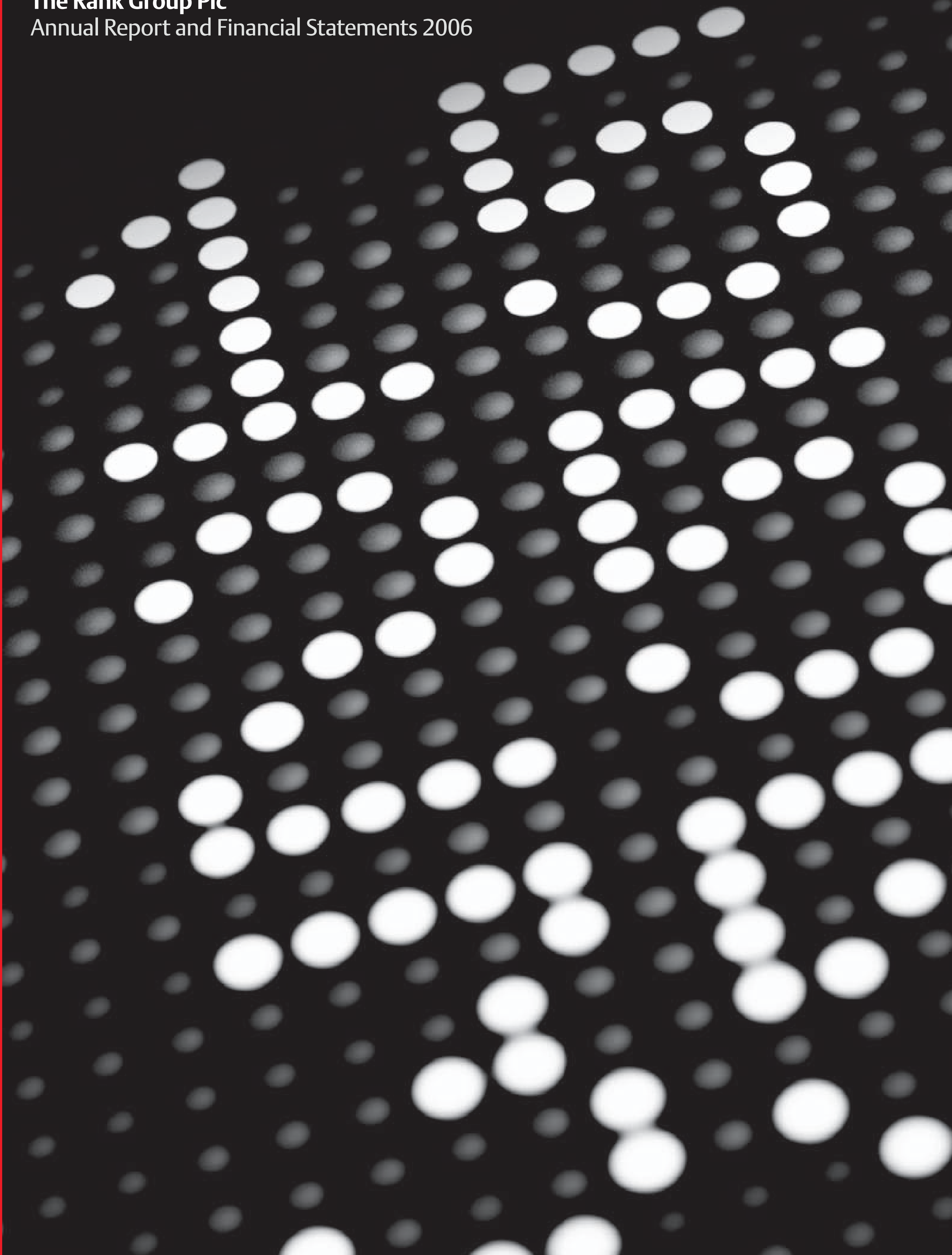
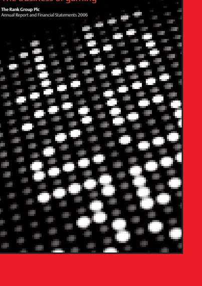
The business of gaming

The Rank Group Plc
Annual Report and Financial Statements 2006



Rank is a leading European gaming business, based in the UK and listed on the London Stock Exchange. Our principal activities are the operation of bingo clubs and casinos with complementary on-line gaming and bookmaking services.

Our strategy is to develop our businesses to capitalise on the rise of gaming as a mainstream leisure activity. Through the execution of this strategy we aim to generate sustainable growth in earnings.



Front cover:
Mecca Bingo prize board, Wood Green, London. During 2006 Mecca Bingo paid out more than £205m in prizes for main stage bingo, representing a 10% annual increase.

Group at a glance

meccabingo.com
Mecca is a leading bingo operator, with more than 100 clubs across the UK

Top Rank España operates 11 bingo clubs in Spain

grosvenorcasinos.com
Grosvenor is an established operator of casinos, with 33 casinos in the UK (including five in London) and two casinos in Belgium

bluesq.com
Blue Square is an integrated on-line, interactive and telephone sports betting and gaming company

Financial highlights

£549.6m
Revenue
(2005: £529.8m)

£77.4m
Group operating profit*
(2005: £90.5m)

*before exceptional items

19.9p
Basic earnings per share
(2005: Loss 33.6p)

4.0p
Final dividend per share
(2005: 10.3p)

6.0p
Full year dividend per share
(2005: 15.3p)

£72.1m
Bingo operating profit*
(2005: £87.9m)

*before exceptional items

£39.5m
Casinos operating profit*
(2005: £35.0m)

*before exceptional items

£7.8m
Interactive operating profit
(2005: £1.0m)

Chairman's statement

The UK gaming market has entered a pivotal phase in its development. Rank has responded to this by completing its transformation into a focused gaming business.

Peter Johnson Chairman

'As a focused gaming business, we expect to play a leading role in the development of the sector, ensuring our products and services respond fully to the opportunities offered by the changing environment.'

I join Rank as Chairman during a period of great change in Britain's gaming industry. During 2007 we expect to witness a number of key events that will influence the development of the sector and help shape the future strategy of Rank.

In September this year the Gambling Act 2005 ('2005 Act') will be fully implemented, replacing the 1968 Gaming Act ('1968 Act'). This event marks an important stage in the development of gaming within Britain, establishing a legislative framework that should allow regulations to evolve in step with changes in technology and consumer behaviour.

The $965m (£502m) sale of Hard Rock, which completed on 5 March 2007, allows Rank to concentrate its resources fully on the gaming market, where we have an established position.

As a focused gaming business, we expect to play a leading role in the development of the sector, ensuring our products and services respond fully to the opportunities offered by the changing environment.

Deregulation
The process of 'deregulation', engendered by the 2005 Act, brings opportunities for the gaming industry. At the same time there will be increased responsibility for operators to respect the guiding principles of the new Act – to ensure fairness and to protect the young and the vulnerable.

As an established British gaming company, Rank has a track record of responsible operation in bingo, casinos and bookmaking. In a market evolving in response to societal and regulatory pressures we will do all that we can to maintain our high standards.

The British Government too has a responsibility to ensure fairness in gaming. We will continue to press both for an equitable tax regime for bingo and for a level playing field in casinos (to ensure that existing casinos are not competitively disadvantaged in relation to the 17 new casinos granted under the 2005 Act).

There is also a need for fairness and responsibility in the way that deregulation is communicated to the British public by the industry, parliament and the press. Only through an accurate portrayal of the facts can we form a clear view on the evolution of gaming and the nature of its effects on society.

Board changes
On behalf of the Board of Rank I should like to thank Alun Cathcart, who stepped down as Chairman and resigned from Rank on 28 February 2007. For almost six years, Alun has been one of the principal driving forces behind the Company's transformation from a broad leisure conglomerate to a focused gaming business. I am sure you will join me in wishing Alun well for the future.

Final dividend and special dividend
We look forward with confidence in the Group's prospects and are pleased to recommend a final dividend of 4.0p per share, making a total dividend for the year of 6.0p per share. The dividend will be paid on 11 May 2007 to shareholders on the register at 27 April 2007.

In addition, we will be returning £350m of the Hard Rock disposal proceeds to shareholders via a 65.0p per share special dividend. The special dividend will be paid on 9 April 2007 to all shareholders on the register at 23 March 2007. The payment of the special dividend will be accompanied by an 18 for 25 share consolidation.

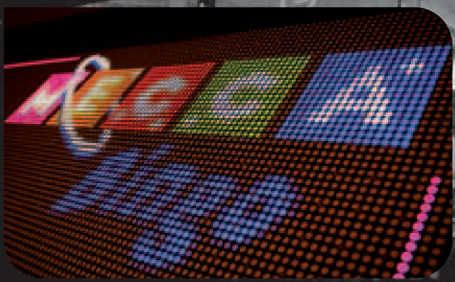
The Board recognises that Rank faces a number of near term challenges. However, we are well placed to benefit from long term growth in the mainstream leisure and gaming industry.

Peter Johnson Chairman

We're investing in our business...

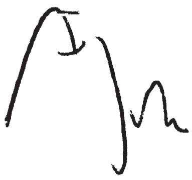
We have invested £50m to maintain and develop our businesses, improving the quality of our products as we reach out to a broader customer base.

New developments
During 2006 we opened three new Mecca Bingo clubs as well as our first ever G Casino and we launched a number of new interactive gaming websites, including meccabingo.com.



A review of operations with Ian Burke

Our focus on mainstream leisure gaming is underpinned by a depth of operating experience and a portfolio of strategically important assets.



Ian Burke Chief Executive

'During 2006 we agreed or completed asset disposals totalling more than £1.1bn, including the sales of Deluxe Film, Hard Rock and US Holidays. By the time that the £350m special dividend is paid on 9 April 2007, we will have returned £550m to shareholders in the space of 14 months.'

Q What is your growth strategy for Rank?

A *We see exciting long term growth prospects in the UK gaming market and believe that, with our integrated model of bingo, casino and betting with both retail and on-line distribution, we are well placed to benefit from the predicted increases in consumer spending on mainstream gaming.*

In the short term we recognise that our businesses face a number of challenges, most notably the smoking ban which will be effective across the whole of Britain from July this year. Our strategy is to take vigorous action to meet these challenges while retaining our long term focus on the growth opportunities for Rank.

Q During 2006, the Group grew revenue by 3.7% but operating profit* was lower than in 2005. Why was this?

A *The reduction in operating profit* was due in part to a £4.5m increase in rental costs arising from the £211m sale and leaseback transaction which completed in August 2006. Adjusting for the increased lease costs and a number of one-time restructuring costs, operating profit for the continuing Group was in line with our performance in 2005.*

Q What progress have your businesses made this year?

A *The outstanding performance came from our interactive business, Blue Square, which increased operating profit by 680% to £7.8m through tighter margin control and strong revenue growth in its games and poker products.*

In Mecca Bingo we have made significant progress in improving the quality of our product, giving our members greater value for their money. During 2006 we paid out more than £205m in main stage bingo prizes, compared with £187m in 2005. This approach has been rewarded with an increase in market share and a stemming of admissions decline. However the impact of the smoking ban in Scotland, in addition to rises in business costs and operating lease payments, has resulted in lower operating profit.*

In Grosvenor Casinos we delivered good growth in revenue and a 12.9% rise in operating profit. This performance was driven by a 3.7% year-on-year increase in admissions and a 1.2% increase in spend per head.*

Q What progress have you made in achieving the cost savings that you outlined at the time of your interim results in September?

A *During 2006 we undertook a major programme of cost saving initiatives, designed to generate £16m of annual cost savings. We developed improved club operational models in Mecca Bingo and Grosvenor Casinos, we closed our London head office and merged our corporate and Gaming shared service functions, we streamlined our senior management structure and we took steps to improve procurement efficiency.*

As a result we expect to achieve £10m of operational cost savings in 2007 (mainly in Mecca Bingo) and to cut £6m from our combined Group and Gaming division costs, on an underlying basis. The implementation of these initiatives during 2006 resulted in one-off costs of £4.4m in Group overhead and £4.5m in Gaming shared services.

*before exceptional items

Q What impact have you seen in Scotland since the introduction of the smoking ban and what effect do you believe it will have in England and Wales in 2007?

A *Scotland's ban on smoking in enclosed public places contributed to a 15% reduction in like-for-like revenue from our Scottish bingo clubs from the point of its introduction in March 2006 to the end of the year.*

Similar bans will be introduced this year in Wales (2 April) and England (1 July).

We have implemented a broad strategy to counter the negative effects of the smoking ban, including improving facilities for members who wish to smoke, working with the Gambling Commission to adapt our games and stepping up new member recruitment. However, the smoking ban remains the Group's most immediate concern.

As we have no casinos in Scotland at present, we have no first-hand knowledge of the effect of a smoking ban on casinos. Industry data suggests that, since the ban came into force, casinos in Scotland have under-performed slightly against those in England and Wales.

Q What has been the nature of the smoking ban in Spain?

A *Top Rank España, our Spanish bingo clubs business, has had to adapt to a partial smoking ban which only permits smoking in up to 30% of the club's gaming area. From 1 September 2006 it has been a legal requirement that these smoking areas be segregated from non-smoking areas by physical partitions. These changes caused an element of disruption but the business has taken all steps necessary to comply with the regulations.*

Q Why are Rank and the Bingo Association campaigning for the abolition of VAT on bingo?

