(1,130.9)**	(1,048.7)
Liabilities of disposal group held for sale (see note 7)					**(209.1)**	(142.8)
Deluxe Film liabilities (2004)						(119.9)
Total liabilities	**(11.6)**	(8.5)	**(29.2)**	(35.4)	**(1,340.0)**	(1,311.4)
Net assets					**168.1**	400.0
Other segment items – continuing operations						
Capital expenditure	**1.1**	2.8	**–**	3.2	**46.1**	78.2
Depreciation and amortisation	**0.7**	0.7	**1.6**	1.4	**42.8**	49.5
Impairment losses	**–**	–	**–**	–	**3.8**	29.7

Segmental information for discontinued operations is disclosed in note 7.

2 Segmental reporting continued

Total revenue and profit (loss) from continuing and discontinued operations

	Revenue		Profit (loss) for the year	
	2005 £m	2004 £m	**2005 £m**	2004 £m
From continuing operations	**810.3**	787.6	**45.6**	60.0
From discontinued operations (see note 7)	**682.8**	751.7	**(254.1)**	(74.3)
	1,493.1	1,539.3	**(208.5)**	(14.3)

At 31 December 2005, the Group's continuing operations are organised on a worldwide basis into six main business segments. The activities of each segment are described on pages 6 to 23 of the operating and financial review.

- Mecca Bingo
- Grosvenor Casinos
- Blue Square
- Hard Rock
- Resorts USA
- Other (includes primarily central costs, expenses relating to non-trading properties, and Rank Leisure Machine Services (disposed January 2004))

There are immaterial sales between the business segments.

Unallocated costs represent corporate expenses.

Segment assets include property, plant and equipment, intangible assets, stocks, receivables and operating cash. Segment liabilities comprise trade and other payables and exclude taxation, corporate borrowings and retirement benefit obligations which are managed centrally, plus non-current trade and other payables and provisions.

Capital expenditure comprises additions to property, plant and equipment.

At 31 December 2005 the assets and liabilities of Deluxe Film and Deluxe Media Services were also held for sale. For segmental reporting purposes, at 31 December 2004 the assets and liabilities of Deluxe Media Services were included as separate lines below assets and liabilities from continuing operations.

2 Segmental reporting continued

Secondary reporting format – geographical segments

The Group manages its business segments on a global basis. The operations are based in three main geographical areas. The UK is the home country of the parent. The main operations in the principal territories are as follows:

- UK
- North America
- Europe

Year ended 31 December 2005

	UK £m	North America £m	Europe £m	Total £m
Revenue	**662.7**	**644.9**	**185.5**	**1,493.1**
Less sales attributable to discontinued operations (see note 7)	**(158.9)**	**(429.0)**	**(94.9)**	**(682.8)**
Segment revenue from continuing operations	**503.8**	**215.9**	**90.6**	**810.3**
Other segment information				
Segment assets (including cash)	**598.1**	**229.1**	**106.3**	**933.5**
Unallocated assets				**62.5**
Total assets – continuing operations				**996.0**
Assets of disposal groups held for sale				**512.1**
Total assets				**1,508.1**
Capital expenditure relating to continuing operations	**27.4**	**14.8**	**3.9**	**46.1**

Year ended 31 December 2004

	UK £m	North America £m	Europe £m	Total £m
Revenue	746.5	612.0	180.8	1,539.3
Less sales attributable to discontinued operations (see note 7)	(242.3)	(410.1)	(99.3)	(751.7)
Segment revenue from continuing operations	504.2	201.9	81.5	787.6
Other segment information				
Segment assets (including cash)	570.9	220.4	110.9	902.2
Unallocated assets				59.4
Total assets – continuing operations				961.6
Assets of disposal groups held for sale				174.0
Deluxe Film assets (2004)				575.8
Total assets				1,711.4
Capital expenditure relating to continuing operations	60.1	14.3	3.8	78.2

With the exception of the UK and the USA, no individual country contributed more than 10% of consolidated sales or assets.

Analysis of revenue by category – continuing operations

	2005 £m	2004 £m
Sales of goods	**261.8**	249.7
Rendering of services	**548.5**	537.9
Total	**810.3**	787.6

Segmental revenue by destination is not materially different from revenue by origin.

3 Profit for the year

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

	2005 £m	2004 £m
Employee benefits expense	**244.3**	232.1
Cost of inventories recognised as expense	**152.3**	143.9
Depreciation of property, plant and equipment		
– owned assets (including £36.5m (2004 – £31.2m) within cost of sales)	**37.9**	46.3
– under finance leases (included within cost of sales)	**0.8**	0.4
Amortisation of intangibles (including £1.6m (2004 – £nil) within cost of sales)	**4.1**	2.8
Operating lease rentals payable		
– minimum lease payments	**46.1**	48.6
– contingent rents	**2.4**	2.4
– sub-lease income	**(10.2)**	(9.9)
Impairment of property, plant and equipment	**3.8**	29.7
Auditors' remuneration for audit services	**1.7**	1.5

The above table includes continuing operations only.

In the year the Group's auditors, PricewaterhouseCoopers LLP, including its overseas affiliates, earned the following fees:

	2005 £m	2004 £m
Audit fees		
– UK	**1.0**	0.8
– overseas	**0.7**	0.7
	1.7	1.5
Non-audit services		
– UK	**3.0**	3.3
– overseas	**0.3**	0.2
	3.3	3.5
	5.0	5.0
Audit services were as follows		
Statutory audit	**1.7**	1.4
Audit related regulatory reporting	**–**	0.1
	1.7	1.5
Non-audit services were as follows		
Further assurance services	**2.9**	3.0
Compliance services	**0.1**	0.2
Tax advisory services	**0.3**	0.3
	3.3	3.5

£60,000 (2004 – £55,000) of the audit fees related to the parent company.

It is the Group's policy to employ PricewaterhouseCoopers LLP on assignments additional to their statutory audit duties where their expertise and experience with the Group are important, principally in the areas of transaction services, stock exchange transactions and tax advice. The Group's policy is, where appropriate, that work is put out to competitive tender. The Audit Committee monitors the relationship with PricewaterhouseCoopers LLP, including the level of non-audit fees.

4 Exceptional items

	Note	2005 £m	2004 £m
Exceptional items relating to continuing operations			
Provision for onerous leases on vacant properties		**(12.1)**	–
Financing charge		**(3.6)**	–
Loss on disposal of business		**–**	(4.1)
Impairment charge		**–**	(37.4)
Taxation	6	**24.3**	10.3
Exceptional items relating to discontinued operations			
Deluxe Media Services		**(136.5)**	(127.0)
Deluxe Film		**(150.4)**	–
Taxation	6	**20.8**	1.9
Total exceptional items		**(257.5)**	(156.3)

The Group defines exceptional items as those items which by their size or nature would distort the comparability of the Group's result from year to year, including restructuring costs and profit or loss on disposal of tangible assets or businesses.

2005 exceptional items
In light of the reduced opportunities presented by the 2005 Gambling Act, the Group reviewed its onerous lease provision against vacant properties. As a result of this review and other events occurring in the year the Group recognised an onerous lease charge of £12.1m within continuing operations.

During the year, the Group incurred exceptional financing costs of £3.6m as a result of the closure of an outstanding issue with the tax authorities.

The Group disposed of the Deluxe Film business on 27 January 2006. At 31 December 2005, the Group wrote down the carrying value of the Deluxe Film business to net sales proceeds less future cash costs to sell including the Group's s75 pension obligation. In addition, the Group incurred transaction costs relating to the disposal which are also included within exceptional items. The total pre-tax exceptional charge incurred was £150.4m.

The Group has reported a pre-tax £136.5m exceptional charge which includes the revision to the expected net realisable value of the Deluxe Media Services business (£80.2m), European restructuring costs (£27.5m) and US bad debt costs and restructuring costs (£28.8m). The adjustment to the held for sale carrying value of Deluxe Media Services recognises that the value expected to be received for the business is likely to be substantially lower than previously stated.

2004 exceptional items
In 2004, a £4.1m exceptional loss was recognised principally on the disposal of the Rank Leisure Machine Services business at the start of 2004.

In 2004 in Mecca an impairment charge of £6.4m was recognised in respect of certain clubs where the cashflow associated with those clubs was less than the carrying value of property, plant and equipment.

During 2004 Hard Rock performed a detailed review and decided to relocate the flagship New York Cafe and to close the Vault, a rock and roll museum in Orlando. In addition, impairment reviews were performed on a number of underperforming units and some discontinued merchandise was written off. This resulted in an exceptional charge of £31.0m of which £23.3m related to impairment of fixed assets, £4.8m to onerous lease provisions and £2.9m to the write-off of discontinued merchandise.

In May 2004, Deluxe Media Services was informed by a major studio that it would be transferring its business to another supplier on a staged basis over the period to July 2005. This contract related primarily to European DVD manufacturing and distribution. As a result an exceptional charge of £23.1m, comprising an impairment charge of £18.0m, onerous lease provisions of £3.8m, and other costs of £1.3m, have been recorded.

Deluxe Media Services also incurred an exceptional charge in 2004 of £4.0m for the closure of VHS manufacturing facilities in Germany, Italy and Portugal.

In 2004, the Group decided to separate Deluxe Media Services from the rest of the Group and wrote down the carrying value of the business to expected proceeds. As a result, Deluxe Media Service was classified as a business held for sale and a £99.9m charge was recognised consisting of £4.1m for other costs and impairments totalling £95.8m.

5 Financing

	2005 £m	2004 £m
Continuing operations:		
Finance costs:		
Interest payable on bank borrowings (current and non current)	**(1.6)**	(1.7)
Amortisation of issue costs of bank loan	**(1.6)**	(3.0)
Interest payable on other loans	**(41.1)**	(42.0)
Interest payable on finance leases	**(2.4)**	(2.3)
Unwinding of discounts in provisions	**(1.2)**	(0.6)
Total interest expense and similar charges	**(47.9)**	(49.6)
Interest income	**7.2**	10.3
Bank interest receivable	**–**	2.5
Net finance cost	**(40.7)**	(36.8)
Foreign exchange (loss) gain on inter-company loans net of £2.1m hedging (2004 – £nil)	**(16.0)**	5.9
Amortisation of equity component of convertible bond (2005 only)	**(3.0)**	–
Total net financing cost for continuing operations before exceptional items	**(59.7)**	(30.9)

Exceptional financing costs are discussed in note 4.

6 Taxation on profit

Current income tax on continuing operations

	2005 £m	2004 £m
Current tax – UK	**(24.8)**	(4.3)
Current tax – overseas	**(6.7)**	(9.5)
Current tax charge	**(31.5)**	(13.8)
Tax on exceptional items	**24.3**	10.3
Amounts overprovided in previous year	**3.6**	7.2
Total current tax	**(3.6)**	3.7
Deferred tax on continuing operations		
Deferred tax – UK	**6.4**	(3.2)
Deferred tax – overseas	**(19.0)**	(7.9)
Amounts overprovided in previous year	**11.1**	4.2
Total deferred tax	**(1.5)**	(6.9)
Tax charge in the income statement on continuing operations	**(5.1)**	(3.2)

Tax on exceptional items within continuing operations includes a tax credit of £19.6m which has arisen as a result of the closure of an outstanding issue with the tax authorities and £4.7m tax credits relating to the exceptional charge.

	2005 £m	2004 £m
Current income tax on discontinued operations		
Current tax – UK	**(15.2)**	(0.4)
Current tax – overseas	**(5.5)**	(2.8)
Current tax charge	**(20.7)**	(3.2)
Tax on exceptional items	**20.8**	1.9
Amounts overprovided in previous year	**(3.7)**	(5.2)
Total current tax	**(3.6)**	(6.5)
Deferred tax on discontinued operations		
Deferred tax – UK	**(5.4)**	(16.7)
Deferred tax – overseas	**(11.2)**	0.2
Amounts overprovided in previous year	**2.9**	3.3
Total deferred tax	**(13.7)**	(13.2)
Tax charge on discontinued operations	**(17.3)**	(19.7)

6 Taxation on profit continued

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

	2005 £m	2004 £m
Profit before tax on continuing operations	**(50.7)**	(63.2)
Profit before tax at 30% (2004 – 30%)	**15.2**	19.0
Effects of:		
Deferred tax asset written off	**7.6**	–
Expenses not deductible for tax purposes	**18.9**	(9.0)
Difference in overseas tax rates	**4.1**	4.6
Adjustments relating to prior years	**(34.3)**	(11.4)
Other differences	**(6.4)**	–
Total taxation (continuing operations)	**5.1**	3.2

Tax on items charged to equity

	2005 £m	2004 £m
Current tax credit (charge) on exchange movements offset in reserves	**13.3**	(6.5)
Deferred tax credit (charge) on actuarial (loss) gain on defined benefit pension scheme	**2.4**	(8.6)
Tax credit on non-qualifying leasehold property	**4.3**	–
	20.0	(15.1)

Income from joint ventures and associates is shown net of a taxation charge of £0.6m (2004 – £0.5m).

7 Discontinued operations

The Deluxe Media Services and the Deluxe Film businesses meet the IFRS criteria required to be classified as discontinued operations. As a result, Deluxe Media Services and Deluxe Film revenue is excluded from the income statement and the results of the businesses, including any associated exceptional costs, are recorded in a single line on a post tax basis. Deluxe Film was sold on 27 January 2006 resulting in the crystallisation of the provision for loss on disposal. While the sale of Deluxe Media Services has not yet been completed the business met the criteria to be classified as an operation held for sale at both 31 December 2004 and 2005.

A breakdown of the results of discontinued operations is shown below. Deluxe Media Services and Deluxe Film represent business segments of the Group that have been entirely discontinued.

	2005			2004		
	Deluxe Media Services £m	Deluxe Film £m	Total discontinued operations £m	Deluxe Media Services £m	Deluxe Film £m	Total discontinued operations £m
Revenue	**267.1**	**415.7**	**682.8**	385.1	366.6	751.7
Operating (loss) profit before exceptional items	**(16.4)**	**65.7**	**49.3**	9.6	59.8	69.4
Exceptional costs (see note 4)	**(136.5)**	**(150.4)**	**(286.9)**	(127.0)	–	(127.0)
Operating (loss) profit	**(152.9)**	**(84.7)**	**(237.6)**	(117.4)	59.8	(57.6)
Share of post-taxation income from joint ventures and associates	**–**	**0.8**	**0.8**	–	0.5	0.5
Net financing (charge) credit	**(1.0)**	**1.0**	**–**	0.1	2.4	2.5
(Loss) profit before taxation	**(153.9)**	**(82.9)**	**(236.8)**	(117.3)	62.7	(54.6)
Taxation	**(3.3)**	**(14.0)**	**(17.3)**	(0.8)	(18.9)	(19.7)
Net (loss) profit	**(157.2)**	**(96.9)**	**(254.1)**	(118.1)	43.8	(74.3)

The loss made on remeasuring the disposal groups to fair value less costs to sell amounts to £80.2m for Deluxe Media Services and £150.4m for Deluxe Film.

7 Discontinued operations continued

Assets and liabilities relating to the disposal groups held for sale are as follows:

	2005			2004		
	Deluxe Media Services £m	**Deluxe Film £m**	**Total discontinued operations £m**	Deluxe Media Services £m	Deluxe* Film £m	Total discontinued operations £m
Intangible assets	**–**	**7.6**	**7.6**	–	–	–
Property, plant and equipment	**–**	**68.2**	**68.2**	–	–	–
Financial assets – investments	**–**	**10.3**	**10.3**	–	–	–
Inventories	**8.0**	**18.8**	**26.8**	13.4	–	13.4
Receivables	**61.4**	**337.8**	**399.2**	151.9	–	151.9
Cash and equivalents	**–**	**–**	**–**	8.7	–	8.7
Assets held for sale	**69.4**	**442.7**	**512.1**	174.0	–	174.0
Loan and capital borrowing	**(11.7)**	**(1.6)**	**(13.3)**	(14.2)	–	(14.2)
Payables due within one year	**(69.8)**	**(65.2)**	**(135.0)**	(108.8)	–	(108.8)
Provisions	**(43.7)**	**(0.7)**	**(44.4)**	(9.3)	–	(9.3)
Payables greater than one year – reclassified as current	**(0.8)**	**(15.6)**	**(16.4)**	(10.5)	–	(10.5)
Liabilities held for sale	**(126.0)**	**(83.1)**	**(209.1)**	(142.8)	–	(142.8)

*Deluxe Film was not held for sale at 31 December 2004.

Cash flows relating to the discontinued operations are as follows:

	2005			2004		
	Deluxe Media Services £m	**Deluxe Film £m**	**Total discontinued operations £m**	Deluxe Media Services £m	Deluxe Film £m	Total discontinued operations £m
Cash flows from operating activities	**(23.3)**	**35.1**	**11.8**	(8.8)	81.3	72.5
Cash flows from investing activities	**(17.7)**	**(48.9)**	**(66.6)**	(16.6)	(54.0)	(70.6)
Cash flow from financing activities	**(4.8)**	**(0.7)**	**(5.5)**	–	(0.1)	(0.1)
	(45.8)	**(14.5)**	**(60.3)**	(25.4)	27.2	1.8

8 Results attributable to the parent company

The profit for the financial year in the accounts of The Rank Group Plc was £603.3m (2004 – £31.8m loss). As permitted by s230 Companies Act 1985, no income statement is presented in respect of The Rank Group Plc.

9 Dividends

	2005 £m	2004 £m
Equity – ordinary		
Final for 2004 paid on 6 May 2005 – 9.8p (2003 – 9.3p) per share	**61.1**	55.5
Interim for 2005 paid on 14 October 2005 – 5.0p (2004 – 4.8p) per share	**31.4**	29.0
	92.5	84.5

In addition, the Directors are proposing a final dividend in respect of the financial year ending 31 December 2005 of 10.3p per share which will absorb an estimated £64.5m of shareholders' funds. It will be paid on 11 May 2006 to shareholders who are on the register of members on 18 April 2006.

In accordance with IFRS, the final dividend has not been accounted for as a liability as at 31 December 2005.

10 Earnings (loss) per share

Continuing operations

	2005	2004
Basic earnings per share		
Before exceptional items	**5.7p**	15.0p
After exceptional items	**7.1p**	9.9p
Diluted earnings per share		
Before exceptional items	**5.7p**	14.6p
After exceptional items	**7.1p**	9.8p

Discontinued operations

	2005	2004
Basic earnings (loss) per share		
Before exceptional items	**2.0p**	8.5p
After exceptional items	**(40.7)p**	(12.4)p
Diluted earnings (loss) per share		
Before exceptional items	**1.9p**	7.9p
After exceptional items	**(40.6)p**	(11.5)p

Total	2005	2004
Basic earnings (loss) per share		
Before exceptional items	**7.7p**	23.5p
After exceptional items	**(33.6)p**	(2.5)p
Diluted earnings (loss) per share		
Before exceptional items	**7.6p**	22.5p
After exceptional items	**(33.5)p**	(1.7)p
Basic adjusted earnings per share	**10.1p**	12.7p

Basic

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of Ordinary shares outstanding during the year, excluding those held by the Company (note 24), which are treated as cancelled.

	2005			2004		
	Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
Adjusted earnings (£m) – see page 63	**62.9**	**–**	**62.9**	75.8	–	75.8
Weighted average number of Ordinary shares (m)	**624.5**	**–**	**624.5**	598.7	–	598.7
Adjusted earnings per Ordinary share	**10.1p**	**–**	**10.1p**	12.7p	–	12.7p
Basic earnings (loss) (£m)	**47.8**	**(257.5)**	**(209.7)**	140.6	(155.6)	(15.0)
Weighted average number of Ordinary shares (m)	**–**	**–**	**624.5**	–	–	598.7
Basic earnings (loss) per Ordinary share	**7.7p**	**(41.3)p**	**(33.6)p**	23.5p	(26.0)p	(2.5)p

Diluted

For diluted earnings per share, the weighted average number of Ordinary shares in issue is adjusted to assume conversion of all dilutive potential Ordinary shares. The Group has one class of dilutive potential Ordinary shares namely those share options granted to employees where the exercise price is less than the average market price of the Company's Ordinary shares during the year.

In 2004, the share conversion relating to the Group's £167.7m convertible bond was also dilutive.

Options are dilutive at the profit from continuing operations level and so, in accordance with IAS 33, have been treated as dilutive for the purpose of diluted earnings per share. The diluted loss per share is lower than basic loss per share because of the effect of losses on discontinued operations.

10 Earnings (loss) per share continued

	2005 £m	2004 £m
Loss attributable to equity holders of the Company	(209.7)	(15.0)
Discontinued operations	254.1	74.3
Earnings attributable to equity holders of the Company from continuing operations	44.4	59.3
Interest expense on convertible debt (net of tax)	–	4.0
Earnings used to determine diluted earnings per share	44.4	63.3
Weighted average number of Ordinary shares in issue (millions)	624.5	598.7
Adjustments for		
– convertible bond (millions)	–	44.6
– share options (millions)	1.5	2.4
Weighted average number of Ordinary shares for diluted earnings per share (millions)	626.0	645.7
Diluted earnings per share (pence per share) on continuing operations	7.1p	9.8p

Adjusted earnings

Adjusted earnings is calculated by excluding earnings relating to discontinued operations, exceptional items, foreign exchange on inter-company balances and amortisation of interest relating to equity component of convertible bond from basic earnings. Adjusted earnings is one of the business performance measures used internally by management to manage the operations of the business. Management believes that adjusted earnings reflects the underlying performance of the business and assists in providing a view of the fundamental strength of the Group.

Adjusted net earnings attributable to equity shareholders is derived as follows:

	2005 £m	2004 £m
Net loss attributable to equity shareholders	(209.7)	(15.0)
Discontinued operations (net of taxation)	254.1	74.3
Exceptional items before tax on continuing operations	15.7	41.5
Foreign currency loss (gain) on inter-company balances	16.0	(5.9)
Interest on convertible bond	3.0	–
Taxation on adjusted items	(16.2)	(19.1)
Adjusted net earnings attributable to equity shareholders	**62.9**	75.8

11 Intangible assets

Group	Goodwill £m	Casino and other gaming licences £m	Other £m	Total £m
Cost				
At 1 January 2004	136.1	111.0	48.4	295.5
Acquisitions – through business combinations	26.4	3.6	11.1	41.1
Purchase of minority interest	3.8	–	–	3.8
Fair value adjustments	2.7	–	–	2.7
Classified as held for sale	(30.8)	–	(25.4)	(56.2)
Exchange adjustments	(4.1)	–	–	(4.1)
At 31 December 2004	134.1	114.6	34.1	282.8
Acquisitions – through business combinations	5.7	0.5	–	6.2
Additions – internally generated	–	–	6.4	6.4
Disposals	–	–	(0.6)	(0.6)
Fair value adjustments	(2.5)	(0.3)	1.0	(1.8)
Classified as held for sale	(91.4)	–	(15.3)	(106.7)
Exchange adjustments	7.9	(0.6)	2.5	9.8
At 31 December 2005	53.8	114.2	28.1	196.1
Aggregate amortisation and impairment				
At 1 January 2004	12.2	–	30.1	42.3
Charge for the period	–	–	10.1	10.1
Impairment losses	30.8	–	3.7	34.5
Classified as held for sale	(30.8)	–	(25.4)	(56.2)
Exchange adjustments	(0.2)	–	–	(0.2)
At 31 December 2004	12.0	–	18.5	30.5
Charge for the period	–	–	5.6	5.6
Impairment losses	79.2	–	0.4	79.6
Disposals	–	–	(0.6)	(0.6)
Classified as held for sale	(91.4)	–	(7.7)	(99.1)
Exchange adjustments	0.2	–	1.7	1.9
At 31 December 2005	–	–	17.9	17.9
Net book value at 31 December 2004	122.1	114.6	15.6	252.3
Net book value at 31 December 2005	**53.8**	**114.2**	**10.2**	**178.2**

Other assets comprise brands, other licences, computer software and development technology and customer lists.

Fair value adjustments of £(1.8)m in 2005 (2004 – £2.7m) relate to the finalisation of provisional fair value adjustments relating to acquisitions primarily in respect of contingent consideration and deferred tax losses.

Indefinite life intangible assets have been reviewed for impairment as set out in note 13.

12 Property, plant and equipment

Group	Land and buildings £m	Fixtures, fittings, plant & machinery £m	Assets in construction £m	Total £m
Cost				
At 1 January 2004	509.9	624.4	10.0	1,144.3
Exchange adjustments	(9.6)	(11.1)	(0.6)	(21.3)
Additions at cost	34.4	35.6	31.9	101.9
Business acquired	0.7	5.7	–	6.4
Disposals	(1.1)	(37.3)	(0.9)	(39.3)
Businesses disposed	(1.7)	(69.7)	–	(71.4)
Classified as held for sale	(18.1)	(88.5)	(1.5)	(108.1)
Inter-group transfer	2.4	7.3	(9.7)	–
At 31 December 2004	516.9	466.4	29.2	1,012.5
Exchange adjustments	18.5	23.0	2.6	44.1
Additions at cost	10.2	57.3	11.5	79.0
Business acquired	0.2	1.7	0.2	2.1
Disposals	(1.3)	(14.4)	–	(15.7)
Property, plant and equipment write off	(16.9)	(11.6)	–	(28.5)
Classified as held for sale	(63.4)	(139.6)	(19.3)	(222.3)
Inter-group transfer	8.8	13.4	(22.2)	–
At 31 December 2005	473.0	396.2	2.0	871.2
Accumulated depreciation				
At 1 January 2004	132.5	342.8	–	475.3
Exchange adjustments	(3.9)	(6.5)	–	(10.4)
Charge for the year	16.3	48.4	–	64.7
Impairment losses	36.3	47.5	1.5	85.3
Disposals	(1.0)	(25.0)	–	(26.0)
Businesses disposed	(0.3)	(45.1)	–	(45.4)
Classified as held for sale	(18.1)	(88.5)	(1.5)	(108.1)
At 31 December 2004	161.8	273.6	–	435.4
Exchange adjustments	8.8	13.6	–	22.4
Charge for the year	14.8	40.1	–	54.9
Impairment losses	–	72.3	–	72.3
Property, plant and equipment write off	(16.2)	(10.2)	–	(26.4)
Disposals	(0.6)	(13.6)	–	(14.2)
Classified as held for sale	(20.3)	(133.8)	–	(154.1)
At 31 December 2005	148.3	242.0	–	390.3
Net book value at 31 December 2004	355.1	192.8	29.2	577.1
Net book value at 31 December 2005	**324.7**	**154.2**	**2.0**	**480.9**

12 Property, plant and equipment continued

Assets held under finance leases, capitalised and included in land and buildings and fixtures, fittings, plant and machinery:

	2005 £m	2004 £m
Cost	**34.4**	32.4
Aggregate depreciation	**(15.5)**	(13.8)
Net book value	**18.9**	18.6

The book amounts for fixtures, fittings, plant and machinery include assets held under finance leases with a net book value of £5.0m (2004 – £3.9m). The book amounts for land and buildings include buildings held under finance leases with a net book value of £13.9m (2004 – £14.7m).

The net book amount of land and buildings comprises:

	2005 £m	2004 £m
Freeholds	**191.3**	227.4
Long leases (over 50 years unexpired)	**14.1**	22.4
Short leases	**119.3**	105.3
	324.7	355.1

13 Impairment review

Impairment review of intangible assets with indefinite lives

As stated in the accounting policies note (sections L and M) assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. The Group classifies goodwill and casino and other gaming licences as indefinite life assets.

Goodwill

a) Blue Square

The Group has goodwill with a carrying value of £53.8m in respect of the acquisition of Blue Square (2004 – £54.4m). As at 31 December 2005 management does not believe that the carrying value of the Blue Square goodwill was impaired as the value in use exceeded the carrying value of goodwill by £12.1m.

The whole of Blue Square, excluding the Blue Square betting shop which is a separate cash generating unit, is treated as a single cash generating unit and is tested for impairment on that basis. The recoverable amount of the goodwill has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the Board for the next financial year along with projections for the following four years from the Group's Strategic Plan which was also approved by the Board. No growth is applied to cash flows beyond year five. The pre-tax discount rate applied to the cash flow projections is 10.4% (2004 – 12.0%).

Key assumptions used in value in use calculations

The calculation of value in use for Blue Square is most sensitive to the following assumptions:

– settled stakes;
– gross win margins; and
– discount rates

Settled stakes are based on monies placed by customers for the sportsbook and gaming businesses. Management take into account the product mix, major sporting events and industry developments when determining settled stakes.

Gross win margins are based on values achieved in the past and amended for any anticipated changes in the budget period.