A *Bingo participation fees are subject to both 17.5% value added tax (VAT) and 15% gross profits tax (GPT) which applied in combination effect a tax rate of 27.7%. This is in contrast to the 15% gross profits tax that British bookmakers pay on their gross win. We contend that this is an unfair system that penalises soft gaming.*

In recent years we have engaged in discussions with the Government to seek an end to this harsh tax regime. We strongly urge the Government to reconsider the current taxation regime and so prevent the demise of bingo in many local communities, thus preserving employment and an important part of the social fabric of the UK.

Q From September, the full provisions of the Gambling Act 2005 will be implemented. What are the major effects on your businesses likely to be?

A *The 2005 Act brings a number of benefits for our businesses:*

- *the relaxation of advertising restrictions for casinos*
- *the opportunity to charge 'rake' on card room poker*
- *the ability to test new casino and bingo games*
- *the removal of limits on linked games and the ability to create rollover jackpots in bingo*

The major negative aspect of the 2005 Act for Rank is the loss of Section 21 gaming terminals as a result of the reclassification of gaming machines. At 31 December 2006 Rank had 1,145 Section 21 terminals across its estate, including 949 in Mecca Bingo and 196 in Grosvenor Casinos.

To counter the loss of these terminals, we are introducing a range of improvements to our electronic gaming product, including the upgrading of AWP prizes from £25 to £35, the maximisation of Section 31 'Jackpot' machine allocation and the gradual replacement of 'reel' machines with 'video' machines.

At present a number of the 2005 Act regulations governing the changes described above have yet to be published in their final form.

Q What is your view on the balance between supply and demand growth for UK casinos?

A *The UK casinos market has entered a dynamic phase in its development with societal and regulatory changes stimulating mainstream consumer demand for the leisure experience of casino gaming.*

The increase in popularity of casino gaming has been accompanied by a rise in the number of UK casino licences. At 31 December 2006 there were 138 casinos operating in the UK and 34 non-operating licences – all granted under the 1968 Act. Since April 2006 there has been a moratorium on new casino licence applications under the 1968 Act. A number of applications (submitted prior to the moratorium) have yet to be heard but we estimate that there could be as many as 175 casinos operating by 2010. This represents a reduction versus our previous estimate of approximately 200 and is based upon a reduced rate of successful licence applications.

The granting of new casino licences in jurisdictions where the extant market supply is already sufficient to meet demand remains a concern for the Group. During 2006, 22 new casino licence applications were contested. Of these, 13 were refused and two were withdrawn. We intend to continue to press for the 'demand test' to be applied in determination of new licence grants in all jurisdictions where we operate casinos.

Q In January 2007 the Casino Advisory Panel issued a list of the local authorities that will host the 17 new generation casinos granted under the 2005 Act. What happens next?

A *The list requires parliamentary approval, which is expected shortly. Following this event, the successful local authorities are required to hold open competitive tender processes before appointing developers and operators. This stage is to be conducted in accordance with guidelines from the Secretary of State, which are due to be published shortly.*

Q Will Rank bid for any of the 2005 Act casino licences?

A *We intend to bid for a number of these new casino licences, although we have concerns about the inequitable regulations governing existing (1968 Act) casinos and the new (2005 Act) casinos. We do not yet have full visibility on the bidding process but it is likely to require a significant level of investment.*

As an established British casino operator with a track record of responsible operation and commercial success and with the rare combination of operating experience in casino, bingo and sports betting (the three gambling elements of the new casinos) we have the competencies and resources necessary to apply for the new licences.

Q What are the Group's capital expenditure plans for 2007?

A *During the year we anticipate spending between £50m and £60m on maintaining and developing our businesses. The majority of this will be focused on Grosvenor Casinos and Mecca Bingo.*

Q What progress have you made in exiting Deluxe Media and US Holidays?

A *During 2006 we exited, via a series of disposals, all Deluxe Media Services operations in Europe (including the UK). In addition we reached agreements with our customers to terminate our media replication and distribution services in the USA. Although there are ongoing lease commitments on a small number of properties in the USA, we anticipate exiting the business within the £56.6m provision established at 31 December 2005.*

On 15 December 2006 we completed the sale of US Holidays for $32.6m (approximately £16.8m).

'Through the actions that we have taken in 2006 we have repositioned the Group to focus purely on mainstream gaming, a market where we have a depth of operating experience and a portfolio of strategically important assets.'

Q How would you describe the Group's trading performance since the start of 2007?

A *We are satisfied with the overall trading performance of the Group. Within our annual results statement we made the following comments on trading during the first eight weeks of the financial year.*

Mecca Bingo has generated like-for-like revenue growth in its clubs in England and Wales as a consequence of higher spend per head. Admissions are lower than in the same period last year due to lower expenditure on promotions. Trading in Mecca's clubs in Scotland remains difficult, with a slight increase in the level of revenue decline. During the winter months we have experienced a recovery in spend per head but a steeper decline in admissions. Pleasingly, Top Rank España has achieved revenue in line with the same period in 2006.

Grosvenor Casinos has generated like-for-like growth in revenue against a strong comparative period in 2006, with improvements in spend per head outweighing lower admissions. We have chosen not to replicate the high level of promotional activity that stimulated double-digit admissions growth at the start of 2006 but are pleased with our new member and admissions performances.

Our interactive business, Blue Square, has enjoyed a strong start to the year with growth in gross win. Poker is performing particularly well as a result of the launch of the Blue Square sponsored Grosvenor UK Poker Tour.

Ian Burke Chief Executive

We have a strong portfolio of assets, established brands and a track record of responsible operation. These are the core strengths of our business and the foundations for our growth.

Our priorities for 2007 are to address the immediate challenges facing the Group while maintaining our focus on the long term growth opportunities.

We're putting on the best game in town...

Last year, total money paid out in main stage bingo prizes topped £205m for the first time in five years. We put an extra £18m back into the pockets of our Mecca Bingo customers and were rewarded with a 3.5% increase in active members.

1.1m

1.1m active members, up 3.5%

The best game in town
During 2006 we have made significant gains in our share of the UK bingo market. Mecca's share of 'National Game' ticket sales rose from 27.6% in 2005 to 28.8% in 2006.

Bingo

	Revenue		Operating profit*	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Mecca Bingo	**261.7**	264.0	**63.2**	77.9
Top Rank España	**31.1**	31.6	**8.9**	10.0
	292.8	295.6	**72.1**	87.9

Revenue of £292.8m from our bingo operations was only slightly lower than in 2005 but with increased rental costs following the sale and leaseback of 40 clubs, rising business costs and the negative effect of smoking bans in Scotland and in Spain, operating profit declined by 18.0% to £72.1m.

*before exceptional items

Mecca Bingo

	2006	2005	Change %
Admissions (000s)	**19,412**	19,728	(1.6)
Spend per head (£)	**13.48**	13.38	0.7

Revenue from our UK bingo clubs business Mecca edged lower to £261.7m and operating profit before exceptional items was down by 18.9% to £63.2m. Spend per head growth of 0.7% helped to offset a 1.6% decline in admissions, which in turn was driven by a drop in average frequency of visit. The contraction of operating margin was due in part to an additional £3.3m of rental costs and the estimated £4.5m profit impact of the Scottish ban on smoking in enclosed public areas.

In the 40 weeks between the introduction of the smoking ban and the end of the year, our Scottish clubs experienced a 15% decline in like-for-like revenue. Admissions were 6% lower than in 2005 and spend per head was down by 9%. By contrast, our clubs in England and Wales increased like-for-like revenue by 1% over the same period.

During the year we opened three new clubs, at Crewe, Edinburgh and Paisley and we exited seven clubs, at Aintree, Brighton, Dingle, Easterhouse, Edinburgh, Portsmouth and Stepney. At 31 December 2006 Mecca operated 113 clubs across the UK, including 14 in Scotland and four in Wales.

We have made good progress towards our goals of rebuilding Mecca's share of the bingo market and checking admissions decline. Mecca's share of 'National Game' ticket sales increased from 27.6% in 2005 to 28.8% in 2006. Active membership increased by 3.5%, with 1.1 million members visiting our clubs in 2006.

Our gain in market share resulted from our efforts to improve the competitive positioning of our product by offering consistently high quality, high prize bingo. During 2006 we paid out more than £205m in main stage bingo prizes, representing a 10% increase over 2005. To achieve this we cut the average level of participation fee charged on main stage bingo from 19.0% to 15.3%.

While the immediate effect of this approach has been to reduce revenue, it has proved successful in checking admissions decline. During the second half of the year, Mecca generated modest like-for-like admissions growth in England and Wales.

Gaming machines were the principal area of revenue growth, contributing £72.8m or 27.8% of Mecca's total revenue in 2006. At the end of 2006 our portfolio comprised 374 Section 31 'jackpot' machines, 949 Section 21 terminals and 3,993 AWP machines. From September 2007 we will be required to remove all Section 21 terminals. To counter the loss of these terminals we are introducing a range of improvements to our electronic gaming product. The ability to upgrade our AWP jackpots from £25 to £35 will help to offset this impact. During 2007 we will continue to improve the overall quality of our machines product.

Analysis of UK bingo revenue

	2006 £m	2005 £m	Change % £m
Main stage bingo	**43.2**	51.6	(16.3)
Interval games	**120.4**	123.4	(2.4)
Gaming terminals	**72.8**	64.5	12.9
Food, beverage & other	**25.3**	24.5	3.3

Our long term priorities in Mecca are to drive underlying revenue momentum by focusing on admissions growth and to improve margins through more efficient club management. In the short term we are taking steps to mitigate the negative impacts of the smoking ban and the loss of Section 21 gaming terminals.

Bingo is particularly vulnerable to a smoking ban because of: the high propensity of our members to smoke; the structured nature of bingo's gameplay; the regulatory constraints that restrict innovation; a high fixed-cost base; and the physical constraints of premises licensed for bingo. Our strategy focuses on each of these factors, effecting a coordinated series of countermeasures.

'We are making bingo gameplay more flexible through the introduction of a higher degree of variation between main stage and interval games and by expanding the use of linked games.'

We are making bingo gameplay more flexible through the introduction of a higher degree of variation between main stage and interval games and by expanding the use of linked games. We continue to develop desktop and portable electronic bingo solutions, which give members greater choice in how they play bingo and which have had a positive effect on average book sales.

We are encouraged by the early results from our community outreach marketing initiative which seeks to introduce bingo to new and lapsed customers, particularly to non-smokers.

By the time that the smoking ban is implemented in England on 1 July, we will have introduced sheltered outside enclosures at the majority of our clubs. In turn we will apply for licensing approval to allow gaming in these enclosures, giving those of our members who smoke the chance to continue to enjoy their bingo.

We have carried out a thorough review of our estate to identify those clubs most at risk from the smoking ban and where appropriate we will seek to exit vulnerable locations, either through licence relocations or outright disposals. In February 2007 we completed the sale of our Hounslow club and later that month we announced that we would close a further nine clubs.

Top Rank España

Spanish bingo statistics

	2006	2005	Change %
Admissions (000s)	**2,545**	2,668	(4.6)
Spend per head (£)	**12.23**	11.79	3.7

A combination of factors put pressure on revenue and operating profit at Top Rank España, which operates 11 bingo clubs in Spain. Revenue of £31.1m was 1.6% lower than in 2005 and operating profit declined by 11.0% to £8.9m.

'Improvements to our gaming machines product resulted in a 3.7% improvement in spend per head.'

Improvements to our gaming machines product resulted in a 3.7% improvement in spend per head but the requirement to partition smoking and non-smoking areas had a negative impact on admissions, which declined by 4.6%.

Our priorities for Top Rank España in 2007 are to rebuild profitability by delivering a premium bingo product and by working with our interactive business, Blue Square, to explore the opportunities for on-line distribution that are presented by gaming deregulation in Spain.

We will continue to examine opportunities to grow our clubs portfolio in Spain, but are keen to understand fully the nature of the smoking ban impact before we commit further expansionary capital.

Technological evolution
We continue to develop our product through a range of desktop and portable electronic bingo solutions. These give our members greater choice in how they play both main stage bingo and interval games.

Market insight – Bingo clubs (UK)

Operator

	2006	2005
Gala Bingo	171	166
Mecca Bingo	**113**	**117**
Top Ten Bingo	42	37
Carlton Clubs	17	18
Buckingham Bingo	11	10
Others	285	311
Total	**639**	**659**

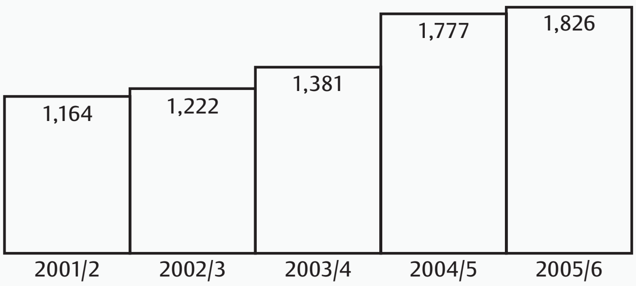
Source: Rank Group estimates

During 2006 the number of bingo clubs operating within the UK declined by 3% to 639. In Scotland, where a ban on smoking had been in effect from March 2006, there were nine club closures and the net number of clubs operating fell from 91 to 84.

The trend of market consolidation was accelerated by corporate activity in early 2006: Top Ten Bingo acquired Apollo Bingo Limited (three clubs) and Bravo Bingo Limited (four clubs); and Gala Bingo acquired County Bingo (10 clubs in Scotland).

Further corporate activity in the bingo sector is expected to slow until the full effects of the smoking ban (which comes into force in England and Wales during 2007) are understood.