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

13 Impairment review continued

Sensitivity to changes in assumptions

With regard to the assessment of value in use of Blue Square, there are possible changes in key assumptions that could cause the carrying value of the unit to exceed its recoverable amount. These are discussed below.

- Settled stakes may be affected by inter alia a decrease in customers, a decrease in marketing spend, a change in technology, competition or regulatory changes

- Gross win margins may be affected by the results of sporting events, odds setting or in changes in legislation to the gaming industry

Gross win is calculated by applying the win margin to stakes placed. If gross win were to decrease by £1.4m each year the value in use would equal the carrying value of the cash generating unit.

b) Deluxe Film

As at 31 December 2005 Deluxe Film has been treated as held for sale as detailed in note 7. The Deluxe Film business has been written down to net recoverable value.

As at 31 December 2004 the Group had goodwill with a carrying value of £67.7m in respect of acquisitions made by Deluxe Film. Management did not believe that the carrying value of this goodwill was impaired as the value in use exceeded the carrying value of goodwill.

In 2004 the whole of Deluxe Film was treated as a single cash generating unit and tested for impairment on that basis. The recoverable amount of the goodwill was determined based on a value in use calculation using cash flow projections based on financial budgets approved by the Board for the next financial year along with projections for the following four years from the Group's Strategic Plan which was also approved by the Board. The pre-tax discount rate applied to the cash flow projections was 12.0%.

Key assumptions used in value in use calculations

The calculation of value in use for Deluxe Film is most sensitive to the following assumptions:

– film footage;
– contract pricing;
– labour and film stock costs; and
– discount rates.

Revenues were based on the expected footage processed under each studio contract and won in the marketplace (uncontracted footage). Management will take into account the release schedule for the coming year, historic patterns and industry developments when determining revenues.

Costs were based on historic levels adjusted for expected price rises and wage increases.

Discount rates reflect management's estimate of the Group's pre-tax weighted average cost of capital. Management believes that the Group's weighted average cost of capital is an appropriate measure as there is not funding directly attributable to that group of assets.

Casino and other gaming licences

a) Grosvenor

The inherent value of casino licences is deemed to be an intrinsic part of value of the operation of casinos as a whole and is not therefore split out from total casino assets in an impairment review. The cost of casino licences as at 31 December 2005 was £94.3m (2004 – £94.3m) and management does not believe that there is any impairment.

Each Grosvenor casino has been treated as a separate cash generating unit, and tested for impairment on that basis. The recoverable amount of each Grosvenor casino including the licence has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the Board for the next financial year. The pre-tax discount rate applied to cash flow projections is 10.4% (2004 –12.0%).

In all cases the value in use calculation exceeded the carrying value and there was no impairment. No reasonably possible change in a key assumption would cause the carrying value of the cash generating units to be equal to their value in use.

b) Spanish bingo

The inherent value of Spanish bingo is deemed to be an intrinsic part of value of the operations as a whole and is not therefore split out from Spanish bingo assets in an impairment review. The cost of Spanish bingo licences as at 31 December 2005 was £19.9m (2004 – £20.3m) and management does not believe that there is any impairment.

13 Impairment review continued

Impairment review of property, plant and equipment

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

2005

Grosvenor

In 2005 an impairment charge of £3.2m has been recognised in respect of one casino.

Mecca

In 2005 an impairment charge of £0.6m has been recognised in respect of a number of clubs where the cash flows associated with those clubs were less than the carrying value of the property, plant and equipment.

2004

Hard Rock

In 2004 at Hard Rock, following a detailed review, it was decided to relocate a number of key cafes starting with New York, to close the Vault, a rock and roll museum in Orlando, and to write down a number of underperforming units. As a result a charge of £31.0m was incurred of which £2.9m related to inventory, £4.8m related to onerous leases and £23.3m related to property, plant and equipment.

Mecca

In 2004 in Mecca an impairment charge of £6.4m was recognised in respect of certain clubs where the cash flows associated with those clubs were less than the carrying value of property, plant and equipment. This charge was treated as an operating exceptional item. On transition to IFRS an impairment charge of £28.3m was recognised at 1 January 2004 in respect of certain clubs where the cash flows associated with those clubs were less than the carrying value of property, plant and equipment. This charge was recognised in opening reserves. This had not been recognised under UK GAAP as the Mecca business in the UK had been treated as a single Income Generating Unit under FRS 11, "Impairment of fixed assets and goodwill".

14 Financial assets – investments

	Group		Company	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Investments in joint ventures	**(1.0)**	7.1	**–**	–
Investments in subsidiaries	**–**	–	**1,843.6**	1,762.7
Available-for-sale assets (2005 only)	**46.1**	–	**–**	–
Other investments (2004 only)	**–**	48.2	**–**	–
Total financial assets – investments	**45.1**	55.3	**1,843.6**	1,762.7

Investments in joint ventures comprises cost of investment less the Group's share of losses of the Lifestar joint venture. There are hotel investments within available-for-sale assets of £13.6m that represent stakes in the ownership of the same hotels with which the Lifestar joint venture is associated.

See accounting policies note section H for the accounting policy on financial instruments applied to other investments during 2004 and 2005.

Interests in joint ventures
Share of the joint ventures' results and net assets:

	2005 £m	2004 £m
Non-current assets	**–**	12.7
Current assets	**0.4**	4.5
Share of gross assets	**0.4**	17.2
Current liabilities	**(1.4)**	(3.4)
Non-current liabilities	**–**	(6.7)
Share of gross liabilities	**(1.4)**	(10.1)
Share of net (liabilities) assets	**(1.0)**	7.1

	2005 £m	2004 £m
Loss before and after tax (continuing operations)	**1.4**	0.5

The Group has a 50% share in Lifestar, a joint venture incorporated in Delaware, USA, between Hard Rock Hotels and Resorts and Sol Meliá Hotels and Resorts, to develop the Hard Rock Hotel concept throughout the Americas and Europe. Lifestar currently manages and operates hotels. The Group's own equity investment in these hotels is held separately and is included in available-for-sale assets (2004 – other investments).

The Group's interests in joint ventures also comprises 50% of the ordinary share capital of Atlab Holdings Pty Limited (Atlab) incorporated in Australia. The remaining share capital is owned by Amalgamated Holdings Limited. The principal activity of Atlab is as an investment holding company. The company holds the investment in the Atlab Group of operating companies whose principal activities are film processing in Australasia. In 2005, Atlab has been included within assets held for sale.

Available-for-sale investments (2005 only)

	2005 £m
Listed equity shares – fair value	**0.5**
Unlisted equity shares – fair value	**45.6**
	46.1

Available-for-sale financial assets consist of investments in ordinary shares, which by their nature have no fixed maturity date or coupon rate.

The fair value of the listed and unlisted equity share has been estimated using valuation guidelines based on market prices and discounted cash flow calculations. Fair value gains of £6.8m have been recognised in equity.

Available-for-sale investments comprises £8.9m in relation to the Group's 10% equity investment in Universal Studios Japan, £23.1m in relation to the Group's investment in the Universal Rank Hotel partnership in the US, £13.6m in relation to the Group's investment in the Hard Rock hotels in Chicago, Madrid and New York and £0.5m in respect of the Group's 10% equity investment in Medal Entertainment & Media Plc. 66,000 of the Group's 80,000 shares in Universal Studios Japan were disposed of in February 2006.

14 Financial assets continued

Other investments (2004 only)

	2004 £m
Balances at 31 December 2004	48.2

Other investments at 31 December 2004 comprise £21.7m in relation to the Group's 10% equity investment in Universal Studios Japan, £17.4m in relation to the Group's investment in the Universal Rank Hotel partnership in the US, £8.5m in relation to the Group's investment in the Hard Rock hotels in Chicago and New York and £0.6m in respect of the Group's 10% equity investment in Medal Entertainment & Media Plc.

Investments in subsidiaries (Company)

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in note 39. Investments in subsidiaries are carried at cost of £1,987.4m (2004 – £2,845.7m) less provision for impairment of £143.8m (2004 – £1,083.0m).

15 Deferred tax

The analysis of deferred tax included in the financial statements at the end of the year is as follows:

	2005 £m	2004 £m
Deferred tax liabilities		
Business combinations in reserves – non-qualifying leasehold properties	**(15.1)**	(20.1)
Other UK timing differences	**(19.5)**	(20.4)
Deferred tax liabilities	**(34.6)**	(40.5)
Deferred tax asset		
Accelerated capital allowances	**17.8**	13.6
Pensions in reserves	**12.5**	10.0
Tax losses carried forward	**42.0**	51.2
Other overseas timing	**24.8**	25.1
Deferred tax assets	**97.1**	99.9
Net deferred tax asset	**62.5**	59.4

In addition an unrecognised deferred tax asset of £130.9m (2004 – £21.1m) existed at 31 December 2005. This deferred tax asset would be recovered if sufficient taxable profits arose in future in the companies in which the deferred tax asset had not been recognised.

Temporary differences associated with Group investments

At 31 December 2005, there was no recognised deferred tax liability (2004 – nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, or its associate or joint venture, as:

- the Group has determined that undistributed profits of its subsidiaries will not be distributed in the foreseeable future;
- the Group has an agreement with its associate that the profits of the associate will not be distributed until it obtains the consent of the Group;
- the parent company does not foresee giving such consent at the balance sheet date; and
- the joint venture of the Company cannot distribute its profits until it obtains the consent of the Company. The parent company does not foresee giving such consent at the balance sheet date.

There are no income tax consequences attaching to the payment of dividends by the Group to its shareholders.

The Company has a deferred tax asset of £1.4m (2004 – £nil).

15 Deferred tax continued

The deferred tax included in the Group income statement is as follows:

	2005 £m	2004 £m
Deferred tax in the income statement		
Accelerated capital allowances	**(3.3)**	7.3
Deferred tax asset written off	**23.2**	–
Tax losses	**(9.0)**	–
Share-based payment	**0.1**	–
Other timing differences	**4.2**	12.8
Deferred income tax expense	**15.2**	20.1

16 Inventories

	2005 £m	2004 £m
Raw materials	**1.9**	25.3
Work in progress	**–**	0.2
Finished goods	**16.4**	15.1
Completed properties for resale	**14.7**	11.1
	33.0	51.7

The Group wrote down £nil and £3.1m of inventories for the years ended 31 December 2005 and 2004 respectively.

17 Trade and other receivables

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Amounts falling due within one year				
Trade receivables	**7.4**	105.0	**–**	–
Less: provisions for impairment of receivables	**(3.0)**	(32.3)	**–**	–
Trade receivables – net	**4.4**	72.7	**–**	–
Amounts owed by related parties (all trading balances)	**4.3**	3.6	**–**	–
Other receivables	**11.2**	38.0	**–**	–
Instalment sale debtors and notes receivable	**–**	0.3	**–**	–
Prepayments and accrued income	**24.8**	30.5	**–**	1.1
Amounts owed by subsidiary undertakings	**–**	–	**80.9**	43.6
Advance contract payments	**–**	59.8	**–**	–
	44.7	204.9	**80.9**	44.7
Amounts falling due after one year				
Advance contract payments	**–**	226.7	**–**	–
Other receivables	**14.0**	18.8	**–**	–
Instalment sale debtors and note receivable	**13.6**	15.5	**–**	–
Prepayments and accrued income	**1.1**	0.1	**–**	–
	28.7	261.1	**–**	–

Concentrations of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. Due to this, management believes there is no further credit risk provision required in excess of normal provision for doubtful receivables.

18 Trade and other payables – current

	Group		Company	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Trade payables	**41.3**	64.7	**–**	–
Other tax and social security payable	**5.7**	12.2	**–**	–
Other payables	**63.2**	43.1	**–**	–
Accruals	**44.9**	74.5	**5.6**	9.9
Deferred consideration	**0.3**	18.9	**–**	–
Pension fund creditor	**3.4**	–	**–**	–
Contract advances payable	**–**	57.8	**–**	–
Amounts owed to subsidiary undertakings	**–**	–	**374.7**	775.2
	158.8	271.2	**380.3**	785.1

19 Current tax liabilities – Group

	2005 £m	2004 £m
Corporation tax payable	**2.8**	9.5

20 Financial liabilities – loan capital and borrowings

Financial liabilities comprise the following:

	Group		Company	
	2005 £m	2004 £m	**2005 £m**	2004 £m
Bank overdrafts	**8.3**	18.8	**–**	–
Derivative financial instruments	**8.3**	–	**–**	–
$105m Private Placement @ LIBOR + 1.9% 2007	**61.2**	54.7	**–**	–
$89m Private Placement @ 5.39% 2010	**51.8**	46.4	**–**	–
$134m Private Placement @ 6.11% 2013	**78.1**	103.1	**–**	–
£35m Private Placement @ 6.5% 2013	**35.0**	35.0	**–**	–
$60m Private Placement @ 6.31% 2015	**35.0**	46.9	**–**	–
US$100m @ 6.375% Yankee bonds 2008	**56.1**	52.1	**–**	–
US$14.8m @ 7.125% Yankee bonds 2018	**8.6**	8.2	**–**	–
£167.7m @ 3.875% convertible unsecured loan stock 2009 (net of unamortised facility fees and equity component)	**154.9**	164.6	**154.9**	164.6
Syndicated loan facilities	**328.9**	153.8	**–**	–
Other (including accrued interest)	**5.9**	4.1	**2.7**	–
Obligations under finance leases	**25.9**	24.2	**–**	–
Total	**858.0**	711.9	**157.6**	164.6
Bank overdrafts	**8.3**	18.8	**–**	–
Other borrowings repayable:				
Within one year or on demand	**11.3**	1.0	**2.7**	–
Between one and two years	**397.3**	158.4	**–**	–
Between two and five years	**268.2**	277.2	**154.9**	164.6
In five years or more	**172.9**	256.5	**–**	–
Total	**858.0**	711.9	**157.6**	164.6
Current	**19.6**	19.8	**2.7**	–
Non-current	**838.4**	692.1	**154.9**	164.6
Total	**858.0**	711.9	**157.6**	164.6
Unsecured convertible bond	**154.9**	164.6	**154.9**	164.6
Other unsecured borrowings	**677.2**	523.1	**2.7**	–
Obligations under finance leases (secured see note 12)	**25.9**	24.2	**–**	–
Total	**858.0**	711.9	**157.6**	164.6

20 Financial liabilities continued

Undrawn borrowing facilities

The Group has had the following undrawn committed borrowing facilities available at 31 December in respect of which all conditions precedent had been met at that date:

	Floating rate £m	Fixed rate £m	**2005 Total £m**	2004 Total £m
Expiring within one year	–	–	**–**	–
Expiring within one or two years	86.1	–	**86.1**	246.2
Expiring in more than two years	–	–	**–**	–
	86.1	–	**86.1**	246.2

The analysis of other borrowings repayable includes £154.9m of convertible bonds (2004 – £164.6m). The bond is due in 2009 and is convertible at the option of the holder into fully paid Ordinary shares at £3.764 per share. Interest is paid half yearly in January and July. The effective interest rate on the liability portion of the bond is 4.2%. None of the bonds were converted during the year. If the conversion rights attached to the bonds outstanding at 31 December 2005 were exercised, 44.6m Ordinary shares would fall to be issued (2004 – 44.6m). Unless previously redeemed or converted, the bonds will be redeemed at par in 2009.

The analysis of other borrowings repayable above includes obligations under finance leases, of which £1.6m (2004 – £0.2m) expire within one year, £3.5m (2004 – £3.3m) expire between one and two years, £4.6m (2004 – £4.1m) expire between two and five years, and £16.2m (2004 – £16.6m) expire after five years.

The funding policy of the Group is to maintain a broad portfolio of debt, diversified by source and maturity, and to maintain committed facilities sufficient to cover seasonal peak anticipated borrowing requirements.

The Company had £154.9m of borrowings at 31 December 2005 (2004 – £164.6m) excluding accrued interest.

21 Financial instruments

A description of the policies relating to financial instruments is set out in the operating and financial review on page 25 and also in the accounting policies on page 49.

Except where indicated otherwise, the disclosures below relate to both the year ended 2005, for which IAS 32 and IAS 39 have been applied by the Group, and the year ended 31 December 2004, for which UK GAAP was applied to the Group's financial instruments.

(a) Interest risk management

Financial liabilities

Gross borrowings of £1,450.1m (2004 – £894.9m) include loan capital and borrowings of £858.0m (note 20) (2004 – £711.9m) and the effect of currency and interest rate swaps. After taking account of interest rate and currency rate swaps, the currency and interest rate exposure of gross borrowings as at 31 December 2005 and 2004 was:

2005	**Gross borrowings £m**	**Floating rate borrowings £m**	**Fixed rate borrowings £m**
Sterling	**696.5**	**478.8**	**217.7**
US/Canadian dollar	**598.5**	**362.4**	**236.1**
Other currencies (net)	**155.1**	**152.7**	**2.4**
	1,450.1	**993.9**	**456.2**

21 Financial instruments continued

2004	Gross borrowings £m	Floating rate borrowings £m	Fixed rate borrowings £m
Sterling	298.1	78.7	219.4
US/Canadian dollar	476.5	266.8	209.7
Other currencies (net)	120.3	119.9	0.4
	894.9	465.4	429.5

At 31 December 2005 the fixed interest rates vary from 5.4% to 7.1% (2004 – 5.4% to 7.1%) and floating rates are LIBOR +1.9% (2004 – LIBOR + 1.9%).

The gain deferred in equity will reverse in the income statement during the next three years (being the life of the swap).

Sterling borrowings above includes the £154.9m convertible bond. At 31 December 2005 the convertible bond is accounted for in accordance with IAS 39, whereas at 31 December 2004 the convertible bond is accounted for in accordance with the Group's UK GAAP accounting policies. The different accounting policies and the effect on the carrying value at 1 January 2005 are set out in note 41.

In addition to the amounts disclosed in the above tables, the following meet the definition of financial liabilities:

- the Group's provisions of £37.8m (2004 – £27.7m) for vacant leasehold properties (note 23) are considered to be floating rate financial liabilities. This is because in establishing the provisions, the cash flows have been discounted using a discount rate which is re-appraised at each half-yearly reporting date to ensure it reflects current market assessments of the time value of money and the risks specific to the liability. £32.9m (2004 – £9.7m) of the balance is denominated in sterling and the remainder in US and Canadian dollars.

Financial assets
The financial assets shown below include cash, cash equivalents, available for sale investments and the sterling element of currency rate swaps.

	2005 £m	2004 £m
Sterling	**79.0**	231.6
US/Canadian dollar	**54.2**	17.1
Other currencies	**35.8**	18.6
Cash, investments and other financial assets	**169.0**	267.3

Floating rate cash earns interest based on relevant LIBID equivalents, and investments earn interest according to the performance of the funds in which they are invested.

In addition to the amounts disclosed in the previous tables, the following meet the definition of financial assets:

- £0.5m (2004 – £0.6m) of investments in equity shares (note 14) have been excluded from the interest rate risk profile as they have no maturity date and would thus distort the weighted average period information.

21 Financial instruments continued

2005 – Instalment sale debtors and notes receivable after one year	Total asset £m	Floating rate asset £m	Fixed rate asset £m	Fixed rate assets: Weighted average interest rate %	Fixed rate assets: Weighted average time for which rate is fixed years
US dollar	**13.6**	**9.6**	**4.0**	**12.2**	**5.4**

2004 – Instalment sale debtors and notes receivable after one year	Total asset £m	Floating rate asset £m	Fixed rate asset £m	Fixed rate assets: Weighted average interest rate %	Fixed rate assets: Weighted average time for which rate is fixed years
US dollar	15.5	9.6	5.9	12.2	5.4

Floating rate instalment sale debtors and notes receivable after one year earn interest based on three and five year US treasury bills.

(b) Maturity of financial liabilities

The maturity of loan capital and borrowings is given in note 20.

For other financial liabilities, note 23 provides an indication of the nature of the underlying liabilities in respect of provisions. The maturity profile of these liabilities, together with deferred consideration and contract advances, is as follows:

2005	Onerous contracts £m	Provisions on disposal £m	Other £m	Deferred consideration £m	Total 2005 £m
Within one year or on demand	**10.9**	**0.5**	**–**	**0.3**	**11.7**
Between one and two years	**1.6**	**–**	**–**	**1.3**	**2.9**
Between two and five years	**7.9**	**–**	**3.8**	**–**	**11.7**
Over five years	**17.4**	**–**	**–**	**–**	**17.4**
	37.8	**0.5**	**3.8**	**1.6**	**43.7**

2004	Restructuring £m	Onerous contracts £m	Provisions on disposal £m	Other £m	Contract advances £m	Deferred consideration £m	2004 £m
Within one year or on demand	3.5	8.3	–	–	–	–	11.8
Between one and two years	–	2.0	1.3	–	44.9	1.6	49.8
Between two and five years	–	14.1	–	3.9	5.7	6.9	30.6
Over five years	–	3.3	–	–	–	–	3.3
	3.5	27.7	1.3	3.9	50.6	8.5	95.5

(c) Exchange risk management

After taking into account the effect of forward exchange contracts, there are no material net monetary assets/liabilities of Group companies denominated in currencies other than the relevant Group company's own functional currency.

The Group operates a prudent hedging policy relating to its cross currency business trading cash flows. Currency exposures are netted by currency and hedged forward for up to five years using forward foreign exchange contracts. The currencies hedged are US Dollars, Canadian Dollars, Euros, Australian Dollars and Japanese Yen.

(d) Fair values

The estimated fair values of the Group's financial assets and financial liabilities at 31 December 2005 and 2004 are set out below. The fair value of quoted borrowings is based on year-end mid-market quoted prices. The fair values of other borrowings and the derivative financial instruments are estimated by discounting the future cash flows to net present values using appropriate market rates prevailing at the year-end.

Short term debtors, creditors and financial instruments held within discontinued operations have been excluded from the following disclosures on the basis that their carrying amount is a reasonable approximation to fair value.

21 Financial instruments continued

Set out below is a comparison by category of carrying amounts and fair values of the Group's financial instruments, excluding those classified under discontinued operations, that are carried in the financial statements:

	Net carrying amount 2005 £m	**Fair value 2005 £m**	Net carrying amount 2004 £m	Fair value 2004 £m
Short term financial liabilities and current portion of long term borrowings	**(19.6)**	**(19.6)**	(19.8)	(19.8)
Long term borrowings	**(838.4)**	**(824.5)**	(692.1)	(688.3)
Cash at bank and liquid investments	**117.7**	**117.7**	75.6	75.6

The difference between net carrying amount and estimated fair value reflects unrealised gains or losses inherent in the instruments based on valuations at 31 December 2005. The volatile nature of the markets means that values at any subsequent date could be significantly different from the values reported above.

Long term borrowings above includes the £154.9m of convertible bonds. At 31 December 2005 the convertible bonds are accounted for in accordance with IAS 39, whereas at 31 December 2004 the convertible bonds are accounted for in accordance with the Group's UK GAAP accounting policies. The different accounting policies and the effect on the carrying value at 1 January 2005 are set out in note 41.

(e) Financial derivative instruments

As explained in the operating and financial review on page 25, the Group's policy is to hedge the following exposures:

– interest rate risk, using interest and currency swaps; and

– currency risk, using forward foreign currency contracts for foreign currency receipts and payments.

Forward foreign currency contracts are also used for currency exposures on future years' forecasted sales.

As explained in note 41, the Group has applied IAS 39 to the accounting for derivative financial instruments and hedging from 1 January 2005. Separate disclosures are presented below for derivative financial instruments and hedging for 2005 and 2004.

2004 disclosures for derivative financial instruments

The estimated current value of the foreign exchange forward contracts and interest rate swaps entered into to hedge future transaction flows and on-balance sheet exposures based on quoted market prices is set out below.

	Book value 2004 £m	Current value 2004 £m
Interest rate swaps	–	(0.8)
Foreign exchange forward rate contracts	–	–
Foreign currency swaps	–	(2.9)
Commodity forwards	–	0.1

The table below shows the extent to which the Group had off-balance sheet (unrecognised) gains and losses in respect of financial instruments used as hedges at the beginning and end of 2004. It also shows the amount of such gains and losses which have been included in the profit and loss account for the year and those gains and losses which were expected to be included in next year's or later profit and loss accounts, had the Group continued to apply UK GAAP.

21 Financial instruments continued

	Unrecognised		
	Gains £m	Losses £m	Total net gains (losses) £m
Gains and losses on hedges at 1 January 2004	5.2	(3.9)	1.3
Arising in previous years included in 2004 income	(5.1)	0.2	(4.9)
Gains and losses not included in 2004 income:			
Arising before 1 January 2004	–	–	–
Arising in 2004 on pre 1 January 2004 contracts	–	(0.8)	(0.8)
Arising in 2004 on 2004 contracts	0.1	(2.9)	(2.8)
Gains and losses on hedges at 31 December 2004	0.1	(3.7)	(3.6)
of which:			
Gains and losses expected to be included in 2005 income	0.1	(3.7)	(3.6)
Gains and losses expected to be included in 2006 income or later	–	–	–
	0.1	(3.7)	(3.6)

There are no significant deferred gains or losses on hedge transactions.

2005 disclosures for derivative financial instruments

	Assets £m	**Liabilities £m**
Cross currency swap – net investment hedge	**1.5**	**(4.1)**
Cross currency swap – inter-company loan hedge (held for trading)	**2.6**	**(1.3)**
Cross currency swap – quasi equity hedge	**0.7**	**(0.1)**
Interest rate swap	**–**	**(2.1)**
Interest rate cap and collar (held for trading)	**–**	**(0.1)**
Forward foreign exchange contract (held for trading)	**0.4**	**(0.6)**
	5.2	**(8.3)**

Net fair values of derivative financial instruments
The net fair values of derivative financial instruments and designated for cash flow hedges at 31 December 2005 were:

	2005 £m
Contracts with positive values:	
Quasi-equity hedge	**0.7**
Net investment hedge	**1.5**
Contracts with negative fair values:	
Interest rate swaps	**(2.1)**
Quasi-equity hedge	**(0.1)**
Net investment hedge	**(4.1)**

These will be transferred to the income statement when the forecast events occur over the next 12 months.

(f) Interest rate swaps
The notional principal amount of the outstanding interest rate swap contracts at 31 December 2005 was US$100m (2004 – US$100m). These mature in 2008.

There were £(2.1)m derivatives outstanding at the balance sheet date that were designated as fair value hedges (2004 – £(0.8)m), relating to interest rate swaps.

22 Other non-current liabilities

	Group 2005 £m	Group 2004 £m
UK corporation tax and overseas taxation	**28.2**	45.1
Deferred consideration	**1.3**	8.5
Accruals	**1.5**	0.1
Pension Plan creditor (see note 34)	**38.2**	35.3
Contract advances payable	**–**	50.6
	69.2	139.6

23 Provisions

Group	Restructuring £m	Onerous contracts £m	Provision on disposal £m	Other £m	**Total £m**
At 1 January 2005	3.5	27.7	1.3	3.9	**36.4**
Exchange adjustments	0.3	0.5	–	–	**0.8**
Charged to the income statement	1.7	14.6	–	–	**16.3**
Utilised in year	(4.7)	(6.2)	(0.8)	(0.1)	**(11.8)**
Classified as held for sale	(0.8)	–	–	–	**(0.8)**
Amortisation of discount	–	1.2	–	–	**1.2**
At 31 December 2005	**–**	**37.8**	**0.5**	**3.8**	**42.1**

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

	2005 £m	2004 £m
Current	**11.4**	11.8
Non-current	**30.7**	24.6
	42.1	36.4

Onerous contracts
The Group is party to a number of leasehold property contracts. Provision has been made against those leases where the property is now vacant and the unavoidable costs under the lease exceed the economic benefit expected to be derived from potential sub-letting arrangements. The provision made in the year includes costs relating to properties which have become surplus to requirements, discounted at an appropriate discount rate. Further details on the maturity profile of this provision are provided in note 21.

Restructuring costs
The restructuring costs held at 31 December 2004 relate to the provisions established in Deluxe in 2004.

Provisions on disposals
This provision was established in 2000 following the disposal of Nightscene, Odeon Cinemas, Pinewood Studios, Tom Cobleigh and UK Holidays and later in 2004 following the disposal of Rank Leisure Machines Services. The provision remaining at 31 December 2005 relates to outstanding insurance and potential warranty claims as under the sales contracts.

Other provisions
Other provisions comprise legal provisions.

Legal provisions comprise legal fees and expected settlement costs. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Company
At 1 January 2005, the Company held a legal provision of £1.1m. During the year £0.1m was utilised leaving a provision at 31 December 2005 of £1.0m.