Amount staked on licensed bingo 2002-2006 – £m



Source: Gambling Commission Annual Report 2006

Between April 2005 and March 2006, the amount staked within the UK on licensed bingo increased by 3% to more than £1.8bn (figures do not include gaming terminals). This growth was achieved in spite of declines of 3% both in admissions and in bingo clubs operating over the same period.

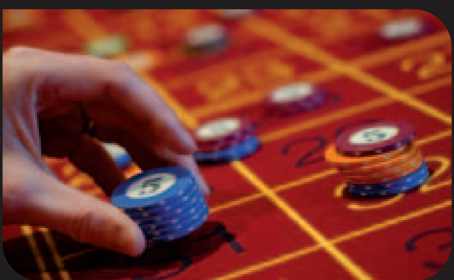
This trend has coincided with the closure of a number of smaller traditional clubs and the opening of larger 'flat floor' clubs.

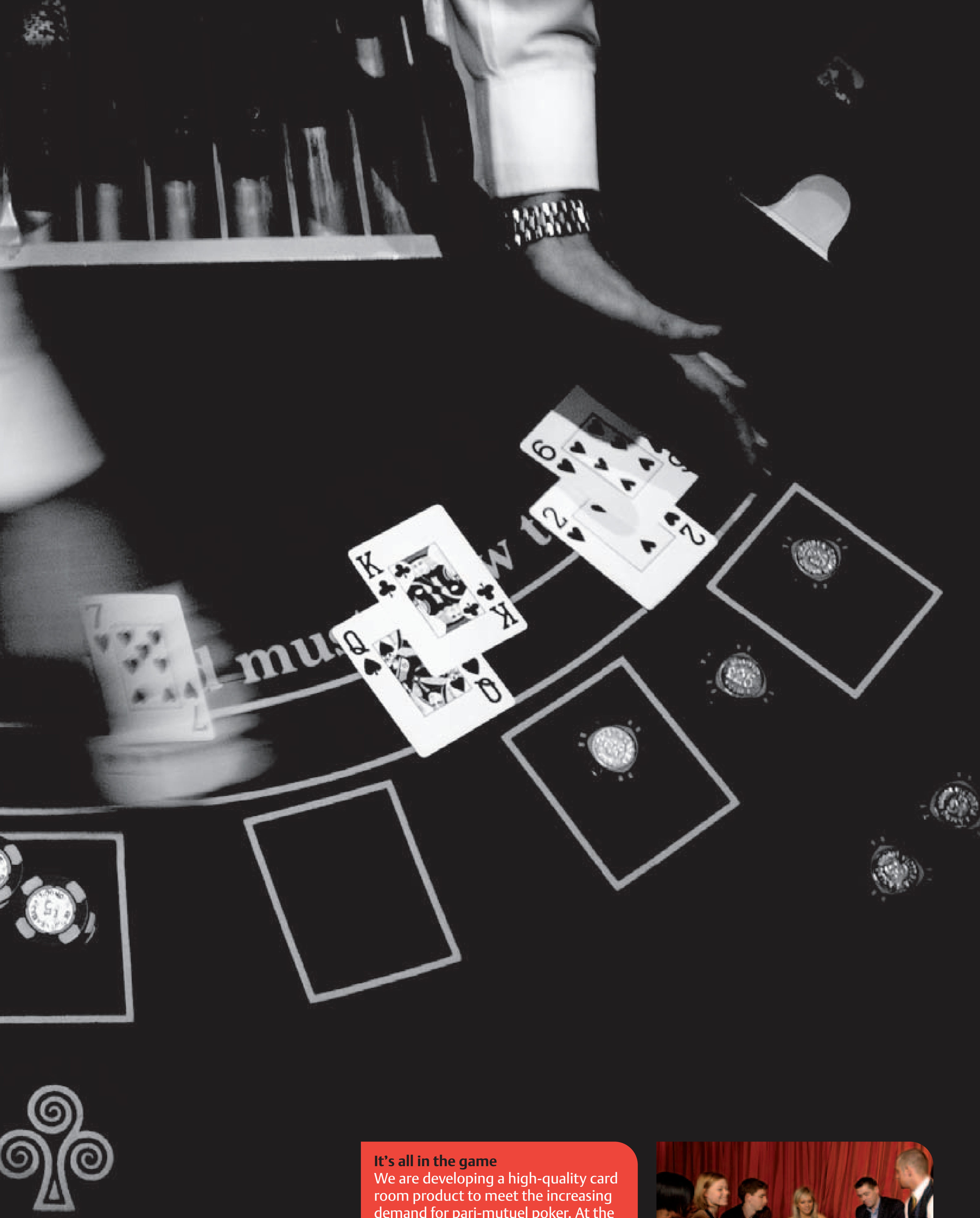
We're ready for the challenge...

The British casino market is changing, with the introduction of new regulations, shifting social attitudes and the entry of international operators. Grosvenor Casinos is responding to these changes, building a leisure-based casinos business, with the emphasis on enjoyment, entertainment and responsibility.

774,000

more than 774,000 active members, up 11.9%





It's all in the game

We are developing a high-quality card room product to meet the increasing demand for pari-mutuel poker. At the end of 2006 we had 20 dedicated poker rooms across our estate with seating for more than 2,000 card players.

Casinos

	Revenue		Operating profit*	
	2006 £m	2005 £m	**2006 £m**	2005 £m
London – upper	**23.2**	24.9	**4.1**	4.8
London – mainstream	**70.9**	67.1	**12.0**	9.6
Provincial	**110.3**	103.0	**22.0**	19.2
Total UK	**204.4**	195.0	**38.1**	33.6
Belgium	**13.2**	12.9	**1.4**	1.4
Total	**217.6**	207.9	**39.5**	35.0

*before exceptional items

In Grosvenor Casinos, we grew revenue by 4.7% and increased operating profit before exceptional items by 12.9%. This performance was achieved despite a £1.2m increase in rental costs resulting from the sale and leaseback of four casinos, which completed in August 2006.

'In the UK we achieved a 4.8% increase in revenue to £204.4m, while operating profit grew by 13.4% to £38.1m.'

In the UK we achieved a 4.8% increase in revenue to £204.4m, while operating profit before exceptional items grew by 13.4% to £38.1m. This performance was driven by a 3.7% rise in admissions and a 1.2% rise in spend per head. Active membership rose by 11.9% to more than 774,000.

After a strong start to 2006, our year-on-year admissions performance weakened during the second half. This was due in large part to our decision to spend less heavily on promotions than we had done in the final quarter of 2005 (when we ran a major marketing campaign to coincide with the removal of the '24-hour rule').

Growth in spend per head was due in large part to the performance of our electronic gaming products, following an increase in the permitted allocation of Section 31 'jackpot' machines in the final quarter of 2005. At 31 December 2006 our estate comprised 578 Section 31 machines, 196 Section 21 terminals and 759 electronic roulette positions.

In June 2006 we relocated a licence in Manchester from Empire Street to a purpose-built 35,000 sq ft site on Bury New Road. The new casino was the first to be opened under the G Casino brand, a concept designed specifically for the mainstream leisure gaming market. We are encouraged by its early performance.

In November we completed the sale for £31.0m of the Clermont Club in London and in July we exited under-performing casinos in Manchester and in Scarborough. At 31 December 2006 Grosvenor operated 33 casinos in the UK.

Our two casinos in Belgium, at Middlekerke and Blankenberge, generated a small increase in revenue to £13.2m while operating profit of £1.4m was 6.4% ahead of 2005. During 2007 we will explore opportunities presented by new legislation to broaden the range of gaming activities within these casinos. These opportunities include the introduction of video poker and electronic roulette.

	Admissions		Spend per head	
	2006 000s	2005 000s	**2006 £**	2005 £
London – upper	**62**	59	**375.30**	423.80
London – mainstream	**945**	898	**75.10**	74.10
Provincial	**3,521**	3,410	**31.30**	30.20
Total UK	**4,528**	4,367	**45.20**	44.67

London upper – Sales and profit for the casinos in our 'London – upper' segment were affected by the sale of the Clermont Club. From 2007, the Park Tower (which is the other casino in this segment) will be reported as part of Grosvenor's London casinos.

London mainstream – Our four mainstream casinos in London generated revenue growth of 5.7%, with admissions rising by 5.2% and spend per head up by 1.3%. The Hard Rock Casino (which will be re-branded as a G Casino during 2007), located in the heart of London's tourism district on Leicester Square, drew particular benefit from the ending of the 24-hour rule, enjoying strong growth in admissions.

Provincial – Our provincial casinos posted a 7.1% increase in revenue for the year, despite the closure in July of the Hard Rock Casino in Manchester and the Grosvenor Casino in Scarborough. During the year we increased admissions by 3.3% and grew spend per head by 3.6% to £31.30. A small number of our casinos experienced a rise in competition during the year, which held back profit growth within the provincial segment.

The priorities for Grosvenor in 2007 are to continue to position both our product and our estate for continued growth in mainstream casino gaming. At the same time we are mindful of the potentially negative effects of the introduction of smoking bans in England and Wales and of the loss of Section 21 gaming terminals.

The full implementation of the 2005 Act in September 2007 brings opportunities for Grosvenor in the shape of new regulations on casino advertising and promotions, the ability to test new games and a change to revenue generation from poker room activities.

From September the restrictions on casino advertising will be relaxed. While the exact nature of the changes are not yet clear, we expect that the changes will allow us to promote the locations and the consumer offers of our casinos more clearly and through a broader range of media. We will have an early opportunity to examine the impact of television in raising awareness of our business. From August this year 10 of our casinos will feature on Channel 4 Television's coverage of the Blue Square sponsored Grosvenor UK Poker Tour.

From the implementation of the 2005 Act, we will be testing a range of internationally established casino games which have hitherto not been permitted in the UK. These include poker variants such as ‘Texas Hold ‘Em’, ‘Let It Ride’ as well as a number of ‘side bet’ games, such as Blackjack’s ‘Perfect Pairs’. We will work closely with the Gambling Commission to ensure that any new games comply both with the 2005 Act and with our own code of conduct on responsible gambling.

In addition we will be permitted to charge ‘rake’ on card room poker games, rather than simply taking an hourly usage or dealer fee. As the UK’s largest poker room operator (20 of our 33 casinos operate a dedicated card room) this presents an opportunity for the business.

‘We continue to grow our estate to meet the rising consumer demand for mainstream casino gaming.’

We continue to grow our estate to meet the rising consumer demand for mainstream casino gaming. In addition to our plans to apply for new casino licences under the 2005 Act, we will add to and develop our existing portfolio of clubs, which are licensed under the 1968 Act.

We are building our first casinos in Scotland, at Aberdeen and Dundee, and expect them to open in 2008. We have been granted a further six non-operating casino licences and we have the ability to extend or relocate sub-scale casinos. These opportunities create the potential to add significant scale to our estate over the next few years.

In February 2007 we relocated our Luton casino licence from Dunstable Road to a 30,000 sq ft site with good parking facilities on Park Street West in the town centre. The casino has opened under our new G Casino brand. We will undertake a major extension project at the Grosvenor Blackpool, which will also be re-branded as a G Casino.

G Casino
During 2006 we opened our first casino under the G Casino brand at Bury New Road in Manchester. In February 2007 we opened a second G Casino at Luton and we plan to convert our Blackpool and Leicester Square casinos to the G Casino brand by the end of the year.

Market insight – Casinos (UK)

UK casino operators
Figures in brackets denote non-operating licences

	2006	2005
Stanley Leisure (Genting)	46 (4)	41(1)
Grosvenor Casinos	**33(10)**	**36(6)**
Gala Casinos	29 (1)	27(2)
London Clubs International (Harrah’s)	7 (5)	7(6)
A&S Leisure	6 (0)	6(0)
Blue Chip Casinos (Isle of Capri)	2 (2)	3(1)
Aspinall’s	2 (1)	2(1)
Clockfair Ltd	2 (0)	2(0)
BIL	1 (2)	0(0)
Others	10 (8)	15(5)
Total	**138(33)**	**139(22)**

Source: Rank Group estimates

During 2006 the number of licensed casinos operating in the UK edged down from 139 to 138 with the closure of four casinos only partially offset by the opening of three new casinos. The number of non-operating licences increased from 22 to 33 (including six casinos which have ceased to operate).

A flurry of corporate activity changed the ownership profile of the British casino industry during the year with Genting (Malaysia) acquiring Stanley Leisure for £639m, Harrah’s Casinos (USA) acquiring London Clubs for £279m and BIL (Singapore) entering the market with the purchase of one casino in London. It is estimated that 70 of the UK’s casino licences, representing more than 40% of the total, are now owned by non-British companies, compared with just eight at the end of 2005.

There was one addition to the London market in 2006 with the launch of the first Ladbrokes Casino, at Paddington. It is anticipated that there will be one new casino for the capital in 2007, with the opening of London Clubs International’s Empire Casino on Leicester Square.

The number of provincial casinos operating fell to 113 from 115 at the end of 2005. Four casinos closed, in Manchester, Newcastle-upon-Tyne, Scarborough and Walsall, although the licences have been retained. Two new casino licences became operational during the year, in Bristol (Gala Casinos) and in Manchester (London Clubs International).

Admissions to British casinos increased significantly between April 2005 and March 2006. For the country as a whole, admissions increased by 13% to almost 14 million. The rate of growth was stronger still in the provincial casinos market with admissions up by 16% to more than 11 million. In London, which is a more mature market, admissions rose by 5% to more than 2.8 million.

The strong admissions performance was due in part to the ending of the 24-hour rule in October 2005, which removed an inhibitor to casino attendance. However it is likely that industry-wide promotional activity designed to coincide with the abolition of the 24-hour rule was at least as significant in generating growth.

We're creating new ways to play...

We have made significant progress with Blue Square, our interactive gaming business. We have achieved a 74.8% increase in gaming gross win, and a focus on margin improvement has enabled us to grow sportsbook gross win by 23.5%.

285,000

more than 285,000 active members, up 22.9%

Interactive

Blue Square

	2006 £m	2005 £m
Gaming	**22.9**	13.1
Sportsbook	**16.3**	13.2
Gross win/revenue	**39.2**	26.3
Operating profit	**7.8**	1.0

In 2006 our interactive gaming business Blue Square increased revenue by 49% to £39.2m and grew operating profit by 680% to £7.8m. Active membership increased by 22.9% to more than 285,000 members.

This strong performance was driven largely by our strategy to develop our games and poker products and by the advances we have made in sportsbook risk management. Gross win from gaming grew by 74.8% to £22.9m while sportsbook rose by 23.5% on stronger margins to £16.3m. This was the first time that Blue Square's gaming gross win had exceeded that of sportsbook.

During the year we launched a number of new gaming products, including meccabingo.com and grosvenorcasinos.com.

In sportsbook we developed Blue Square Prices, breaking with bookmaking tradition to offer customers an alternative to Show Prices on horse-racing. Between its launch in May and the end of the year, Blue Square was able to offer better last show odds than the official Starting Price on 38% of races covered (and the same odds on 44% of events).

The priorities for Blue Square in 2007 are to support the growth of our sportsbook and gaming products through targeted and imaginative marketing and to develop the on-line distribution of Rank's retail gaming brands.

In January 2007 we launched the Blue Square-sponsored Grosvenor UK Poker Tour, the most significant series of poker tournaments yet seen in the UK. The tour comprises 11 regional poker tournaments and numerous 'satellite' events, each hosted in a Grosvenor casino, and culminates in a grand final to be held at the Victoria Casino in London in December. Approximately 20% of players are expected to qualify for the tournaments by playing on-line at Blue Square Poker.

With each event being filmed for Channel 4 Television, the Grosvenor UK Poker Tour will become the first poker tournament to appear on terrestrial television, with 22 weekly screenings commencing in August.

This year we aim to extend the on-line distribution of our retail gaming brands, with marketing campaigns for meccabingo.com and grosvenorcasinos.com and the launch of grosvenorpoker.com. And we are exploring opportunities with Top Rank España to develop an on-line bingo product for the Spanish market.

To support the Blue Square sportsbook in 2007 we have taken sponsorship of the Greyhound Derby, the UK Darts Open and become the first full day sponsors at 'Glorious Goodwood'.

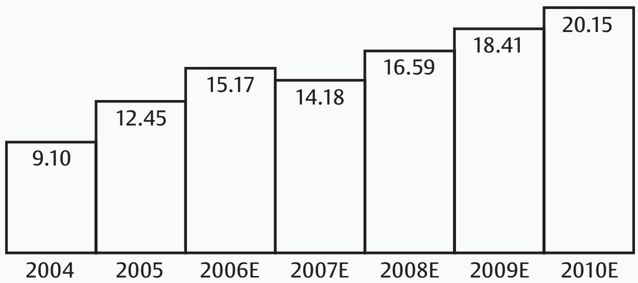
Market insight – Interactive

In 2006, the passage through Congress of the Unlawful Internet Gaming Enforcement Act marked a watershed in the development of the on-line gambling industry. The Act effectively outlawed gambling on-line by US citizens by prohibiting US banks from processing payments from internet gambling websites.

According to research from Global Betting and Gaming Consultants, 2007 will be a year of retrenchment for internet gambling with the market returning to growth in 2008. However, certain on-line gambling products are more vulnerable to the loss of US business and it is forecast that betting, poker and casino will have to wait until the end of the decade before returning to pre-prohibition levels of revenue.

Over this period the principal driver of growth is predicted to be on-line lotteries. US-based lotteries in particular are expected to benefit from the prohibition of other forms of on-line gambling, as players switch to lotteries from banned products.

On-line gross gambling yield – US$bn



Source: Global Betting and Gaming Consultants
On-line gross gambling includes casinos, bookmakers, poker rooms, bingo, lotteries and other smaller activities.

Despite the dip in on-line gaming globally, growth in internet gambling by European players is predicted to continue unabated. During 2007 Europe is expected to eclipse North America as the largest internet on-line gambling market in the world. By the end of the decade Europe's share of the global market is expected to have risen to 43% from 25% in 2005.

The Tour is in Town
The Grosvenor UK Poker Tour, sponsored by Blue Square, is the UK's biggest poker tournament. The tour comprises 10 set-piece regional tournaments, and culminates in a grand final at the Grosvenor Victoria Casino in London in December 2007.

Finance review

Summary of results (from continuing operations)

	Revenue		Operating profit Before exceptionals		Operating profit After exceptionals	
	2006 £m	2005 £m	**2006 £m**	2005 £m	**2006 £m**	2005 £m
Mecca Bingo	**261.7**	264.0	**63.2**	77.9		
Top Rank España	**31.1**	31.6	**8.9**	10.0		
Grosvenor Casinos	**217.6**	207.9	**39.5**	35.0		
Blue Square	**39.2**	26.3	**7.8**	1.0		
Gaming Shared Services	**–**	–	**(24.8)**	(18.1)		
Gaming	**549.6**	529.8	**94.6**	105.8	**162.9**	105.8
Central costs and other	**–**	–	**(17.2)**	(15.3)	**(29.3)**	(27.4)
Continuing operations	**549.6**	529.8	**77.4**	90.5	**133.6**	78.4
Interest (net)			**(33.0)**	(40.0)	**(47.7)**	(43.6)
Adjusted profit before taxation			**44.4**	50.5	**85.9**	34.8
Foreign exchange on inter-company balances (including hedging)			**10.0**	(16.0)	**10.0**	(16.0)
Amortisation of equity component of convertible bond			**(3.0)**	(3.0)	**(3.0)**	(3.0)
Profit before taxation and exceptional items			**51.4**	31.5	**92.9**	15.8
Basic earnings per share – continuing operations			**8.1p**	1.0p	**19.5p**	2.4p
Adjusted earnings per share			**5.1p**	5.4p		

Group revenue from continuing operations was up 3.7% to £549.6m, mainly due to growth in Blue Square and Grosvenor Casinos.

Group operating profit before exceptional items was down 14.5% to £77.4m. Operating profit fell in Mecca Bingo and Top Rank España but rose in Grosvenor Casinos and Blue Square. Profits from our bingo businesses have been affected by smoking bans in Scotland and Spain, as well as increased rents on the sale and leaseback sites. Gaming shared services and corporate costs include a number of one-off costs totalling £8.9m.

Adjusted Group profit before tax was down 12.1% to £44.4m with the lower Group operating profit being partially offset by reduced interest charges.

The effective tax rate on adjusted profits is 32.4% (2005: 33.5%). The tax charge is in line with the continuing Group's anticipated effective tax rate of 30-35%.

Adjusted earnings per share before exceptional items of 5.1p (2005: 5.4p) reflects the lower level of Group operating profit, offset by decreases in the number of shares in issue and the decrease in the effective rate of tax.

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 £10.0m gain (2005: £16.0m charge), including 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 (2005: £3.0m) charge being recognised in this income statement in accordance with IAS 32 and 39.

The sale and leaseback transaction and disposal of surplus properties completed in August (see further details below) resulting in a net £171.9m cash inflow to the Group and an exceptional profit of £55.3m being recognised. This has resulted in additional rent costs in the year of £4.5m.

The Clermont Club was sold for £31.0m in December 2006 and an exceptional profit of £13.0m has been recognised on the disposal.

In addition the Group has reported a £12.1m exceptional loss on the disposal of its investment in Universal Studios Japan. Previously the loss had been recognised in reserves.

The Group incurred an exceptional charge of £14.7m in relation to the refinancing carried out as a result of the sale of Deluxe Film and the decision to sell Deluxe Media.

The performance of Mecca Bingo, Top Rank España, Grosvenor Casinos and Blue Square have been covered in more detail earlier in the operating and financial review.

Discontinued operations

Hard Rock

The sale of Hard Rock, the cafe, hotel and casino business, was agreed on 7 December 2006 and it is now classified as a business held for sale. As a consequence its results are reported as discontinued operations.

The sale of the business to the Seminole Tribe of Florida completed on 5 March 2007 and will generate a profit on disposal. The book value of Hard Rock at 31 December 2006 was approximately £200m.

Hard Rock delivered an 8.4% growth in revenue to £271.2m (2005: £250.1m) and operating profit of £40.4m (2005: £34.8m) as a result of strong trading from each of the business divisions.

Deluxe Film

The sale of Deluxe Film, the film services business, completed on 27 January 2006.

Deluxe Film delivered an operating profit before exceptional items of £1.5m in its final month of operation. The business was written down to its expected net realisable value in 2005, incurring an exceptional loss of £150.4m.

Deluxe Media Services (DMS)

During 2006, DMS operations in Europe have been exited through a series of disposals and we reached agreements with our customers to terminate our remaining operations in North America.

DMS, the DVD and CD manufacturing and distribution business, made an operating loss before exceptionals of £13.9m (2005: £16.4m).

In 2005 the Group reported a pre-tax exceptional charge of £136.5m to write the business down to net realisable value. No exceptional charge or credit has been reported for 2006 and, as previously reported, we anticipate current provisions will cover the exit costs for the remaining business.

US Holidays

US Holidays, the time-share accommodation, camping and hotels business, was sold on 15 December 2006. Revenue in 2006 was £28.0m (2005: £30.4m) with operating profit of £2.1m (2005: £2.2m). An exceptional pre-tax loss of £20.0m was incurred on the sale.

Net debt

Net debt at 31 December 2006 was £447.2m compared with £739.4m at 31 December 2005. In addition to the cash inflow detailed below, the principal other movement was a net £32.7m reduction resulting from favourable exchange rate movements.

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

Cashflow	2006 £m	2005 £m
Continuing operations		
Cash inflow from operations	**107.3**	131.9
Capital expenditure	**(50.2)**	(28.2)
Fixed asset disposals	**10.1**	1.6
Operating cash inflow	**67.2**	105.3
Acquisitions and disposals	**458.0**	(3.0)
Net sale and leaseback proceeds	**171.9**	–
Payments in respect of provisions and exceptional costs	**(37.0)**	(29.5)
	660.1	72.8
Interest, tax, dividends and share capital issued	**(135.1)**	(124.1)
Share buy-back	**(201.4)**	–
Additional contribution to pension fund	**(50.0)**	–
Cash outflow on discontinued operations	**(14.3)**	(8.8)
Net cash inflow (outflow)	**259.3**	(60.1)

Operating cash flow was £67.2m, £38.1m lower than 2005 due to the increase in capital expenditure and reduced operating profit.

Capital expenditure	2006 £m	2005 £m
Mecca Bingo	**16.3**	13.7
Top Rank España	**5.5**	2.0
Grosvenor Casinos	**24.4**	7.9
Blue Square	**2.8**	3.6
Other	**1.2**	1.0
Total continuing operations	**50.2**	28.2

During 2006 we invested £50.2m to maintain and develop our gaming businesses.

Total capital expenditure for Mecca was £16.3m, which included £5.6m of expansionary capital, largely on projects to open new clubs at Crewe and Paisley as well as the fully electronic club at Fountain Park in Edinburgh.

Capital expenditure for Top Rank España was £5.5m. This included the investment required to adapt our clubs for the introduction of a partial smoking ban, which was phased in during the year.

Total capital expenditure for Grosvenor was £24.4m including the development of our G Casinos. In 2006 we opened our first G Casino within a 35,000 sq ft site on Bury New Road in Manchester and our second site in Luton opened in February 2007. In addition we extended the Grosvenor Casino in Reading.

Acquisitions and disposals

The £458.0m cash inflow in the year principally comprises £394.1m for Deluxe Film, £31.0m for the Clermont Club and £16.8m for US Holidays.

Sale and leaseback

In August we completed a £211m sale and leaseback transaction on 43 of our UK freehold properties. Under the terms of the agreement we will leaseback the properties over a period of up to 15 years at an initial rental of £11.2m per annum (£8.0m in Mecca Bingo and £3.2m in Grosvenor Casinos).

Concurrent with the sale and leaseback we transferred lease liabilities relating to 38 surplus properties. In addition we exited and transferred lease liabilities on six loss-making operations, comprising four bingo clubs and two casinos. The combined sale and leaseback and transfer of liabilities resulted in a net payment to Rank of £171.9m, giving rise to a profit on disposal of £55.3m.

Share buy-back

Between 6 March 2006 and 13 November 2006, Rank returned £200m to shareholders via an on-market share buy-back programme and incurred related costs of £1.4m. Rank bought and cancelled 86.5m shares at an average price per share of 231p.

Pension fund

During the course of the year we made a payment of £50m to the plan in accordance with an agreement with the Group pension plan trustee. This included a £24m payment that, under Section 75 of the Pensions Act, was required following the sale of Deluxe Film. In addition we have committed to a series of subsequent contributions totalling £50m to be paid over the next three years, with the last payment due no later than January 2010. The first payment of £15m was paid in January 2007 and these payments are in addition to the Group's normal annual contributions. Given its maturity and profile, our objective is to fully fund the scheme on a buy-out basis. The scheme has been closed to new entrants since 2000.