24 Share capital

	2005 Authorised		2004 Authorised	
	Number m	**Nominal value £m**	Number m	Nominal value £m
US$ cumulative preference shares	**–**	**3**	–	3
Convertible preference shares of 20p each	**300**	**60**	300	60
Ordinary shares of 10p each	**1,200**	**120**	1,200	120
	1,500	**183**	1,500	183

	2005 Issued and fully paid		2004 Issued and fully paid	
	Number m	**Nominal value £m**	Number m	Nominal value £m
As at 1 January 2005	**624.1**	**62.4**	596.2	59.6
Shares issued in the year (see cash flow statement)	**1.9**	**0.2**	27.9	2.8
As at 31 December 2005	**626.0**	**62.6**	624.1	62.4

202,852 (2004 – 824,895) Ordinary shares in the Company are held by the Rank Group Employee Benefit Trust (the Trust). These owned shares are deducted from equity in accordance with IAS 32 and not disclosed as an investment.

Dividends on the shares held by the Trust have been waived by the trustee with the exception of one penny in total. The Trust may make such investments in the shares of the Company or otherwise as the trustees may determine to provide benefits to any eligible employee. The benefits may be provided in the form of shares, cash or otherwise, although any share related benefit will be provided in accordance with an appropriate employee share scheme or bonus scheme of the Company. The shares held by the Trust represent less than 0.1% of the Company's called up share capital. The costs of funding and administering the scheme are charged to the income statement of the Company in the period to which they relate. The market value of the shares at 31 December 2005 was £0.6m (2004 – £2.2m).

25 Statement of changes in shareholders' equity

Group	Share capital £m	Share premium £m	Capital redemption £m	Other reserves £m	Total £m	Minority £m	Total £m
Balance as at 1 January 2004	59.6	17.5	24.8	331.8	433.7	16.1	449.8
Exchange adjustments net of tax	–	–	–	(21.2)	(21.2)	(0.9)	(22.1)
Actuarial (loss) gain on defined benefit pension scheme – net of tax	–	–	–	21.0	21.0	–	21.0
Adjustment to purchase price on acquisition (goodwill)	–	–	–	(18.8)	(18.8)	–	(18.8)
Purchase of minority interests	–	–	–	–	–	(5.3)	(5.3)
Issue of share capital	2.8	70.8	–	–	73.6	–	73.6
Dividends	–	–	–	(84.5)	(84.5)	(1.9)	(86.4)
Credit in respect of employee share schemes	–	–	–	2.5	2.5	–	2.5
Net (loss) profit for the year	–	–	–	(15.0)	(15.0)	0.7	(14.3)
Balance as at 31 December 2004	62.4	88.3	24.8	215.8	391.3	8.7	400.0
Effects of implementing IAS 32 and IAS 39	–	–	–	16.2	16.2	–	16.2
Balance as at 1 January 2005 – as restated	62.4	88.3	24.8	232.0	407.5	8.7	416.2
Exchange adjustments net of tax	–	–	–	45.0	45.0	1.5	46.5
Actuarial movement of pension liability net of tax	–	–	–	(13.4)	(13.4)	–	(13.4)
Revaluation of available-for-sale investments	–	–	–	6.8	6.8	–	6.8
Tax on non-qualifying leasehold property	–	–	–	4.3	4.3	–	4.3
Issue of share capital	0.2	4.8	–	–	5.0	–	5.0
Dividends	–	–	–	(92.5)	(92.5)	–	(92.5)
Credit in respect of employee share schemes	–	–	–	3.7	3.7	–	3.7
Net (loss) profit for the year	–	–	–	(209.7)	(209.7)	1.2	(208.5)
Balance as at 31 December 2005	**62.6**	**93.1**	**24.8**	**(23.8)**	**156.7**	**11.4**	**168.1**

The reserves of subsidiary undertakings have generally been retained to finance their businesses.

Other reserves comprise of retained earnings and other recognised income and expense recognised through the Statement of Recognised Income and Expense.

The unamortised element of the Group's £167.7m convertible bond's equity component is £10.5m.

Company	Share capital £m	Share premium £m	Capital redemption £m	Other reserves £m	Total £m	Minority £m	Total £m
Balance as at 31 December 2004	62.4	88.3	24.8	681.1	856.6	–	856.6
Effects of implementing IAS 32 and IAS 39	–	–	–	13.6	13.6	–	13.6
Balance as at 1 January 2005 – as restated	62.4	88.3	24.8	694.7	870.2	–	870.2
Issue of share capital	0.2	4.8	–	–	5.0	–	5.0
Dividends	–	–	–	(92.5)	(92.5)	–	(92.5)
Credit in respect of employee share schemes	–	–	–	1.8	1.8	–	1.8
Net profit for year	–	–	–	603.3	603.3	–	603.3
Balance as at 31 December 2005	**62.6**	**93.1**	**24.8**	**1,207.3**	**1,387.8**	**–**	**1,387.8**

26 Minority interest

	2005 £m	2004 £m
At 1 January	**8.7**	16.1
Purchase of minority interests	**–**	(5.3)
Share of net profit of subsidiaries	**1.2**	0.7
Dividend paid	**–**	(1.9)
Exchange adjustments	**1.5**	(0.9)
At 31 December	**11.4**	8.7

27 Cash flow from operating activities

Reconciliation of operating profit to net cash inflow from operating activities:

Cash generated from operations

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Operating profit (loss):				
– continuing operations	**115.4**	94.6	**(0.7)**	(0.4)
– discontinued operations (see note 7)	**(237.6)**	(57.6)	**–**	–
– exceptional operating costs charged	**299.0**	168.5	**–**	–
Total Group operating profit (loss) before exceptional items	**176.8**	205.5	**(0.7)**	(0.4)
Cash payments in respect of exceptional costs and provisions	**(54.8)**	(29.4)	**–**	(1.2)
Depreciation and amortisation	**60.9**	73.7	**–**	–
(Decrease) increase in working capital	**20.2**	(11.4)	**(4.0)**	(0.7)
Movement in contract advances	**(27.2)**	17.8	**–**	–
Other	**(0.6)**	7.1	**0.6**	–
	175.3	263.3	**(4.1)**	(2.3)

28 Cash and cash equivalents

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Cash at bank and in hand	**106.7**	66.0	**0.8**	–
Current asset investments	**11.0**	9.6	**–**	–
Cash – continuing operations	**117.7**	75.6	**0.8**	–
Cash held in discontinued operations	**–**	8.7	**–**	–
Total cash	**117.7**	84.3	**0.8**	–

For the purpose of the Cash Flow Statements, cash and cash equivalents comprise the following at 31 December:

	Group		Company	
	2005 £m	2004 £m	2005 £m	2004 £m
Total cash (continuing and discontinued operations)	**117.7**	84.3	**0.8**	–
Bank overdrafts	**(8.3)**	(18.8)	**–**	–
	109.4	65.5	**0.8**	–

29 Borrowings to net debt reconciliation

Under IFRS (IAS 32), accrued interest is classified as borrowings. In addition, net debt which is part of the assets and liabilities held for sale is disclosed separately. A reconciliation of net borrowings disclosed in the balance sheet to the Group's net debt position is provided below:

	Group	
	2005 £m	2004 £m
Borrowings, net of cash	**(732.0)**	(636.3)
Amounts disclosed within discontinued operations	**(13.3)**	(5.5)
Accrued interest	**5.9**	–
Net debt	**(739.4)**	(641.8)

30 Major non-cash transactions

The Group entered into a sale and purchase agreement to sell the Deluxe Film businesses on 23 December 2005 for $750m. The sale completed on 27 January 2006.

In 2004, £65.0m convertible loan stock was converted into 23.0m Ordinary shares.

31 Acquisitions and disposals of subsidiaries

Acquisitions during 2005

	Continuing £m	Discontinued £m	**Total 2005 £m**
Intangible assets	0.5	–	**0.5**
Property, plant and equipment	–	2.1	**2.1**
Net current assets excluding cash	0.1	1.6	**1.7**
Cash acquired	–	1.0	**1.0**
Net assets acquired	0.6	4.7	**5.3**
Goodwill	(0.1)	5.8	**5.7**
Consideration	0.5	10.5	**11.0**
Satisfied by:			
Cash paid	0.5	8.5	**9.0**
Deferred consideration	–	2.0	**2.0**
	0.5	10.5	**11.0**

Cash paid	**9.0**
Cash acquired	**(1.0)**
Deferred consideration paid in respect of prior year acquisitions	**17.9**
Cash outflow from the purchase of subsidiaries (net of cash acquired)	**25.9**

Acquisitions of continuing operations are in respect of fair value adjustments relating to an acquisition in December 2004.

Acquisitions of discontinued operations have been classified as assets held for sale as at 31 December 2005.

32 Employees and Directors

The disclosures below include discontinued operations.

(a) Employee benefit expense for the Group during the year

	2005 £m	2004 £m
Wages and salaries	**383.9**	375.5
Social security costs	**39.1**	37.5
Other pension costs	**5.3**	10.1
Share-based payments	**4.2**	3.1
	432.5	426.2

The Company has no employees. The Directors of the Group are paid by a subsidiary undertaking.

(b) Average monthly number of employees by segment

	2005	2004
Gaming	**9,524**	9,491
Hard Rock	**6,862**	6,948
Deluxe	**7,163**	7,960
Resorts	**724**	709
Other	**50**	51
	24,323	25,159

(c) Key management compensation

	2005 £m	2004 £m
Salaries and short term employee benefits	**4.4**	3.9
Share-based payments	**1.0**	0.7
	5.4	4.6

The key management figures given above include Directors and members of the Executive Committee as set out in the Corporate Governance report. Details of the remuneration of each Director are set out in the Remuneration Report on pages 30 to 36 which form part of these financial statements.

(d) Directors' interests

The Directors' interests in shares or stocks of the Company, including options to purchase Ordinary shares under the terms of the Group's Executive Share Option Scheme, and conditional awards under the Long Term Incentive Plan, are detailed in the Remuneration Report. Details of options to subscribe for Ordinary shares of the Company granted to or exercised by Directors in the year ended 31 December 2005 are also detailed in the Remuneration Report.

(e) Total emoluments of the Directors of The Rank Group Plc

	2005 £m	2004 £m
Aggregate emoluments	**2.4**	1.9
Aggregate gains made on the exercise of share options	**–**	0.2
Aggregate amounts receivable under long term incentive schemes (meeting the vesting criteria)	**–**	0.4
Number of Directors accruing benefits under defined benefit schemes	**3**	2

33 Share-based payments

During the year ended 31 December 2005, the Company operated the ShareSave (SAYE) scheme, the Executive Share Option Scheme (ESOS), and the Long Term Incentive Plan (LTIP), as summarised below:

ShareSave

The Company operates a Save-As-You-Earn share option scheme in which all UK employees can participate. Participants save a fixed amount of up to £250 per month for either three or five years and are then able to use these savings to buy shares in the Company at a price fixed at a 20% discount to the market value at the start of the savings period. The SAYE options must ordinarily be exercised within six months of completing the relevant savings period, and are satisfied through the issue of new shares. In line with market practice, the exercise of these options is not subject to any performance condition.

33 Share-based payments continued

Executive Share Option Scheme (ESOS)

The executive Directors and selected senior executives are granted options to purchase shares in the Company at a price fixed at market value at the date of grant. For options to vest, there must be an average increase in normalised earnings per share (EPS) above the growth in the UK Retail Price Index (RPI) over a three year period, as follows:

Total exercise price	Performance condition
up to 1 x base salary	RPI + 3% per annum
up to 2 x base salary	RPI + 5% per annum
up to 3 x base salary	RPI + 7% per annum

The maximum grant permitted under the Scheme is three times base salary. For options granted before 2005, if the EPS condition is not met at the end of three years, the performance period may be extended for one further year, measuring EPS growth from the original base year. If this condition is not met at the end of the fourth year, the options will lapse. For options granted in or after 2005, this retesting provision has been removed and EPS performance is measured only over the three year performance period. The ESOS options must ordinarily be exercised within 10 years of the date of grant, and are satisfied through the issue of new shares.

Long Term Incentive Plan (LTIP)

The executive Directors and selected senior executives are awarded shares in the Company subject to achieving a total shareholder return (TSR) target. To ensure these awards do not vest at a time of overall unsatisfactory financial performance, there must also be an increase in normalised EPS of at least 2% per annum above the growth in RPI over a three year period.

The TSR target measures the Company's growth relative to 19 comparator companies. 100% of the shares vest if the Company achieves upper quartile performance, 30% of the shares vest at median performance, and awards vest on a straight line basis for performance in between. No shares vest if performance is below median. The LTIP awards are satisfied through the market purchase of shares.

The number and weighted average exercise prices (WAEP) of, and movements in, each of the share option arrangements (ShareSave and ESOS) during the year are shown below, together with the weighted average share price (WASP) at the date of exercise where applicable:

	Outstanding at 1 Jan 2005	**Granted during 2005**	**Exercised during 2005**	**Lapsed during 2005**	**Outstanding at 31 Dec 2005**	**Exercisable at 31 Dec 2005**
ESOS						
Number of shares	**12,771,916**	**2,298.306**	**(1,508,840)**	**(1,432,133)**	**12,129,249**	**4,477,254**
WAEP	**280.57p**	**282.85p**	**260.01p**	**303.08p**	**280.91p**	**291.11p**
WASP	**–**	**–**	**295.09p**	**–**	**–**	**–**
ShareSave (3 year)						
Number of shares	**2,808,429**	**1,357,638**	**(404,621)**	**(727,830)**	**3,033,616**	**–**
WAEP	**232.41p**	**225.00p**	**237.41p**	**246.57p**	**225.03p**	**–**
WASP	**–**	**–**	**275.04p**	**–**	**–**	**–**
ShareSave (5 year)						
Number of shares	**2,565,805**	**498,993**	**(52,992)**	**(430,239)**	**2,581,567**	**–**
WAEP	**192.42p**	**225.00p**	**168.38p**	**222.91p**	**194.13p**	**–**
WASP	**–**	**–**	**288.72p**	**–**	**–**	**–**

	Outstanding at 1 Jan 2004	Granted during 2004	Exercised during 2004	Lapsed during 2004	Outstanding at 31 Dec 2004	Exercisable at 31 Dec 2004
ESOS						
Number of shares	13,746,577	2,526,188	(2,093,547)	(1,407,302)	12,771,916	3,080,734
WAEP	267.71p	316.13p	211.46p	321.99p	280.57p	299.09p
WASP	–	–	313.64p	–	–	–
ShareSave (3 year)						
Number of shares	3,914,497	1,333,130	(1,883,082)	(556,116)	2,808,429	–
WAEP	174.32p	268.00p	162.35p	213.47p	232.41p	–
WASP	–	–	302.77p	–	–	–
ShareSave (5 year)						
Number of shares	2,968,875	740,438	(681,790)	(461,718)	2,565,805	–
WAEP	170.53p	268.00p	162.35p	198.53p	192.42p	–
WASP	–	–	302.77p	–	–	–

Included within these balances are options over shares that have not been recognised in accordance with IFRS 2 as the options were granted before 7 November 2002. These options have not been subsequently modified and therefore are not required to be accounted for in accordance with IFRS 2.