Further detail on the pension commitments is contained in note 34 to the financial statements.

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 overseas subsidiaries is minimised by hedging the underlying asset position 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 upon 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 resultant gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

Peter Gill Finance Director

We're taking a leading role...

As the gaming industry evolves, we are adapting our practices to ensure that our high standards of responsible operation are maintained.

HELPING YOU · STAY IN CONTROL ·

Responsibility

As an employer of more than 8,000 people, serving in excess of two million customers per year and operating in the UK, Belgium and Spain, the social impact of Rank's business activities is significant. As a result we take seriously our responsibilities to our customers, to our people and to the broader communities within which we operate.

As an established British gaming company, Rank has a long track record of responsible operation.

In 2004, Rank began work in creating a Responsible Gambling Policy that would apply across the whole Group. We took the strongest elements from each of the industry voluntary codes and consulted a wide number of parties within the UK and internationally to develop a comprehensive policy for the Group. The policy supports the guiding principles of the 2005 Act.

- To prevent gambling from being a source of crime or disorder, being associated with crime or disorder or being used to support crime.
- To ensure that gambling is conducted in a fair and open way.
- To protect children and other vulnerable persons from being harmed or exploited by gambling.

Keeping crime out
Rank operates a sophisticated system of screening and intelligence gathering to keep crime out of gambling.

- In keeping with legal requirements, we require all of our UK casino croupiers, inspectors and managers and all our UK bingo club managers to be certificated by the Gambling Commission.
- We carry out rigorous screening on casino employees to check for criminal convictions.
- We maintain a close working relationship with regulatory bodies, including the Police and the Gambling Commission and regularly provide assistance to them on wider issues unrelated to our own businesses.
- We require that all customers show proof of identity in order to gain access to any casino gaming area.
- Across Blue Square we have put in place a series of stringent measures designed to prevent fraud and money laundering.

Fair and open gambling
In each of our bingo clubs and casinos, our games and equipment are subject to strict security measures to ensure that gaming is conducted fairly, supported by a state of the art digital CCTV system.

Rules and charges relating to the games are displayed in our bingo clubs, as are 'how to play' guides in our casinos and interactive gaming websites. As part of the transparency process, we also provide leaflets detailing the house advantage on all casino games for the information of our customers.

Protecting children and vulnerable people
At the heart of our approach to problem gaming is a recognition that we need to work with our customers to help them stay in control. To this we apply a three-stage process of prevention, recognition and intervention.

Prevention
- Through regulated entry to casinos and bingo clubs and on-line screening measures we prevent under-18s from participating in gambling activities.
- Through the games that we offer and through our communication with our customers, we encourage our customers to enjoy their visits to our bingo clubs, casinos and gaming websites. Prominent signage, information and other material is displayed in all of our premises, using our easily identifiable 'helping you stay in control' logo.

Recognition
- We have developed a training programme that combines computer-based training and experiential learning to enable our people to recognise in customers those behaviours associated with problem gambling.
- Communication with our customers helps them to recognise in themselves the behaviours associated with problem gambling.

Intervention
- Through training we teach our people how to deal with customers who exhibit behaviours associated with problem gambling.
- Self-exclusion from gambling in our casinos, bingo clubs and on our websites, amongst other mechanisms, enables customers to take positive action if they become concerned about their behaviour.
- We may consider a range of additional factors, such as concerns expressed by others in deciding whether to exclude a member from gambling with us.

We work closely with a wide variety of organisations to ensure responsible operation. During 2006 members of Rank's compliance department held a large number of separate meetings involving bodies such as the Department of Culture, Media and Sport, the Gambling Commission, and charitable organisations including GamCare.

In 2006, Rank contributed £220,000 to the Responsibility in Gambling Trust, an 'umbrella organisation' that funds a variety of charities working to prevent problem gambling or to provide support for problem gamblers.

Showing we care
We have achieved accreditation from GamCare for the approach we take to responsible gaming in both Grosvenor Casinos and Blue Square. Currently we are pursuing accreditation for Mecca Bingo, which we expect to achieve in 2007.

GAMCARE CERT

Board of Directors

Name	Peter Johnson	Ian Burke
Position	**Chairman**	**Chief Executive**
Appointment to the Board	2007	2006
Age	59	50
Committee membership	Finance, Nominations	Finance, Nominations

Peter is Chairman of Inchcape plc, having been Group Chief Executive from 1999 until 2005. He is a non-executive director of Bunzl plc, a director and Chairman of Automotive Skills Limited and a Vice President of The Institute of the Motor Industry. He was previously Sales and Marketing Director of the Rover Group, Chief Executive of the Marshall Group and a non-executive director of Wates Group Limited.

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. Ian is a director of Business in Sport and Leisure Limited.

Name	Brendan O'Neill	Bill Shannon
Position	**Non-executive Director**	**Non-executive Director**
Appointment to the Board	2004	2006
Age	58	57
Committee membership	Audit, Nominations	Audit, Nominations, Remuneration

Brendan is Chairman of RAC Pension Trustees Limited and a non-executive director of Aegis Group plc, Tyco International Ltd, Watson Wyatt Worldwide Inc. and of Endurance Speciality Holdings Limited, a Bermudan-based insurance company. From 1999 to 2003 he was Chief Executive of ICI Plc and prior to joining ICI 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.

Bill is Chairman of Aegon UK and Gaucho Grill restaurant group and he is also a non-executive director of Barratt Developments plc and Matalan plc. Previously he was an executive director of Whitbread PLC.

Peter Gill

Finance Director

2005

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Finance

Peter 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. Peter is a Chartered Accountant.

Richard Greenhalgh

Senior Independent Non-executive Director

2004

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Nominations, Remuneration

Richard worked for Unilever for over 30 years and was Deputy Director of Personnel for Unilever Plc before becoming Chairman of Unilever UK from 1998 until 2004. He is Chairman of The Council for Industry and Higher Education, CARE International UK, First Milk, and Chairman of the UK advisory board of a US listed outsourcing company, OPI. Richard is also Vice Chairman of the Qualifications and Curriculum Authority.

John Warren

Non-executive Director

2006

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Audit, Nominations, Remuneration

John 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 holds non-executive directorships at Arla Foods UK plc, Bovis Homes Group plc, BPP Holdings plc and Spectris Plc.

Pamela Coles

Company Secretary

Audit Committee
John Warren – Chairman
Brendan O'Neill
Bill Shannon

Finance Committee
Peter Johnson – Chairman
Ian Burke
Peter Gill

Nominations Committee
Peter Johnson – Chairman
Ian Burke
Richard Greenhalgh
Brendan O'Neill
Bill Shannon
John Warren

Remuneration Committee
Richard Greenhalgh – Chairman
Bill Shannon
John Warren

Executive Committee
Ian Burke – Chairman
Peter Gill
Pamela Coles
Simon Wykes
Managing Director, Mecca Bingo
Valentin Coruña
Managing Director, Top Rank España
Peter McCann
Managing Director, Grosvenor Casinos
Martin Belsham
Managing Director, Blue Square
Alan Armstrong
Compliance & Development Director
Michele Jennings
Commercial Director
Sue Waldock
Human Resources Director

Directors' report

The Directors submit their report and the audited financial statements for the year ended 31 December 2006.

Principal activities and business review
Rank is one of the UK's leading gaming companies. In 2006, business activities included bingo clubs, casinos and interactive gaming. Rank operates primarily in the UK, although it also has activities in continental Europe and other parts of the world.

During 2006 the Group entered into the following significant transactions:
- On 27 January 2006, the Group completed the sale of Deluxe Film.
- Agreements to complete Deluxe Media's exit from the Group were made during the year and took the form of separate disposals of individual businesses, contracts and assets.
- On 10 August 2006, the Group completed the sale and leaseback of 43 of its UK properties and the transfer of liabilities relating to a further 44 surplus leasehold properties, in a net £171.9m transaction.

On 5 March 2007, the Group completed the sale of Hard Rock to Seminole Hard Rock Entertainment Inc. for a total consideration of $965m (equivalent to £502m). This disposal, and the accompanying special dividend payment of 65p per share and related share consolidation, was approved by shareholders at an Extraordinary General Meeting held on 8 January 2007.

In order to avoid the costs of complying with the registration requirements of the US Securities Exchange Commission (the 'SEC'), and to suspend its SEC reporting and other applicable US obligations, the Company filed a Form 15 with the SEC in April 2006 in order to terminate its registration under The Securities Exchange Act of 1934.

The Articles of Association confer 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 300, as presently required by the SEC for termination of registration.

The Company exercised these compulsory transfer provisions in 2006 and the Board identified the US Holders who were required to dispose of their Ordinary shares (selected on the basis of relative size of holding and taking smallest holdings first).

Notices were despatched to affected shareholders and those US Holders who did not dispose of their shares within 21 days in accordance with the notice had their shares compulsorily transferred by the Company. Subject to the price at which such shares were purchased being no worse than the price reasonably obtainable in the market, the Company was itself allowed to purchase Ordinary shares from US Holders whose shares were being compulsorily transferred.

An analysis of revenue, profit, and operating assets by business activity is given on pages 50 to 52. The Group's continuing activities and businesses are reported in the Operating and financial review on pages 4 to 19.

The principal risks and uncertainties facing the Group, including the effects of smoking bans, the loss of Section 21 gaming terminals and increases in UK casino supply are addressed in the Operating and financial review on pages 5 and 6.

Rank's approach to responsible gambling is set out on page 21.

Result and equity dividends
The profit for the year after tax was £117.2m (2005: £209.7m loss).

The Directors recommend a final dividend of 4.0p per Ordinary share which, together with the interim dividend of 2.0p already paid, makes a total for the year of 6.0p per Ordinary share (2005: 15.3p). Subject to approval at the Annual General Meeting, the final dividend will be paid on 11 May 2007 to those shareholders whose names are on the register on 27 April 2007.

The Board believes that Rank's capital structure policy, announced on 3 March 2006, is appropriate for the Group:
- Target net debt to EBITDA range of 3.5 to 4.0 times over the medium term.
- Target dividend cover of 2.0 times earnings over the medium term.

The Directors intend to maintain, at a minimum, the absolute level of dividend per share in 2007 compared to 2006.

Directors
The current Directors of the Company are listed on pages 22 and 23. All of them served throughout the whole of the year apart from Ian Burke, Bill Shannon and Peter Johnson:
- Ian Burke was appointed Chief Executive on 6 March 2006 in place of Mike Smith who left on 31 March 2006.
- Bill Shannon joined the Board as a non-executive Director with effect from 3 April 2006.
- Peter Johnson was appointed Deputy Chairman on 1 January 2007, becoming Chairman on 1 March 2007 when Alun Cathcart stepped down from the Board on 28 February 2007.

Oliver Stocken and John Sunderland retired as Directors on 26 April 2006 and David Boden resigned from the Board on 11 May 2006.

Peter Johnson will retire at the Annual General Meeting and, being eligible, will offer himself for re-appointment. He has a service agreement with the Company terminable on three months' notice.

Richard Greenhalgh (the Senior Independent Director, a member of the Nominations Committee and Chairman of the Remuneration Committee) and Brendan O'Neill (a member of the Nominations and Audit Committees) will retire by rotation at the Annual General Meeting and, being eligible, will offer themselves for re-appointment. They do not have service agreements with the Company.

The Board is satisfied that the Chairman, and each non-executive Director, is able to devote the necessary amount of time required to attend to the Company's affairs.

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 pages 22 and 23.

Human resources
The Group 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 throughout the Group.

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

Share capital
Details of the Ordinary shares allotted and issued pursuant to the exercise of options under Rank's share option schemes are set out in note 33 on pages 82 and 83.

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.

During 2006 the Company purchased in the market and then cancelled 86,492,157 of its Ordinary 10p shares (representing 14% of issued share capital at the beginning of the year) for a total consideration, excluding transaction expenses, of £200m.

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 material interests over its Ordinary shares in accordance with the Financial Services Authority's Disclosure & Transparency Rules:

- FMR Corp and Fidelity International Limited (54,729,042: 10.09%)
- BT Pension Scheme (32,788,007: 6.05%)
  - The Hermes UK Focus Fund (16,534,286: 3.05%)
  - Devon County Council (by association with Hermes) (16,442,066: 3.04%)
- Prudential plc (30,678,593: 5.10%)
- Aviva plc (22,411,808: 4.13%)
- AXA S.A. (21,509,049: 3.97%)
- Barclays PLC (20,721,664: 3.82%)
- Legal & General Group plc (19,234,840: 3.54%)

The following non-material interests have also been disclosed to the Company under the above Rules:

- Prudential plc group of companies (41,332,391: 7.62%)
- Schroder Investment Management Ltd (43,426,979: 8.01%)

Charitable and political donations
Charitable donations made in the UK during the year amounted to £244,000 (2005: £269,000). The largest single donation was £220,000 (2005: £220,000) 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$1,310,860 (2005: US$1,065,000), continuing its focus on humanitarian and environmental causes. The Group made no political donations in the UK in the year.

Post balance sheet events
See note 30 to the financial statements.

Financial instruments
The Group's policies relating to financial risk management are included in note 1G of the financial statements. The exposure to price risk, credit risk, liquidity risk and cash flow risk is detailed in note 21 on pages 72 to 75.

Annual General Meeting
The 2007 Annual General Meeting will be held on 3 May and the business to be transacted at that meeting will include a proposal to amend the Rules of the 2005 Long Term Incentive Plan. 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.

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.

So far as the Directors are aware, there is no relevant audit information of which the auditors are unaware. Each Director has taken all of the steps that he thought should have been taken to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board

Pamela Coles
Secretary
The Rank Group Plc, Registered in England No. 3140769
Registered Office: Statesman House, Stafferton Way, Maidenhead, Berkshire SL6 1AY

14 March 2007

Remuneration report

Letter from the Remuneration Committee Chairman
During 2006 the Remuneration Committee reviewed executive remuneration policy and practice in light of the divestment of Hard Rock and other businesses, and the significant return of capital to shareholders and consolidation of the share capital agreed at the Company's Extraordinary General Meeting held on 8 January 2007.

As a result of this review a number of changes of policy and practice were agreed by the Board in 2006. In particular the Board is recommending to shareholders at the Annual General Meeting, the adoption of amendments to the 2005 Long Term Incentive Plan and suspension of grants under the Executive Share Option Scheme. The Remuneration Committee believes that these changes are needed to ensure that the relatively new senior leadership team is appropriately incentivised in the short and medium term to deliver the financial performance necessary to underpin growth in shareholder value. These policy changes are proposed against the backdrop of significant business challenges as a result of the emerging new gaming environment in the UK and the expected impact of the smoking ban.

R C Greenhalgh

Richard Greenhalgh
Remuneration Committee Chairman

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 2006.

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.

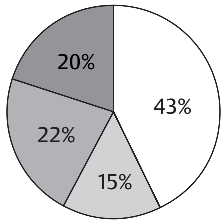
The Remuneration Committee consists solely of independent non-executive Directors. Richard Greenhalgh replaced John Sunderland as Chairman of the Committee in April 2006 and its other members are Bill Shannon and John Warren who both joined the Committee in April 2006. John Sunderland and Oliver Stocken retired from the Committee and the Board after the Annual General Meeting in April 2006. Details of attendances at Committee meetings are contained in the report on Corporate Governance on page 35. The Chairman and Chief Executive normally attend meetings of the Remuneration Committee, as does the Company Secretary, although they are not present at any discussion concerning their own remuneration.

During 2006, Watson Wyatt were appointed by the Committee to advise it, and the Board, on remuneration issues and provide advice on share-based incentive arrangements for executives and the wider employee population. Prior to Watson Wyatt's appointment, the Committee received advice from Towers Perrin and New Bridge Street Consultants. None of the above advisers provided any other services to the Group during 2006. The Group's Company Secretariat and Human Resources Departments assisted the Committee by preparing reports on remuneration and employment conditions within the Group; internal support is provided by Pamela Coles, the Company Secretary.

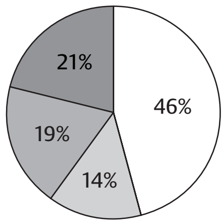
Remuneration policy
Executive Directors
The Committee aims to ensure that the remuneration and incentive arrangements for executive Directors support the interests of shareholders and are competitive with practice in similar sized companies and Rank's principal competitors. The Committee believes that a significant emphasis on variable remuneration linked to the performance of the Group, 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 Group.

The reward structure and potential size of awards are regularly reviewed by the Committee to ensure that they meet these objectives, while ensuring that the Company does not pay more than is necessary to attract and retain the talent required to lead and manage the business. For 2007, the balance of Chief Executive and executive Director remuneration, including pension but excluding other benefit entitlements, is described below:

Chief Executive
- Base salary
- Pension
- Annual bonus
- Long term incentive



Executive Director
- Base salary
- Pension
- Annual bonus
- Long term incentive



In the charts above, the target value for annual bonus has been calculated as the annual cash bonus payable for achieving all targets as described on page 27 (i.e. 50% of base salary for the Chief Executive and 40% for other executive Directors). The target value for long term incentives is calculated as the estimated fair value of grants. The calculated target values, expressed as a percentage of total remuneration, have not changed since 2004.

The shareholding guidelines for the Chief Executive is 150% of salary, for executive Directors is 100% of salary and for other executive committee members 50% of salary. All executives are given five years from appointment to build up this level of shareholding.

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 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 2006 and their base fees with effect from 1 January 2007 (including any part used to purchase shares) are disclosed in the Directors' remuneration summary on page 30.

Remuneration structure

a) Base salary and benefits

Base salaries are targeted overall at median market level. The Committee reviews 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. In determining individual base salaries the Committee is guided by market information, individual performance, company performance and the base salary increases applied elsewhere in the Company.

With effect from 1 January 2007, Ian Burke and Peter Gill received a 3% increase in base salary. Base pay increases across the businesses were within a range of 2.5% to 3.5%.

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

b) Annual cash bonus

The annual cash bonus for executive Directors is aligned to the achievement of various business strategy objectives expressed as financial targets for the year. The annual cash bonus for achieving all of the targets is 50% of base salary for the Chief Executive and 40% for other executive Directors, with a maximum bonus equal to 100% of base salary for the Chief Executive and 80% for other executive Directors for significantly exceeding all of the targets.

For 2006, operating profit targets (accounting for 75% of the bonus opportunity) plus secondary performance measures (accounting for 25% of the opportunity) were agreed at the beginning of the year. The secondary performance measures in 2006 included quantifiable targets for cash flow, cost reduction and turnover. During the year an additional measure relating to the success of corporate and financial restructuring plans was added to the annual bonus scheme for selected executives including the executive Directors. Based on these measures and targets, the annual cash bonus for Peter Gill was 50.5% of base salary and for Ian Burke 60%, commensurate with only some of the financial targets being achieved. In Ian Burke's case a bonus of 40% of salary had been guaranteed as part of his joining package. The annual cash bonuses payable in respect of 2006 performance are disclosed in the Directors' remuneration summary on page 30.

During 2006, the Gaming division board experienced a major change in leadership and the Board agreed that, in light of retention risks, a supplemental bonus opportunity of between 20% and 30% of salary should be offered to all members of the Gaming division board, subject to achievement of a stretching operating profit target in 2006. This supplemental bonus will be deferred into restricted shares which will vest, subject to continued employment, on 1 December 2007. The purchased shares for this grant are held in an employee share ownership trust. Ian Burke and Peter Gill are participants in this plan, in their roles as members of the Gaming division board and are eligible for a supplemental bonus of 20% of salary.

For 2007 the annual bonus for executive Directors and other Executive Committee members will be dependent on operating profit (75%) and cash flow (25%) plus corporate and financial restructuring measures for selected executives only.

Annual bonuses for members of the Executive Committee not on the Board have the same level of opportunity and design as for the executive Directors.

c) Long term incentives

2006

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. Executive Directors will continue to be eligible to participate in this plan in 2007.

In 2006 the executive Directors and selected senior executives participated 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.

Executive Share Option Scheme ('ESOS')

The executive Directors and selected senior executives were granted options to purchase shares in the Company at a price fixed at the market value at the date of grant. For these 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

This grant is not subject to retesting of the performance conditions. Grants made prior to 2005 allow for the performance period to be extended by one year. 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.

The maximum grant under the ESOS is three times base salary. The grants made in 2006 were 200% of salary for Ian Burke and 66% of salary for Peter Gill.

SAYE and ESOS options are satisfied through the issue of new shares and the Committee has regard to institutional guidelines relating to annual flow-rates whenever share options are granted.

The executive Directors' interests in ESOS and SAYE are shown in Table 1 on page 31.

Long Term Incentive Plan ('LTIP') (audited)

In 2006, the executive Directors and selected senior executives were made awards of shares under the LTIP. Vesting of these shares are subject to achieving growth in normalised EPS of at least 2% per annum above the growth in RPI over a three year period, and achievement of at least a median relative total shareholder return ('TSR') ranking against a group of comparator companies. For 2006 the comparator companies are De Vere, Enterprise Inns, Hilton, InterContinental Hotels, London Clubs International, Luminar Leisure, Millennium & Copthorne Hotels, Mitchells & Butlers, Punch Taverns, Stanley Leisure, Wetherspoon, Whitbread and William Hill. 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.
For grants before 2006, the comparator group of 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. Where a comparator company subsequently delists, its TSR as at the date of delisting is increased in line with bank base rates for future monitoring purposes.

Remuneration report continued

The TSR ranking at 31 December 2006 for the 2004, 2005 and 2006 awards were:

	TSR ranking at 31 December 2006	Vesting
2004	19th out of 20	0% (final vesting)
2005	19th out of 20	0% (provisional)
2006	14th out of 14	0% (provisional)

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 maximum award under the plan is one and a half times base salary. Awards made in 2006 were to Ian Burke (100% of salary) and Peter Gill (60% of salary). The executive Directors' interests in the LTIP for 2006 are shown in Table 2 on page 31.

2007
At the 2007 AGM, the Board will propose a number of changes to the design and operation of long term incentives for executive Directors and selected senior executives. These changes are being proposed in recognition that:

- There is a need to improve the alignment of the key medium term objectives for executives with the creation of shareholder returns.

- It has become increasingly difficult to establish a relative TSR comparator group which is relevant to Rank now it is a focused gaming business.

- A number of its shareholders no longer favour the use of share options in the executive remuneration package.

The key changes are:

- Suspension of grants under the ESOS in 2007.

- Amendments to the rules of the LTIP which allow the Remuneration Committee to set appropriate financial targets for grants made from 2007 onwards.

Full details of the changes are set out in the notice of the Annual General Meeting which, for shareholders, is enclosed with this Annual Report and Financial Statements.

d) Pension (audited)
Ian Burke receives a Company contribution of 35% of salary under the Group's Self Invested Pension Plan ('SIPP'). Peter Gill does not participate in the Company's pension arrangements and instead receives a salary supplement of 30% of salary in lieu of pension provision.

Before their departures from the Company, Mike Smith and David Boden were contributing 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). The accrual rate did not exceed 1/30th for each year of service.

In addition, the Company paid into a funded unapproved defined contribution retirement benefit scheme ('FURBS'), on behalf of Mike Smith.

Both Mike Smith and David Boden ceased to accrue any additional entitlement under the Rank Pension Plan on leaving the Company, on 31 March 2006 and 31 May 2006 respectively.

Neither Mike Smith nor David Boden were entitled to take early pensions without abatement for early retirement.

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

	Age at 31.12.06	Gross increase in accrued pension during 2006 £000	Increase in accrued pension (net of inflation) during 2006 £000	Total accrued pension at 31.12.06 £000	Value of net increase in accrued pension (net of Directors' contributions) £000	Value of accrued pension at 01.01.06 £000	Transfer value of accrued pension at 31.12.06 £000	Directors' contributions during 2006 £000	Increase in transfer value (net of Directors' contributions) £000
Mike Smith	59	0	0	12	(5)	226	232	2	4
David Boden	50	8	2	176	6	2,204	2,245	12	29

1. Mike Smith chose to commence early payment of his benefits (with abatement) with effect from 30 September 2006 and elected to take a lump sum of £60,830.40 in lieu of part of his entitlement. The figures in the table include allowance for this figure. If this allowance is excluded, in accordance with Companies Act Regulations, the year-end value reduces to £175,000 and the change in value (net of Directors' contributions) becomes (£53,000).
2. For David Boden the accrued pension is the amount which would be paid annually on retirement based on service to his date of leaving on 31 May 2006.
3. The value of net increase in accrued pension represents the incremental value to the executive Director of his service during the year. 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 any executive Directors, who are contributing members of the Company's defined benefit plan to opt out and instead receive a salary supplement of 17.9%. The salary supplement rate has been set such that the total cost to the Company is no more than the cost of the Company's regular pension contributions to the defined benefit plan.

Service contracts and external directorships
It is the Company's policy that the executive Directors normally 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. Ian Burke was appointed on 6 March 2006 and his service contract included a 24 months' notice period which reduced to 12 months on 6 March 2007.

	Date of service contract	Unexpired term	Notice period
Ian Burke	6 March 2006	12 months	12 months
Peter Gill	11 July 2005	12 months	12 months
Mike Smith	25 February 1999	n/a	12 months
David Boden	1 March 2005	n/a	12 months

Any compensation payment made in connection with the departure of an executive Director will be subject to approval by the Remuneration Committee having regard to the terms of their service contract and the reasons for termination. Except as the contract requires, severance payments are normally limited to payment of contractual notice not worked, comprising base salary and a cash value in respect of fixed benefits (including pension contributions). In situations involving breach of the Company's policies resulting in dismissal, reduced or no payments may be made to the executive. Depending on the circumstances, the executive may be entitled, or the Remuneration Committee may exercise its discretion to allow the executive, to exercise outstanding awards of share options or long term incentive grants, subject to the rules of the relevant plan.

Since Ian Burke and Peter Gill do not participate in a defined benefit arrangement the issue of abatement for early retirement does not arise.

The Chairman and 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 period that Mike Smith was a Director he served as non-executive Chairman of Communisis plc and retained fees of £25,000.

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 2006	Ordinary shares 1 January 2006 (or date of appointment if later)
Chairman:		
Alun Cathcart		
(until 28 February 2007)	**100,000**	100,000
Executive Directors:		
Ian Burke	**10,000**	10,000
Peter Gill	**10,000**	–
Non-executive Directors:		
Richard Greenhalgh	**6,653**	2,806
Brendan O'Neill	**5,597**	2,316
Bill Shannon	**7,427**	5,000
John Warren	**12,762**	10,000
Total	**152,439**	130,122

There have been no changes in the interests of executive and non-executive Directors since 31 December 2006.