33 Share-based payments continued

The share options outstanding at the year-end have the following range of exercise prices and expiry dates as follows:

	Outstanding at 31 December 2005			Outstanding at 31 December 2004		
	Exercise prices (range)	**Weighted average remaining contractual life**	**Number of shares under option**	Exercise prices (range)	Weighted average remaining contractual life	Number of shares under option
ESOS	**187.50p–475.76p**	**6.7 years**	**12,129,249**	176.50p–475.76p	7.0 years	12,771,916
ShareSave (3 year)	**191.00p–268.00p**	**1.4 years**	**3,033,616**	141.00p–268.00p	1.4 years	2,808,429
ShareSave (5 year)	**141.00p–268.00p**	**2.9 years**	**2,581,567**	141.00p–268.00p	2.4 years	2,565,805

The estimated fair values for each of the ESOS and ShareSave awards granted were calculated using a Black-Scholes pricing model with the inputs detailed below. The fair value of the LTIP was calculated using a Monte Carlo model approach, and indicates the proportion of shares likely to vest, taking into account the Total Shareholder Return performance requirements. For grants made subject to an EPS performance condition, the expense is based on expectations of these conditions being met, which are reassessed at each balance sheet date. These calculations assume that the EPS performance conditions will be met in full.

	2005 £m	2004 £m
Risk-free interest rate (%)	**4.75%**	3.75%
Expected life of options – ESOS	**4 years**	4 years
Expected life of award – LTIP	**3 years**	3 years
Expected life of options – ShareSave	**3 or 5 years**	3 or 5 years
Expected share price volatility (%)	**33.66%**	39.34%
Expected dividend growth (%)	**4.86%**	5.28%

The expected life of the ESOS was based on management's best estimate of the exercise pattern of optionholders taking into account exercise restrictions and behavioural considerations. The expected life of the LTIP and ShareSave are determined by the performance period and savings terms respectively.

The expected share price volatility was determined by calculating the historical volatility of the Group's share price over the four calendar years prior to each grant (i.e. the same duration as the expected life of the ESOS and the midpoint of the expected lives for the LTIP and ShareSave).

The expected dividend growth is based on historical dividend payments in the year prior to grant, expressed as a percentage of the weighted average share price for that year. As such, this is based on historical data and does not necessarily indicate future dividend policy.

The weighted average fair value per share of awards granted during the year was as follows:

	2005	2004
ESOS	**60.94p**	72.99p
LTIP	**275.50p**	323.50p
ShareSave (3 year)	**84.03p**	95.53p
ShareSave (5 year)	**82.25p**	100.09p

The effect of accounting for share-based payments in accordance with IFRS 2 on the Group's profit for the year was £4.2m (2004 – £3.1m).

National Insurance contributions are payable by the Company in respect of some of the share-based payments. These contributions are payable on the date of exercise based on the intrinsic value of the share-based payments, and as such are treated as cash-settled awards. The Group has recorded liabilities at the end of 2005 of £1.0m (2004 – £0.7m) of which £0.4m was in respect of vested grants.

34 Pension commitments

UK The Group has two pension schemes for UK employees, both of which are contracted out of the State Second Pension arrangements. The schemes are externally funded under separate trusts and the funds' assets are held separately from Group assets. The accounts of both schemes for the year ended 5 April 2005 have been reported upon by their auditors without qualification.

UK Rank Pension Plan
The Rank Pension Plan ("the Plan") is a defined benefit scheme with pensions fixed by reference to final pay and length of service.

Formal actuarial valuations of the Plan are carried out at least triennially by an independent actuary, Mercer Human Resource Consulting Limited. The most recent valuation was undertaken as at 5 April 2004.

The most recent actuarial valuation of the Plan has been updated by an independent actuary to 31 December 2005.

Details of the Plan's liabilities and assets under IAS 19 are:

	2005 £m	2004 £m
Assets	**636.5**	556.4
Liabilities	**(674.7)**	(587.5)
Deficit	**(38.2)**	(31.1)

Change in benefit obligation

	2005 £m	2004 £m
Benefit obligation at beginning of year	**587.5**	588.6
Current service cost	**5.4**	5.4
Interest cost	**30.6**	30.5
Past service cost	**1.3**	–
Plan members' contributions	**1.9**	2.0
Actuarial loss (gain)	**75.9**	(16.3)
Curtailment	**(4.9)**	–
Benefits paid	**(23.0)**	(22.7)
Benefit obligation at end of year	**674.7**	587.5

Change in plan assets

	2005 £m	2004 £m
Fair value of plan assets at beginning of year	**556.4**	523.8
Expected return on plan assets	**33.6**	33.7
Actuarial gains	**60.1**	10.1
Employer contribution (includes benefits paid and reimbursed)	**7.5**	9.5
Member contributions	**1.9**	2.0
Benefits paid (by fund and Company)	**(23.0)**	(22.7)
Fair value of plan assets at end of year	**636.5**	556.4

34 Pension commitments continued

Components of pension cost

	2005 £m	2004 £m
Current service cost	**5.4**	5.4
Interest cost	**30.6**	30.5
Expected return on plan assets	**(33.6)**	(33.7)
Amortisation of prior service cost	**1.3**	–
Curtailment	**(4.9)**	–
Total pension (credit) cost recognised in the income statement	**(1.2)**	2.2

Statement of recognised income and expense (SORIE)

	2005 £m	2004 £m
Actuarial gains and losses immediately recognised		
Experience gains and losses	**–**	63.8
Changes in assumptions	**(75.9)**	(44.3)
Actual return less expected return in assets	**60.1**	10.1
Total pension (expense) credit recognised in the SORIE before taxation	**(15.8)**	29.6
Taxation	**2.4**	(8.6)
Total pension (expense) credit recognised in the SORIE	**(13.4)**	21.0

Plan assets

The weighted-average asset allocations at the year end were as follows:

	2005		2004	
Investment category	**Market value £m**	**Expected return % p.a.**	Market value £m	Expected return % p.a.
Equities (UK and overseas)	**378.9**	**6.6**	323.0	7.0
Government bonds	**112.9**	**4.1**	105.5	4.5
Non-Government bonds	**117.0**	**4.7**	105.5	5.3
Insured pensions	**16.0**	**4.7**	14.4	5.3
Cash	**11.7**	**4.5**	8.0	4.8
Total	**636.5**	**5.7**	556.4	6.1

To develop the expected long term rate of return on assets assumption, the Company considered the current level of expected returns on risk free investments (primarily Government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the actual asset allocation to develop the expected long term rate of return on assets assumption for the portfolio. This resulted in the selection of the 5.7% assumption (2004 – 6.1%).

34 Pension commitments continued

Assumptions used to determine benefit obligations at:

	2005 % p.a.	2004 % p.a.
Yield – pre retirement	**4.7**	5.3
Yield – post retirement	**4.7**	5.3
Price inflation	**2.8**	2.8
Salary growth	**4.0**	4.0
Pension increases – 5% LPI	**2.8**	2.8

Weighted average assumptions used to determine net pension expense for year ended:

	2006 %	**2005 %**	2004 %
Discount rate	4.7	**5.3**	5.3
Expected long term return on plan assets	5.7	**6.1**	6.5
Rate of compensation increase	4.0	**4.0**	4.0

Mortality tables used to determine benefit obligations at:

	2005 and 2004
Current pensioner	PA92 (YOB = 1935) mc + 1
Active/preserved member	PA92 (YOB = 1965) mc + 1

Other UK pension commitments

The Rank Money Purchase Pension Scheme is a defined contribution scheme with benefits which depend on the contribution levels and the emerging investment performance. Group contributions to this scheme in the year to 31 December 2005 totalled £2.7m (2004 – £2.6m). There were no significant contributions outstanding.

The Group has an unfunded pension commitment relating to two former executives and one current executive of the Group. The provision is calculated using a basis consistent with the assumptions used to value the funded defined benefit plan in the UK. At 31 December, the Group's commitment was £3.4m (2004 – £3.5m). The Group paid £0.1m (2004 – £0.1m) in pension payments during the year.

US The Group operates defined contribution schemes in the US. Group contributions to these schemes totalled £3.7m (2004 – £3.2m). There were no significant contributions outstanding. Deluxe Film is contractually obliged to pay certain employees a one off cash payment on retirement. At 31 December 2005, the Group's commitment was £1.7m (2004 – £1.6m). This liability has been classified as a liability held for sale.

Total

At 31 December 2005 there was a pension liability of £43.3m of which £38.2m relates to the Plan, £3.4m relates to the unfunded UK commitment and £1.7m relates to the US unfunded retirement benefit plan.

35 Lease commitments

Operating lease agreements where the Group is lessee

The Group has entered into commercial leases on certain properties, plant and items of machinery. These leases have durations between two and over 100 years.

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

	2005 £m	2004 £m
Group		
Not later than one year	**67.8**	58.0
After one year but not more than five years	**209.1**	216.9
After five years	**458.5**	473.1
	735.4	748.0
Of which relates to discontinued operations	**85.0**	78.0
Total future minimum sub-lease payments expected to be received under non-cancellable sub-leases	**132.8**	135.4

35 Lease commitments continued

Finance leases where the Group is a lessee

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

	2005 £m	2004 £m
Group		
Not later than one year	**4.4**	10.2
Later than one year but not more than five	**15.8**	25.4
More than five years	**16.5**	10.1
	36.7	45.7

36 Contingent liabilities

	Group	
	2005 £m	2004 £m
Guarantees by the Company and by subsidiary undertakings	**1.3**	4.0

	Company	
	2005 £m	2004 £m
Guarantees of advances to subsidiary undertakings	**1,356.8**	612.0

There were guarantees of £nil (2004 – £3.1m) in respect of the Group's joint ventures.

No security has been given in respect of any contingent liability.

37 Capital and other financial commitments

	Group	
	2005 £m	2004 £m
Contracts placed for future capital expenditure not provided in the financial information	**3.3**	5.3

Contracts placed for future capital expenditure primarily relate to property, plant and equipment.

38 Related party transactions

2005

In the year the Group traded with its joint venture undertaking Lifestar and its subsidiaries. Royalties and costs reimbursed to the Group totalled £1.1m, interest accrued on loans was £0.2m and at 31 December 2005 this joint venture and its subsidiaries owed the Group £5.3m for which the Group held an associated doubtful debt provision of £0.5m.

The Group also traded with joint ventures that are now discontinued. Sales to the Group were £22.5m, purchases from the Group were £0.7m, marketing fees paid were £0.3m and £1.1m was owed to the Group at the year-end.

The Group recharges the Rank Group UK pension schemes with the costs of administration and independent pension advisers borne by the Group. The total amount recharged in the year ended 31 December 2005 was £1.9m (2004 – £1.4m).

2004

On 6 August 2004 the Group acquired the remaining 80% of the common stock of EFILM LLC. In the period until EFILM became a wholly-owned subsidiary, the Group had purchases from EFILM of £0.7m.

In the year the Group traded with its joint venture undertakings Atlab and Lifestar. Group sales to these joint ventures totalled £0.7m, purchases totalled £15.1m, marketing fees, royalties and reimbursed costs totalled £1.0m and at 31 December 2004 these joint ventures owed the Group £3.6m.

Notes to the financial statements continued

39 Principal subsidiaries

Except where otherwise stated, The Rank Group Plc (Rank) owns directly or indirectly 100% of the ordinary share capital and voting rights of the following companies. The companies are incorporated in Great Britain unless otherwise indicated after the company name. The principal operations are carried out in the country of registration; all these companies have a 31 December year-end. The Group comprises a large number of companies and it is not practical to list all of them below. The list therefore includes those companies which the Directors consider principally affect the results or financial position of Rank. Particulars of all Rank Group companies will be annexed to the next Annual Return submitted to the Registrar of Companies by Rank.

Gaming	Principal activities
Grosvenor Casinos Limited	London and provincial casinos
Mecca Bingo Limited	Social and bingo clubs
Rank Group Gaming Division Limited	Owns the Group's investments in Gaming division companies
Blue Square Limited*	Interactive gaming
Hard Rock	
Hard Rock Cafe International (USA), Inc	Operates and franchises Hard Rock Cafes
Hard Rock Limited	Franchises Hard Rock Cafes
Deluxe	
Deluxe Laboratories Limited#	Film processing laboratory
Deluxe Laboratories, Inc. (US)#	Film processing laboratory
Deluxe Toronto Limited (Canada)#	Film processing laboratory
Deluxe Media Services LLC (US)#	Video duplication and distribution
Deluxe Global Media Services LLC (US)#	DVD replication
Holding and other companies	
Rank America Inc. (US)	Owns the Group's investments in the US
Rank Group Finance Plc*	Funding operations for the Group
Rank Leisure Holdings Limited*	Owns the Group's investments in the UK operating subsidiary undertakings and Rank Overseas Holdings Limited
Rank Overseas Holdings Limited	Owns the Group's investment in Rank Holdings (Netherlands) BV and Rank America Inc.

*directly held by the Company
#discontinued operations

40 Reconciliation of net assets and loss under UK GAAP to IFRS

The Group reported its previously published financial statements for the year ended 31 December 2004 under UK GAAP. The analysis below shows a reconciliation of net assets and loss as reported under UK GAAP as at 31 December 2004 to the revised net assets and loss under IFRS as reported these financial statements. In addition, there is a reconciliation of net assets under UK GAAP to IFRS at the transition date for the Group, being 1 January 2004.