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 2006, the Trust held 202,852 Ordinary shares. At 31 December 2006, 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 LTIP. Periodically, an estimate is made of the awards likely to vest, and shares are purchased as appropriate.

Remuneration report continued

Directors' remuneration summary (audited)
The detailed emoluments received by the Directors and the aggregate cash emoluments received by members of the Executive Committee (other than executive Directors) for 2006 are shown below with the annual rate of base pay from 1 January 2007:

	Base salary/ base fees £000	Committee Chairman's fees £000	Benefits £000	Expense allowances (including car allowance) £000	Annual bonus £000	FURBS/SIPP/ DC Pension/ Salary supplement £000	Total emoluments: Total 2006 £000	Total emoluments: Total 2005 £000	Annual rate of basic pay from 01.01.07 £000
Chairman:									
Alun Cathcart	193	–	–	12	–	–	**205**	198	–
Peter Johnson	–	–	–	–	–	–	–	–	150
Executive Directors:									
Ian Burke (see notes 1 and 5)	348	–	11	15	255	221	**850**	–	525
Peter Gill (see notes 2 and 5)	364	–	8	18	184	103	**677**	361	375
David Boden (see note 3)	578	–	217	26	5	–	**826**	334	–
Mike Smith (see note 4)	557	–	28	19	188	338	**1,130**	1,149	–
Non-executive Directors:									
Richard Greenhalgh	38	8	–	–	–	–	**46**	35	38
Brendan O'Neill	38	–	–	–	–	–	**38**	35	38
Bill Shannon	29	–	–	–	–	–	**29**	–	38
John Warren	38	6	–	–	–	–	**44**	–	38
Oliver Stocken	12	3	–	–	–	–	**15**	43	–
John Sunderland	13	2	–	–	–	–	**15**	45	–
Total	2,208	19	264	90	632	662	**3,875**	2,200	1,202
Executive Committee (excluding executive Directors):									
Aggregate	1,022	–	32	40	320	74	**1,488**	1,996	

Notes:
Peter Johnson was appointed on 1 January 2007
Ian Burke was appointed on 6 March 2006
Bill Shannon was appointed on 3 April 2006
John Warren was appointed on 1 January 2006

Alun Cathcart resigned on 28 February 2007
Mike Smith resigned on 31 March 2006
David Boden resigned on 11 May 2006 and left the Company on 31 May 2006
Oliver Stocken resigned on 26 April 2006
John Sunderland resigned on 26 April 2006

1. Ian Burke waived £73,231 of his gross base salary in lieu of additional contributions to his SIPP. There was no additional cost to the Company. Ian Burke's base salary is shown net of the waiver, and SIPP is shown inclusive of the additional contributions in the table above.
2. Peter Gill was appointed on 11 July 2005.
3. David Boden was appointed to the Board on 1 March 2005. In accordance with the terms of David Boden's service contract, payments totalling £615,900 (of which £426,100 is included in base salary, £171,300 is included in benefits (primarily pension related payments) and £18,500 is included in expense allowances) were made following the early termination of his contract with effect from 31 May 2006 and are included above; this predominantly comprises of a lump sum equivalent to salary in lieu of a 12 month contractual notice period and also includes compensation for the loss of future employment benefits. A contribution was also made towards David Boden's legal fees. He was also paid £60,000 during the year under a consultancy agreement since resigning as a Director.
4. Mike Smith waived £60,000 of his gross base salary 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 is shown inclusive of the additional contributions in the table above. In accordance with the terms of Mike Smith's service contract, payments totalling £705,173 (of which £463,050 is included in base salary, £19,875 is included in benefits, £13,875 is included in expense allowances and £208,373 in FURBS) were made following the early termination of his contract with effect from 31 March 2006 and are included above; this predominantly comprises of a lump sum equivalent to the salary in lieu of the remaining nine months of a 12 month contractual notice period and also includes compensation for the loss of future employment benefits.
5. During 2006 Ian Burke and Peter Gill participated in a deferred share bonus plan under which shares equal to 20% of their 2006 base salary may be awarded in 2007 subject to the financial performance of Rank's Gaming business. No allowance for any such award has been included in the table above.

The widow of John Garrett, a former executive Director, received £32,453 (2005: £18,555) in respect of an unfunded pension obligation.

The aggregate number of Executive Committee members (excluding executive Directors) during 2006 was 3 (2005: 6). Refer to note 32 on page 81.

Table 1: Executive interests in share options (audited)

	Plan	Date of grant	Exercise price (p)	Number at 01.01.06	Number granted (exercised) during 2006	Number (lapsed) during 2006	Number at 31.12.06	Performance period ending 31 December (maximum)	Earliest exercise date	Exercise period end date
Ian Burke	ESOS	10 Mar 06	237.58	–	429,328	–	429,328	2008	10 March 09	9 March 16
	SAYE	2 Oct 06	187.00****	–	5,053	–	5,053	–	1 Dec 09	31 May 10
Peter Gill	ESOS	22 Sep 05	303.25	230,831	–	–	230,831	2007	22 Sep 08	21 Sep 15
	ESOS	10 Mar 06	237.58	–	101,119	–	101,119	2008	10 March 09	9 March 16
	SAYE	4 Oct 05	225.00	7,155	–	(7,155)	–	–	–	–
	SAYE	2 Oct 06	187.00	–	8,756	–	8,756	–	1 Dec 11	31 May 12
Mike Smith*	ESOS	1 April 99	226.25	600,000	(300,000)	–	300,000	Vested	1 April 02	31 March 07
	ESOS	24 May 02	271.00	195,571	–	–	195,571	Vested	24 May 05	31 March 07
	ESOS	27 Mar 03	239.92	178,184	–	(178,184)	–	Lapsed	–	–
***	ESOS	11 Mar 04	320.33	112,383	–	–	112,383	2006	11 March 07	11 March 08
	ESOS	18 Mar 05	277.83	146,666	–	–	146,666	2007	18 March 08	18 March 09
David Boden**	ESOS	8 Aug 97	346.90	33,144	–	–	33,144	Vested	8 Aug 00	31 May 07
	ESOS	20 Feb 98	338.72	47,236	–	–	47,236	Vested	20 Feb 01	31 May 07
	ESOS	24 May 02	271.00	94,095	–	–	94,095	Vested	24 May 05	31 May 07
	ESOS	27 Mar 03	239.92	85,966	–	–	85,966	Vested	1 Jun 06	31 May 07
	ESOS	11 Mar 04	320.33	54,318	–	(13,580)	40,738	Vested	1 Jun 06	31 May 07
	ESOS	18 Mar 05	277.83	83,144	–	(48,501)	34,643	Vested	1 Jun 06	31 May 07
	ESOS	10 Mar 06	237.58	–	101,119	(92,692)	8,427	Vested	1 Jun 06	31 May 07
	SAYE	30 Apr 04	268.00	3,516	–	(3,516)	–	–	–	–

* Resigned 31 March 2006
** Resigned on 11 May 2006 and left the Company on 31 May 2006
*** Failed to meet performance criteria at 31 December 2006, to be re-tested at 31 December 2007
**** The 2006 SAYE exercise price represents a 20% discount against the closing market price of 233p on 4 September 2006

The market value of one Ordinary share was 233.75p at 31 December 2006. The highest market value during 2006 was 294p and the lowest was 189.50p. No ESOS or SAYE options were exercised by executive Directors other than Mike Smith during the year and the notional gain was £120,750.

No amendments were made to performance conditions of any options granted prior to 2006. Performance conditions were waived under the early leaver rules of the ESOS in respect of grants made since 2003 for David Boden.

Table 2: Executive interests in the Long Term Incentive Plan (audited)

	Date of award	Market price at award (p)	Market price at vesting (p)	Number at 01.01.06	Number awarded (vested) during 2006	Number (lapsed) during 2006	Number at 31.12.06	Status/ Performance period ending 31.12.06
Ian Burke	10 Mar 06	236.00	–	–	216,101	–	216,101	2008
Peter Gill	22 Sep 05	303.75	–	115,226	–	–	115,226	2007
	10 Mar 06	236.00	–	–	92,542	–	92,542	2008
Mike Smith*	20 Mar 03	238.50	–	179,245	–	(179,245)	—	
	11 Mar 04	323.50	–	111,282	–	(111,282)	–	–
	18 Mar 05	275.50	–	134,460	–	(134,460)	–	–
David Boden**	20 Mar 03	238.50	–	86,477	–	(86,477)	–	–
	11 Mar 04	323.50	–	53,786	–	(53,786)	–	–
	18 Mar 05	275.50	–	76,225	–	(76,225)	–	–
	10 Mar 06	236.00	–	–	92,542	(92,542)	–	–

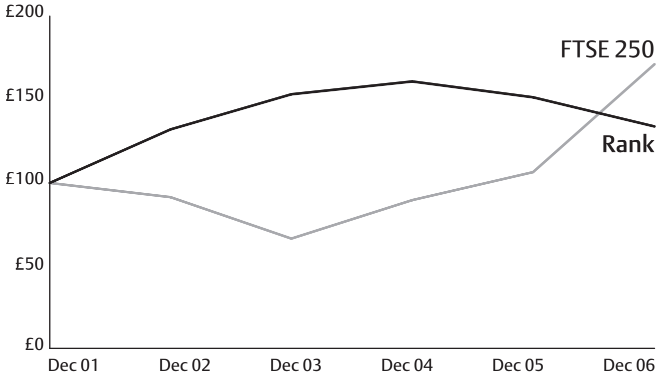
* Resigned 31 March 2006
** Resigned on 11 May 2006 and left the Company on 31 May 2006

No variation was made to the terms of the grants during the year.

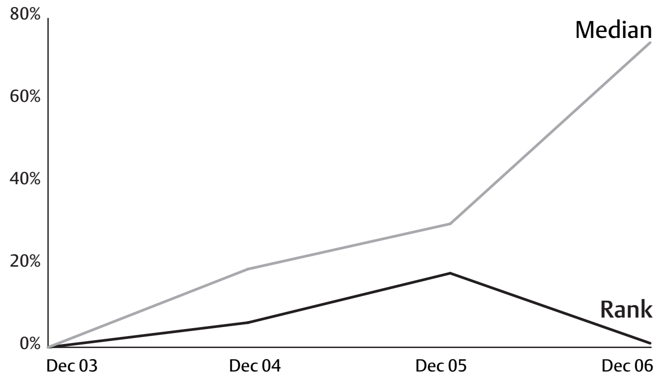
Remuneration report continued

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 2006. The Committee has selected this index as the Company was a constituent of the FTSE-250 throughout this period. As described on page 27, 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 2006 is also shown below.

Value of hypothetical £100 holding



LTIP: relative TSR growth %



On behalf of the Board

Richard Greenhalgh
Chairman of the Remuneration Committee

14 March 2007

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 head office. 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 was Chairman throughout 2006 and the Board was satisfied that his other significant commitments had no material impact upon the amount of time that he was able to devote to his chairmanship of the Group during the year.

Board balance and independence
The Board includes a balance of executive and independent non-executive Directors, whose biographical details are given on pages 22 and 23. Richard Greenhalgh became the Senior Independent Director in May 2006 following John Sunderland's retirement at the conclusion of the Annual General Meeting. The Directors have wide-ranging business experience, and no individual, or group of individuals, dominates the Board's decision-making process. The Board also considered Peter Johnson as independent on his appointment as a Director.

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 2006 is given on page 34.

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 a questionnaire process between the Chairman and each Director. This was designed to provide an objective assessment and covered the areas of Board process and administration, and the contribution made by each individual. In addition, led by Richard Greenhalgh, the Chairman's performance was evaluated by means of a questionnaire. The outcomes of these assessments were then reported to, and discussed by, the whole Board. The conclusion was reached that the Board continues to function effectively and that both the Board and its committees were discharging their duties in full accordance with their Terms of Reference.

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 following their appointment, and thereafter at intervals of not more than three years apart. Non-executive Directors are engaged for an initial period of three years, subject to their re-appointment having been confirmed by shareholders as described above.

The Audit Committee
Rank's Audit Committee is comprised solely of independent non-executive Directors. Details of the Committee's membership throughout 2006 are as follows:

	Date first appointed	Date left Committee
John Warren	January 2006	
Brendan O'Neill	October 2004	
Bill Shannon	April 2006	
Oliver Stocken	October 1998	April 2006
John Sunderland	February 1998	April 2006

Oliver Stocken chaired the Committee from May 2000 until he retired from the Board at the Annual General Meeting in April 2006, at which point John Warren took over the chairmanship.

The Board is satisfied that all members of the Committee have recent and relevant financial experience. Normally the Chairman, Chief Executive, Finance Director, the Company Secretary 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 published 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, in order 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 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 in advance 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 54.

In addition to more routine items of business, in 2006 the Committee commissioned an independent review of the design and operational effectiveness of the controls in place to support Blue Square's policy of not knowingly providing services to US citizens. The Committee also reviewed the 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 Peter Johnson (Chairman), Ian Burke and Peter Gill.

Alun Cathcart chaired this Committee until Peter Johnson took over from him on 1 March 2007, and Ian Burke replaced 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 the Chairman and the Chief Executive to be formally involved in this process and thus both of them are members of the Committee, as are all four of the non-executive Directors.

Composition of this Committee did not comply fully with the Code (in that the majority of its members were not independent non-executive Directors) until Bill Shannon joined it on 3 April 2006. Brendan O'Neill and John Warren became members at the conclusion of the 2006 Annual General Meeting when John Sunderland left the Board. Peter Johnson replaced Alun Cathcart as Chairman of the Committee on 1 March 2007.