Reconciliation of profit for year ended 31 December 2004

	Previous GAAP £m	Effect of transition to IFRS £m	Adjustment for discontinued operations (A) £m	IFRS £m
Revenue (A)	**1,953.3**	**–**	**(385.1)**	**1,568.2**
Operating profit before exceptional items (see analysis below)	197.6	7.2	(8.9)	195.9
Exceptional items (K)	(58.1)	(10.5)	27.1	(41.5)
Operating profit after exceptional items	**139.5**	**(3.3)**	**18.2**	**154.4**
Non operating items (K)	(185.5)	4.1	181.4	–
Finance costs (net) (B), (C(i)), (F), (J)	(37.3)	9.2	(0.4)	(28.5)
Share of results of associates and joint ventures (J)	–	–	–	–
(Loss) profit before taxation	**(83.3)**	**10.0**	**199.2**	**125.9**
Taxation (G)	(35.4)	12.1	1.2	(22.1)
(Loss) profit after taxation	**(118.7)**	**22.1**	**200.4**	**103.8**
Discontinued operations (A)	–	–	(118.1)	(118.1)
(Loss) profit for the year	**(118.7)**	**22.1**	**82.3**	**(14.3)**

Reconciliation of operating profit before exceptional items for the year ended 31 December 2004

	31 December 2004 £m	£m
UK GAAP – operating profit before exceptional items		197.6
DMS UK GAAP operating profit		(8.9)
		188.7
IFRS adjustments		
– goodwill amortisation (D(ii))	5.8	
– acquired intangible amortisation (D(iii))	(0.1)	
– operating lease costs (C(i))	2.2	
– employee benefit costs (E)	(2.1)	
– Mecca impairment – depreciation savings (B)	2.0	
– Mecca impairment – rent savings (B)	0.3	
– associates & joint ventures (J)	(0.5)	
– operating lease incentives (C(ii))	(0.7)	
– other (H)	0.3	
IFRS adjustments (excluding DMS)		7.2
2004 Operating profit before exceptional items – IFRS		**195.9**

The profit reconciliation shown above reflects IFRS as impacting the results of the Group at 31 December 2004. During 2005, Deluxe Film met the criteria to be classified as a discontinued operation held for sale. The comparative 2004 information disclosed in the primary statements and related notes reflect this classification.

In addition, the Group adopted IAS 32 and 39 on 1 January 2005. As a result, revenue from sportsbetting and internet games is now measured using gross win margin rather than stakes placed. The comparative 2004 information disclosed in the primary statements has also been presented on the same basis.

Net asset reconciliations are disclosed on pages 94 and 95.

40 Reconciliation of net assets and loss under UK GAAP to IFRS continued

A Discontinued operations

The Deluxe Media Services business (DMS) meets the IFRS criteria required to be classified as a discontinued operation held for sale as at 31 December 2004. As a result, DMS revenue is excluded from the income statement reducing reported revenue by £385.1m for the year ended 31 December 2004.

In addition, the results of DMS, including any associated impairment, are reported in a single line on a post-tax basis. DMS results have been restated for IFRS. The restatement included the reversal of £76.7m of pre-1997 DMS goodwill charged to the income statement under UK GAAP, which was not required under IFRS and all relevant IFRS adjustments detailed below. The impact of these IFRS adjustments resulted in a lower carrying value of the DMS business under IFRS compared with UK GAAP. Consequently the provision for loss on disposal is smaller under IFRS by £5.5m. The net loss for discontinued operations under IFRS for the year ended 31 December 2004 is £118.1m.

In the balance sheet, the assets and liabilities of DMS are presented separately as assets and liabilities held for sale.

B Mecca impairment

In accordance with IFRS, testing to ensure that the cashflows of Mecca are in excess of the carrying value is performed on a club by club basis. Under UK GAAP, testing was performed by consolidating all Mecca clubs. The effect is to increase pre-exceptional operating by £2.3m for the year ended 31 December 2004 and increase the interest charge by £0.4m for the year ended 31 December 2004. In addition, an exceptional impairment charge of £6.4m was recorded during 2004. Tangible fixed assets at 1 January 2004 and 31 December 2004 are reduced by £28.3m and £30.7m respectively. In addition, the onerous lease provision increases by £11.4m and £12.2m respectively.

C Leases

(i) The Group has identified certain leases, which were classified as operating leases under UK GAAP, which under IFRS require reclassification as finance leases including the buildings element of operating leases for land and buildings, in respect of the buildings element of the lease. As a consequence, operating lease expenses previously reported under UK GAAP were reclassified as depreciation and finance lease interest. The impact is to increase operating profit by £2.2m and finance lease interest charges by £2.3m for the year ended 31 December 2004. In addition, the reclassification of operating leases to finance leases resulted in the recognition of buildings with a net book value of £19.3m at 1 January 2004 and £17.7m at 31 December 2004. At the same time a finance lease liability of £25.6m at 1 January 2004 and £24.2m at 31 December 2004 was also recognised.

(ii) In accordance with SIC 15, "Operating Lease Incentives", operating lease incentives are spread on a straight line basis over the lease term. Under UK GAAP, operating lease incentives were spread over the shorter of the lease term or the first market rent review. The net effect is to reduce operating profit by £0.7m for the year ended 31 December 2004. Net assets are reduced by £6.6m at 1 January 2004 and by £7.3m at 31 December 2004. The decrease is disclosed as an increase in trade and other accruals.

(iii) In accordance with IAS 17, certain DMS sale and leaseback transactions were reclassified as finance leases. In addition profit recognised on completion of the transactions under UK GAAP has been deferred under IFRS and will be spread over the lease term. Net of impairments, the impact is to increase fixed assets by £4.1m at 1 January 2004 and £7.7m at 31 December 2004. Finance lease obligations increased by £4.1m and £10.9m and deferred profit by £2.2m and £0.5m at the respective balance sheet dates.

D Intangible assets

(i) In accordance with IAS 38, "Intangible Assets", certain assets, classed as tangible assets under UK GAAP, have been reclassified as intangible assets. The effect is to increase intangible assets at 1 January 2004 and 31 December 2004 by £129.3m and £132.2m respectively and decrease tangible fixed assets at 1 January 2004 and 31 December 2004 by £129.3m and £132.2m, respectively. The useful economic lives of these assets have remained unchanged under IFRS. There is no impact on net profit for the year.

(ii) In accordance with IFRS 3, "Business Combinations", goodwill is not amortised but reviewed annually for impairment. A review has been performed and goodwill has not been found to be impaired. Under UK GAAP, goodwill was amortised on a straight line basis over a period of no more than 20 years. The Group has chosen to take the exemptions available under IFRS 1, "First-time adoption of IFRS", and not restated any business combinations entered into before the transition date. Excluding DMS, the effect is to increase operating profit and intangible fixed assets by £5.8m for the year ended 31 December 2004. Net of further impairment charges and before the transfer to assets held for sale, the reversal of goodwill amortisation relating to DMS increases net profit and assets by £0.3m at 31 December 2004.

(iii) In accordance with IAS 38, "Intangible Assets", separately identifiable intangible assets, acquired as part of a business combination must be recognised on the acquirer's balance sheet even if the intangible asset could not be recognised on the acquiree's balance sheet. The intangible assets are amortised over their useful economic lives. Under UK GAAP, excess purchase consideration over the fair value of assets acquired was allocated to goodwill and amortised over the useful economic life of the goodwill. The Group has chosen to take the exemptions available under IFRS 1, "First-time adoption of IFRS", and not restated any business combinations entered into before the transition date. The effect is to decrease operating profit and intangible fixed assets by £0.1m for the year ended 31 December 2004.

40 Reconciliation of net assets and loss under UK GAAP to IFRS continued

E Employee benefits

(i) In accordance with IFRS 2, "Share Based Payments", the fair value of all the Group's share options plans at grant date should be spread over the vesting period. The fair value is estimated using common valuation techniques. Under UK GAAP, the income statement charge was based on the difference between the exercise price and market price at date of grant with no expense being recorded for SAYE schemes. Excluding DMS, the effect is to decrease operating profit by £1.7m for the year ended 31 December 2004. Net assets as at 1 January 2004 and 31 December 2004 decreased by £0.1m and £0.2m respectively. In addition, DMS incurred a charge of £0.5m for the year ended 31 December 2004.

(ii) In accordance with IAS 19, "Employee Benefits", the Group has provided for the future incremental cost of any accrued, but unused holiday. Under UK GAAP, in line with common practice, the Group did not account for holiday pay accruals unless legally obliged to make cash settlement. Excluding DMS, the effect is to decrease operating profit by £0.4m for the year ended 31 December 2004. Net assets as at 1 January and 31 December 2004 decreased by £4.0m and £4.7m respectively. In addition, DMS incurred a charge of £0.3m for the year ended 31 December 2004.

(iii) Accounting for defined benefit pension schemes in accordance with IAS 19 is different from FRS 17. The main differences are:

- Pension assets are valued at bid value under IAS 19, whereas a mid-market valuation is used under FRS 17
- Under FRS 17, pension balances are presented net of deferred tax on the face of the balance sheet. Under IFRS, these balances are grossed up
- Death in service liabilities are valued under IAS 19, whereas any potential liability is not recognised under FRS 17; and
- The effect is to reduce net assets at 1 January 2004 and 31 December 2004 by £3.2m and £2.1m respectively.

F Foreign exchange

In accordance with IAS 21, "The effects of changes in foreign exchange rates", foreign exchange movements on non-quasi equity inter-company funding balances are recognised in the income statement. Under UK GAAP hedging rules, these foreign exchange movements were recognised as a movement in reserves. The net effect is to increase profit before tax for the year ended 31 December 2004 by £11.4m. There is no effect on net assets.

G Taxation

(i) In accordance with IAS 12, "Income Taxes", deferred tax is recognised on the basis of taxable temporary differences, which may include permanent differences. Under UK GAAP, deferred tax was not recognised on permanent differences. The effect is to reduce the deferred tax asset at 1 January 2004 and 31 December 2004 by £17.0m and £20.1m respectively. Net profit for year ended 31 December 2004 increased by £3.4m.

(ii) In accordance with IAS 28, "Investments in Associates" and IAS 31, "Interests in Joint Ventures", results for associates and joint ventures should be reported after tax. Under UK GAAP, entities reported operating profit, interest and tax of associates and joint ventures separately. There is no impact on net assets.

(iii) Taxation relating to the DMS business is disclosed within the results of discontinued operations.

(iv) Taxation relating to foreign exchange movements on non-quasi equity inter-company balances recognised in the income statement under IFRS is also recognised in the income statement. There is no impact on net assets.

H Other operating profit adjustments

Other minor operating profit adjustments decreased net assets by £0.8m at 1 January 2004 and £0.3m at 31 December 2004. Operating profit increased for the year ended 31 December 2004 by £0.3m.

I Dividends

In accordance with IAS 10, "Events after the Balance Sheet Date", proposed final dividend payments cannot be provided in the year-end balance sheet as, at that date, proposed dividend payments do not represent a liability. Under UK company law, companies were required to provide for their final dividend in their closing balance sheet and in advance of the dividend being declared and approved. The effect is to increase net assets at 1 January 2004 and 31 December 2004 by £55.5m and £61.1m respectively.

J Associates and joint ventures

In accordance with IFRS, income from associates and joint ventures is reported in a single line, on a post-tax basis. As a result of applying the Group's IFRS policies to the Group's associates and joint ventures, net profit and net assets increased by £0.4m for the year ended 31 December 2004.

K Non-operating items

Under UK GAAP, loss on disposal of a business was classified as a non-operating item. In accordance with IFRS, loss on disposal of a business is included within operating expenses.

40 Reconciliation of net assets and loss under UK GAAP to IFRS continued

Net asset reconciliations

Reconciliation of equity at 1 January 2004
(Date of transition to IFRS)

	Previous GAAP £m	Effect of transition to IFRS £m	IFRS £m
ASSETS			
Non-current assets			
Intangible assets (D)	123.9	129.3	253.2
Property, plant and equipment (B), (C), (D(i))	803.2	(134.2)	669.0
Joint ventures (J)	6.8	–	6.8
Associates (J)	3.0	–	3.0
Other	46.8	–	46.8
Trade and other receivables	272.8	–	272.8
Deferred taxation (G)	63.0	(17.0)	46.0
Total non-current assets	**1,319.5**	**(21.9)**	**1,297.6**
Current assets			
Stocks	70.2	–	70.2
Trade and other receivables	420.1	–	420.1
Cash and cash equivalents	172.1	–	172.1
Total current assets	**662.4**	**–**	**662.4**
Total assets	**1,981.9**	**(21.9)**	**1,960.0**
LIABILITIES			
Non-current liabilities			
Loan capital and borrowings (C)	(580.5)	(28.1)	(608.6)
Trade and other payables (C), (E)	(105.7)	(2.0)	(107.7)
Retirement benefits (E(iii))	(50.1)	(3.2)	(53.3)
Other provisions (B)	(37.6)	(11.4)	(49.0)
Total non-current liabilities	**(773.9)**	**(44.7)**	**(818.6)**
Current liabilities			
Loan capital and borrowings (C)	(292.1)	(1.6)	(293.7)
Payables (C), (E), (H), (I)	(421.1)	43.8	(377.3)
Current taxation	(20.6)	–	(20.6)
Total current liabilities	**(733.8)**	**42.2**	**(691.6)**
Total liabilities	**(1,507.7)**	**(2.5)**	**(1,510.2)**
Total assets less total liabilities	**474.2**	**(24.4)**	**449.8**
EQUITY			
Ordinary share capital	59.6	–	59.6
Share premium account	17.5	–	17.5
Other reserves	381.0	(24.4)	356.6
Total shareholders' equity	**458.1**	**(24.4)**	**433.7**
Minority interest in equity	16.1	–	16.1
Total equity	**474.2**	**(24.4)**	**449.8**

40 Reconciliation of net assets and loss under UK GAAP to IFRS continued

Reconciliation of equity at 31 December 2004

	Previous GAAP £m	Effect of transition to IFRS £m	DMS held for sale £m	IFRS £m
ASSETS				
Non-current assets				
Intangible assets (D)	117.7	138.3	(3.7)	252.3
Property, plant and equipment (B), (C(i)), (D(i))	718.7	(137.5)	(4.1)	577.1
Joint ventures (J)	6.7	0.4	–	7.1
Associates (J)	–	–	–	–
Other	48.2	–	–	48.2
Trade and other receivables	261.1	–	–	261.1
Deferred taxation (G)	79.5	(20.1)	–	59.4
Total non-current assets	**1,231.9**	**(18.9)**	**(7.8)**	**1,205.2**
Current assets				
Stocks	65.1	–	(13.4)	51.7
Trade and other receivables	343.5	–	(138.6)	204.9
Cash and cash equivalents	84.3	–	(8.7)	75.6
Held for sale (A)	–	–	174.0	174.0
Total current assets	**492.9**	**–**	**13.3**	**506.2**
Total assets	**1,724.8**	**(18.9)**	**5.5**	**1,711.4**
LIABILITIES				
Non-current liabilities				
Loan capital and borrowings (C(i))	(669.1)	(32.3)	9.3	(692.1)
Trade and other payables	(113.3)	(1.5)	10.5	(104.3)
Retirement benefits (E(iii))	(33.2)	(2.1)	–	(35.3)
Other provisions (B)	(29.7)	(12.2)	5.5	(36.4)
Total non-current liabilities	**(845.3)**	**(48.1)**	**25.3**	**(868.1)**
Current liabilities				
Loan capital and borrowings (C(i))	(21.9)	(2.8)	4.9	(19.8)
Payables (C(ii)), (E), (I)	(433.2)	49.6	112.4	(271.2)
Current taxation	(9.7)	–	0.2	(9.5)
Liabilities held for sale	–	–	(142.8)	(142.8)
Total current liabilities	**(464.8)**	**46.8**	**(25.3)**	**(443.3)**
Total liabilities	**(1,310.1)**	**(1.3)**	**–**	**(1,311.4)**
Total assets less total liabilities	**414.7**	**(20.2)**	**5.5**	**400.0**
EQUITY				
Ordinary share capital	62.4	–	–	62.4
Share premium account	88.3	–	–	88.3
Other reserves	255.3	(20.2)	5.5	240.6
Total shareholders' equity	**406.0**	**(20.2)**	**5.5**	**391.3**
Minority interest in equity	8.7	–	–	8.7
Total equity	**414.7**	**(20.2)**	**5.5**	**400.0**

41 Accounting policies applied in the year ended 31 December 2004

The Company and Group adopted IAS 32 and IAS 39 with effect from 1 January 2005, and as permitted under IFRS 1 the Company and Group have not restated comparative information. The new accounting policies as applied for the year ended 31 December 2005 are set out in note 1. For accounting periods up to the year ended 31 December 2004 the accounting policies applied in respect of financial instruments in the financial statements of the Company and Group are also set out in note 1.

Nature of the main adjustments to comply with IAS 32 and IAS 39

Had IAS 32 and IAS 39 been applied from 1 January 2004 the following adjustments would have been necessary in the financial statements for the year ended 31 December 2004:

- all derivatives would have been brought onto the balance sheet at fair value;

- available-for-sale investments and investments held at fair value through profit and loss would have been carried at fair value rather than at cost;

- the liability component of the convertible non-cumulative redeemable preference shares would have been reclassified from equity to non-current liabilities; and

- overdraft balances not meeting the offset rules in IAS 32 would have been reclassified separately in the balance sheet from cash and short term deposits.

Restatement on the adoption of IAS 32 and IAS 39

Group	Other equity £m	Unrealised gains and losses £m	Retained earnings £m	Total £m
Equity component of convertible bond	13.6	–	13.6	13.6
Increase in available-for-sale financial assets to reflect fair value	2.5	–	2.5	2.5
Other financial assets – current	–	–	–	–
Financial liabilities – current	–	0.1	0.1	0.1
Total	**16.1**	**0.1**	**16.2**	**16.2**

Convertible bonds

Under UK GAAP the Company and Group classified convertible bonds entirely within liabilities. IAS 32 requires the equity and liability components to be presented separately from inception of the instrument. Accordingly, an amount of £13.6m has been transferred to other equity from other borrowings.

The bonds due in 2009 are convertible at the option of the holder into fully paid Ordinary shares at £3.764 per share. Interest is paid half yearly in January and July. None of the bonds were converted during the year. If the conversion rights attached to the bonds outstanding at 31 December 2005 were exercised, 44.6m Ordinary shares would fall to be issued. Unless previously redeemed or converted, the bonds will be redeemed at par in 2009.

Available-for-sale financial assets

The Group carried listed and unlisted shares at the lower of cost and realisable value. Under IAS 39 these are classified as available-for-sale and carried at fair value. Consequently, the carrying value is increased by £2.5m to £50.7m as at 1 January 2005. Net gain of £2.5m has been taken directly to equity until disposal or impairment of the investment, when the cumulative unrealised gains and losses would be recycled through the income statement.

Recognition of derivatives at fair value

Under UK GAAP, gains and losses from derivative financial instruments used for hedging purposes are not recognised in earnings or as adjustments to carrying amounts until the underlying hedged transaction matures or occurs. IAS 39 requires all derivatives to be recognised at fair value in the balance sheet. Consequently, derivative contracts with a positive net fair value of £0.1m have been recognised in the Group balance sheet as at 1 January 2005.

Revenue recognition

Under UK GAAP, revenue earned from sportsbetting and internet games was recognised as stakes placed. Under IFRS, this revenue was recognised as gross win margin. There is no impact on net assets.

42 Reconciliation of net assets and loss under UK GAAP and IFRS for the Company, The Rank Group Plc

Reconciliation of loss for the year ended 31 December 2004

The loss for the year ended 31 December 2004 as prepared under UK GAAP was £31.5m. Under IFRS, the loss for the year was £31.8m with an additional charge of £0.3m recognised to reflect share-based payment charges as calculated under IFRS.

Reconciliation of net assets as at 1 January 2004, the date of transition to IFRS, and 31 December 2004.

The details of the effect of transition to IFRS is given in note 40, section I.

	1 January 2004			31 December 2004		
	Previous GAAP £m	Effect of transition to IFRS £m	IFRS £m	Previous GAAP £m	Effect of transition to IFRS £m	IFRS £m
Assets						
Non-current assets						
Financial assets – investments	1,762.7	–	1,762.7	1,762.7	–	1,762.7
Total non-current assets	1,762.7	–	1,762.7	1,762.7	–	1,762.7
Current assets						
Trade and other receivables	13.4	–	13.4	44.7	–	44.7
Cash and cash equivalents	0.1	–	0.1	–	–	–
Total current assets	13.5	–	13.5	44.7	–	44.7
Liabilities						
Non-current liabilities						
Financial liabilities – loan capital and borrowings	–	–	–	(164.6)	–	(164.6)
Provisions for liabilities and charges	(2.2)	–	(2.2)	(1.1)	–	(1.1)
Total non-current liabilities	(2.2)	–	(2.2)	(165.7)	–	(165.7)
Current liabilities						
Financial liabilities – loan capital and borrowings	(147.1)	–	(147.1)	–	–	–
Payables (note 40, section I)	(788.2)	55.5	(732.7)	(846.2)	61.1	(785.1)
Total current liabilities	(935.3)	55.5	(879.8)	(846.2)	61.1	(785.1)
Total net assets	**838.7**	**55.5**	**894.2**	**795.5**	**61.1**	**856.6**

Five year review

Year ended 31 December

	2005 £m	IFRS 2004 £m	2003 £m	2002 £m	UK GAAP 2001 £m
Revenue	**810**	788	1,926	1,509	1,367
Operating profit before goodwill amortisation and exceptional items	**127**	136	218	216	211
Goodwill amortisation (UK GAAP only)	**–**	–	(6)	(1)	(1)
Operating profit – current operations	**127**	136	212	215	210
	127	136	212	215	210
Exceptional items charged against operating profit	**(12)**	(42)	(51)	(6)	(38)
Non-operating items (including share of associates)	**–**	–	4	4	9
Interest (net)	**(44)**	(37)	(43)	(16)	(24)
Foreign exchange on inter-company loans	**(16)**	6	–	–	–
Amortisation of equity component of convertible bond	**(3)**	–	–	–	–
Other associates and joint ventures	**(1)**	–	1	3	3
Profit before tax	**51**	63	123	200	160
Tax	**(5)**	(3)	(28)	(59)	(67)
Discontinued operations held for sale	**(254)**	(74)	–	–	–
Preference dividends	**–**	–	(17)	(21)	(21)
Minority interests	**(1)**	(1)	1	(2)	(2)
(Loss) earnings for the year	**(209)**	(15)	79	118	70
Adjusted earnings per share	**10.1p**	12.7p	n/a	n/a	n/a
Basic (loss) earnings per Ordinary share	**(33.6)p**	(2.5)p	13.3p	19.6p	11.9p
Basic earnings per Ordinary share before exceptional items	**7.7p**	23.5p	18.2p	19.9p	16.5p
Total dividend per Ordinary share	**15.3p**	14.6p	13.9p	13.2p	12.6p

Year ended 31 December

	2005 £m	IFRS 2004 £m	2003 £m	2002 £m	UK GAAP 2001 £m
Group funds employed					
Intangible assets and property, plant and equipment	**659**	829	927	833	733
Investments	**45**	55	57	63	65
Other assets (net)	**196**	152	191	190	194
Total funds employed at year-end	**900**	1,036	1,175	1,086	992
Financed by					
Ordinary share capital and reserves	**157**	391	458	440	505
Preference share capital including premium	**–**	–	–	227	224
Minority interests	**11**	9	16	20	15
	168	400	474	687	744
Net borrowings	**732**	636	701	399	248
	900	1,036	1,175	1,086	992
Average number of employees (000s)	**24.3**	25.2	24.0	20.9	21.0

2005 and 2004 results above reflect IFRS. 2002 and 2003 reflect UK GAAP as applied at 31 December 2004. 2001 reflects UK GAAP as applied at 31 December 2004 except 2001 has not been restated to reflect FRS 17 and UITF 38 due to the considerable costs involved to obtain the necessary information for this year.

Shareholder information

A wide range of information for shareholders and investors is available in the Investor Relations area of the Rank Group website: www.rank.com.

Ordinary shares

The total number of Ordinary shares in issue as at 31 December 2005 was 626,020,812 shares which were held by a total of 25,374 shareholders.

American Depositary Receipts (ADRs)

In the United States, until 31 August 2005, the Company's Ordinary shares were traded in the form of American Depositary Shares, evidenced by ADRs. Each American Depositary Share represented two Ordinary shares.

On 31 August 2005, the ADR programme was terminated and the ADRs were delisted from NASDAQ. Following the termination of the programme, any queries regarding ADR holder accounts should be directed to:

JP Morgan Chase Bank, JP Morgan Chase ADR Service Center, PO Box 43013, Providence, RI 02940-3013, USA Tel: 1-800-428-4237 (toll free in the US) or +1-781-575-4328 (from outside the US).

Share price information

The latest information on the Rank Ordinary share price is available in the Investor Relations area of www.rank.com. Information is also available on Ceefax and on the Financial Times Cityline Service:

Tel: 0906 003 3771 (calls are charged at 60p per minute).

Capital gains tax

For the purpose of calculating UK capital gains tax on a disposal of Ordinary shares in the Company held since 31 March 1982 (including shares held in the predecessor company, The Rank Organisation Plc), the price of the Company's Ordinary shares at that date was 190p per share. This price should be adjusted for the effects of the rights issue in January 1990, the enhanced share alternative in July 1993, the sub-division and consolidation of shares in March 1994 and the enhanced scrip dividend in March 1998. More information regarding these adjustments is available on the Rank Group website: www.rank.com.

Share dealing service

The sale or purchase of shares must be done through a stockbroker. The London Stock Exchange provides a "Guide to Share Investment Services" which details a number of companies offering share dealing services.

For more information, please visit the share investor centre page at www.londonstockexchange.com.

Rank has also arranged a panel of low cost providers, details of which can be found on the Shareholder Services pages within the Investor Relations area of the Company's website: www.rank.com.

Please note that the Directors of the Company are not seeking to encourage shareholders to either buy or to sell shares. Shareholders in any doubt about what action to take are recommended to seek financial advice from an independent financial adviser authorised pursuant to the Financial Services and Markets Act 2000.

Form 20-F

The Company is subject to the regulations of the Securities and Exchange Commission (SEC) in the US as they apply to foreign companies. For so long as the Company remains subject to these regulations, it will file its annual report on Form 20-F with the SEC. Copies of the Directors' Report and Accounts and the Form 20-F can be obtained in the US by contacting J P Morgan Chase Bank at the address quoted above.

Registrar

All enquiries relating to Ordinary shareholders, dividends and changes of address should be addressed to the Company's registrar (quoting reference number 1235), Lloyds TSB Registrars, The Causeway, Worthing, West Sussex BN99 6DA (Tel: 0870 600 3953). There is a text phone available on 0870 600 3950 for shareholders with hearing difficulties.

www.shareview.co.uk

The Shareview portfolio service from the Company's registrar gives shareholders more control of their Rank shares and other investments including:

– direct access to data held for them on the share register including recent share movements and dividend details;
– a recent valuation of their portfolio;
– a range of information and practical help for shareholders.

It is easy and free to set up a portfolio – shareholders will just need the shareholder reference printed on their proxy form or dividend stationery. Visit the website for more details: www.shareview.co.uk

Payment of dividends

Shareholders whose dividends are not currently paid to mandated bank accounts may wish to consider this method of payment, which has a number of advantages: dividends are paid directly into the shareholder's nominated account; cleared funds are provided on the payment date; and the relevant tax voucher is mailed to the shareholder's registered address.

Shareholders who would like their future dividends to be paid in this way should contact the registrar for a dividend mandate form. A mandate form will also be attached to the next dividend cheque.

Shareholder information continued

2006 Interim Results
The Listing Rules published by the Financial Services Authority permit the Company to publish its Interim Results in a national newspaper instead of sending a printed brochure to shareholders. For the 2006 Interim Results, which will be announced on 1 September 2006, the Company has decided to take advantage of these provisions and will be placing an advertisement in the Daily Telegraph in the week commencing 4 September 2006 instead of distributing a printed brochure. This is in addition to a press release being made on the day, and the availability of the results on the Company website.

ShareGift
Shareholders with a very small number of shares, the value of which may make it uneconomical to sell, may wish to consider donating them to charity through ShareGift, a registered charity administered by The Orr Mackintosh Foundation. Share transfer forms are available from the registrars.

Further information about ShareGift is available at www.sharegift.org or by writing to:
ShareGift
The Orr Mackintosh Foundation
46 Grosvenor Street
London W1K 3HN
Tel: 020 7337 0501

For further information please contact:
Pamela Coles, Company Secretary
Dan Waugh, Director of Investor Relations
The Rank Group Plc
6 Connaught Place
London W2 2EZ
www.rank.com
Tel: 020 7706 1111

2006 Financial calendar

26 April	Annual General Meeting
11 May	Final dividend payment on Ordinary shares
1 September	Interim results announcement
October	Interim dividend payment on Ordinary shares

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