During 2006, the Committee met formally on three occasions and agreed specifications for new executive and non-executive Directors and a new Chairman, taking into account the existing balance of skills, knowledge, and experience on the Board. An external search consultant was engaged to assist in the process of identifying suitable candidates, which led to the appointments of Ian Burke as Chief Executive, Peter Johnson as Chairman and Bill Shannon as a non-executive Director.

The Remuneration Committee
The Remuneration Committee is comprised solely of independent non-executive Directors. Until the Annual General Meeting in April 2006, the Committee was chaired by John Sunderland and its other members were Richard Greenhalgh and Oliver Stocken. From then onwards it was chaired by Richard Greenhalgh with Bill Shannon and John Warren being its other members. 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 2006 are contained in the Remuneration report on pages 26 to 32, which also summarises the Company's remuneration policy and contains details of Directors' remuneration. The Committee met formally three times during 2006.

Attendance
Details of attendances (actual, and possible in brackets) of Directors and Committee members at the principal Board and Committee meetings held in 2006 were as follows:

	Board (Total 11)	Audit (Total 4)	RemCo (Total 3)	NomCo (Total 3)	Finance (Total 31)
Alun Cathcart	11(11)	–	–	2(3)	24(31)
David Boden[1]	3(3)	–	–	–	–
Ian Burke[2]	9(9)	–	–	2(2)	26(28)
Peter Gill	11(11)	–	–	–	30(31)
Richard Greenhalgh	11(11)	–	3(3)	3(3)	–
Brendan O'Neill	10(11)	4(4)	–	2(2)	–
Bill Shannon[3]	7(9)	2(2)	2(2)	1(1)	–
Mike Smith[4]	2(2)	–	–	–	3(3)
Oliver Stocken[5]	3(3)	3(3)	1(1)	–	–
John Sunderland[6]	2(3)	1(3)	1(1)	–	–
John Warren	11(11)	4(4)	2(2)	2(2)	–

Notes
1. Resigned 11 May 2006
2. Appointed 6 March 2006
3. Appointed 3 April 2006
4. Resigned 6 March 2006
5. Resigned 26 April 2006
6. Resigned 26 April 2006

In the 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. The names of its current members, and the positions that they hold within the Company, are set out on page 23.

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 financial statements.

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 (until 3 April 2006), which is referred to above, and the length of the notice periods (which for an initial period of one year exceeded 12 months) of the newly-appointed Chief Executive's and Finance Director's service contracts, 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 October 2005 publication entitled 'Internal Control: Revised 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 Financial Statements. 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 new risk assessment process was established during the year. This risk assessment process identifies the key strategic, operational, financial and compliance risks that the business faces. It includes an analysis of the likelihood and impact for each of the risks identified. For the key risks action plans have been developed and are monitored as part of management's procedures.

The revised risk management process implemented provides a report to the Audit Committee and the Board detailing significant risks facing the Group. To develop the significant risks for the Group, risk workshops were held with each of the businesses identifying strategic, operational, compliance and financial issues faced by the business and ranking the key issues based on impact and likelihood. An executive workshop used information gathered at the businesses to develop a full risk assessment for the Group.

The Group has 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 board has a compliance function that monitors day-to-day adherence to control procedures.

In 2006 the Company filed a Form 15 with the SEC in order to terminate its registration and thereby suspend its reporting and other applicable US obligations, including compliance with the Sarbanes-Oxley Act. Going forwards, this suspension is conditional upon the Company continuing to ensure that the number of its US holders remains below three hundred, as set out in the Directors' Report on page 24.

The Audit Committee has reviewed the effectiveness of the system of internal control during the year ended 31 December 2006. 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 external auditors.

During the year, reports were submitted to the Committee from the Head of Internal Audit summarising the work planned and undertaken, recommending improvements and describing the actions taken by management. The risk assessment process and the risk driven annual internal audit plan were also presented for approval by the Audit Committee.

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 2007 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 financial statements.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report, the Remuneration report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and parent Company financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing these financial statements the Directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State that the financial statements comply with IFRS as adopted by the European Union.
- Prepare the financial statements for both the Company and the Group on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The Directors confirm that they have complied with the above requirements in preparing the financial statements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Remuneration report comply with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are also responsible for the maintenance and integrity of the website, on which this Annual Report and Financial Statements will be published. In relation to this, the Directors would like to draw attention to the fact that legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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 2006 which comprise the Group income statement, the Group and Company balance sheets, the Group statement of recognised income and expense, the Group and Company cash flow statements 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 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' report, the remuneration report and the financial statements in accordance with applicable law and International Financial Reporting Standards ('IFRS') as adopted by 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 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 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 information given in the Directors' report and the remuneration report is 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 financial highlights, the Chairman's statement, the Operating and financial review, the responsibility statement, the Board of Directors, the Directors' report, the unaudited part of the remuneration report, the corporate governance statement, the statement of Directors' responsibilities, the five year review and the shareholder information. 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 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 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 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 by the European Union, of the state of the Group's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended;

- the Company financial statements give a true and fair view, in accordance with IFRS as adopted by 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 2006 and cash flows for the year then ended;

- the financial statements and the part of the remuneration report to be audited have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and

- the information given in the Directors' report is consistent with the Group financial statements.

PricewaterhouseCoopers

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

14 March 2007

Group income statement

for the year ended 31 December 2006

	Note	2006 Before exceptional items £m	2006 Exceptional items (note 4) £m	2006 Total £m	2005 (restated)* Before exceptional items £m	2005 (restated)* Exceptional items (note 4) £m	2005 (restated)* Total £m
Continuing operations							
Revenue	2	**549.6**	**–**	**549.6**	529.8	–	529.8
Cost of sales		**(282.5)**	**–**	**(282.5)**	(268.8)	–	(268.8)
Gross profit		**267.1**	**–**	**267.1**	261.0	–	261.0
Other operating (costs) income	3	**(189.7)**	**56.2**	**(133.5)**	(170.5)	(12.1)	(182.6)
Group operating profit (loss)	2	**77.4**	**56.2**	**133.6**	90.5	(12.1)	78.4
Financing:							
– finance costs		**(36.2)**	**(14.7)**	**(50.9)**	(46.9)	(3.6)	(50.5)
– finance income		**3.2**	**–**	**3.2**	6.9	–	6.9
– amortisation of equity component of convertible bond		**(3.0)**	**–**	**(3.0)**	(3.0)	–	(3.0)
– foreign exchange gain (loss) on inter-company loans including hedging		**10.0**	**–**	**10.0**	(16.0)	–	(16.0)
Total net financing charge	5	**(26.0)**	**(14.7)**	**(40.7)**	(59.0)	(3.6)	(62.6)
Profit (loss) before taxation	3	**51.4**	**41.5**	**92.9**	31.5	(15.7)	15.8
Taxation	6	**(3.6)**	**25.2**	**21.6**	(25.0)	24.3	(0.7)
Profit for the year from continuing operations		**47.8**	**66.7**	**114.5**	6.5	8.6	15.1
Discontinued operations	7	**21.5**	**(17.0)**	**4.5**	42.5	(266.1)	(223.6)
Profit (loss) for the year		**69.3**	**49.7**	**119.0**	49.0	(257.5)	(208.5)
Profit (loss) attributable to equity shareholders	25	**67.5**	**49.7**	**117.2**	47.8	(257.5)	(209.7)
Profit attributable to minority interest	26	**1.8**	**–**	**1.8**	1.2	–	1.2
		69.3	**49.7**	**119.0**	49.0	(257.5)	(208.5)
Earnings (loss) per share attributable to equity shareholders	10						
– basic				**19.9p**			(33.6)p
– diluted				**19.9p**			(33.5)p
Earnings per share – continuing operations	10						
– basic				**19.5p**			2.4p
– diluted				**19.5p**			2.4p
Earnings (loss) per share – discontinued operations	10						
– basic				**0.4p**			(36.0)p
– diluted				**0.4p**			(35.9)p

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

The notes on pages 43 to 88 are an integral part of these consolidated financial statements.

*The 2005 comparative has been restated to reclassify Hard Rock and US Holidays to discontinued operations.

Balance sheets

at 31 December 2006

		Group		Company	
		2006	2005	**2006**	2005 (restated)*
	Note	**£m**	£m	**£m**	£m
Assets					
Non-current assets					
Intangible assets	11	**159.3**	178.2	**–**	–
Property, plant and equipment	12	**217.7**	480.9	**–**	–
Investments	14	**0.5**	45.1	**1,343.6**	1,843.6
Defined benefit pension asset	34	**75.8**	–	**–**	–
Deferred tax assets	15	**9.7**	62.5	**0.2**	1.4
Trade and other receivables	17	**8.4**	28.7	**–**	–
		471.4	795.4	**1,343.8**	1,845.0
Current assets					
Financial assets					
– derivative financial instruments	21	**9.5**	5.2	**–**	–
– cash and cash equivalents	28	**83.6**	117.7	**0.1**	0.8
Inventories	16	**4.3**	33.0	**–**	–
Trade and other receivables	17	**56.7**	44.7	**44.3**	80.9
		154.1	200.6	**44.4**	81.7
Assets held for sale	7	**242.0**	512.1	**–**	–
		396.1	712.7	**44.4**	81.7
Total assets		**867.5**	1,508.1	**1,388.2**	1,926.7
Liabilities					
Current liabilities					
Financial liabilities					
– financial guarantees	20	**–**	–	**(1.1)**	(0.6)
– derivative financial instruments	20, 21	**(2.6)**	(6.1)	**–**	–
– loan capital and borrowings	20	**(10.8)**	(13.5)	**(2.7)**	(2.7)
Trade and other payables	18	**(125.2)**	(158.8)	**(133.3)**	(380.3)
Current tax liabilities	19	**(2.3)**	(2.8)	**–**	–
Provisions for other liabilities and charges	23	**(12.7)**	(11.4)	**(0.6)**	–
		(153.6)	(192.6)	**(137.7)**	(383.6)
Liabilities held for sale	7	**(44.5)**	(209.1)	**–**	–
		(198.1)	(401.7)	**(137.7)**	(383.6)
Net current assets (liabilities)		**198.0**	311.0	**(93.3)**	(301.9)
Non-current liabilities					
Financial liabilities					
– derivative financial instruments	20, 21	**(1.6)**	(2.2)	**–**	–
– loan capital and borrowings	20, 21	**(510.5)**	(836.2)	**(158.7)**	(154.9)
Deferred tax liabilities	15	**(7.7)**	–	**–**	–
Other non-current liabilities	22	**(32.9)**	(31.0)	**–**	–
Defined benefit pension liability	34	**–**	(38.2)	**–**	–
Provisions for other liabilities and charges	23	**(41.4)**	(30.7)	**–**	(1.0)
		(594.1)	(938.3)	**(158.7)**	(155.9)
Total liabilities		**(792.2)**	(1,340.0)	**(296.4)**	(539.5)
Net assets		**75.3**	168.1	**1,091.8**	1,387.2
Capital and reserves attributable to the Company's equity shareholders					
Ordinary shares	24	**54.2**	62.6	**54.2**	62.6
Share premium	25	**98.1**	93.1	**98.1**	93.1
Capital redemption reserve	25	**33.4**	24.8	**33.4**	24.8
Exchange translation reserve	25	**(4.5)**	23.8	**–**	–
Other reserves	25	**(105.9)**	(47.6)	**906.1**	1,206.7
Total shareholders' equity		**75.3**	156.7	**1,091.8**	1,387.2
Minority interests	26	**–**	11.4	**–**	–
Total equity		**75.3**	168.1	**1,091.8**	1,387.2

The notes on page 43 to 88 are an integral part of these consolidated financial statements.
*Details of the restatement are included in note 1A(a).

These financial statements were approved by the Board on 14 March 2007 and signed on its behalf by:
Ian Burke, Chief Executive
Peter Gill, Finance Director

Group statement of recognised income and expense

for the year ended 31 December 2006

	Note	2006 £m	2005 £m
Profit (loss) for the financial year		**119.0**	(208.5)
Currency translation net of tax and hedging		**(28.3)**	45.0
Actuarial gain (loss) on defined benefit pension scheme net of tax	34	**64.7**	(13.4)
Revaluation of available-for-sale securities		**22.8**	6.8
Revaluation of available-for-sale securities recycled within net profit	4	**12.1**	–
Tax on non-qualifying leasehold property		**–**	4.3
Total recognised income (expense) for the year		**190.3**	(165.8)
– attributable to equity shareholders		**188.5**	(167.0)
– attributable to minority interest		**1.8**	1.2
		190.3	(165.8)

The notes on pages 43 to 88 are an integral part of these consolidated financial statements.

Cash flow statements

for the year ended 31 December 2006

	Note	Group 2006 £m	Group 2005 £m	Company 2006 £m	Company 2005 £m
Cash flows from operating activities					
Cash generated from operations	27	**83.0**	175.3	**(1.2)**	(4.1)
Interest received		**5.0**	5.1	**–**	–
Interest paid		**(63.2)**	(40.4)	**(10.2)**	(6.9)
Tax paid		**(3.9)**	(1.3)	**–**	–
Additional pension payment		**(50.0)**	–	**–**	–
Discontinued operations		**(5.2)**	(10.8)	**–**	–
Net cash (used in) from operating activities		**(34.3)**	127.9	**(11.4)**	(11.0)
Cash flow from investing activities					
Proceeds from sale of businesses (net of cash disposed)	31	**449.8**	–	**–**	–
Acquisition of businesses		**(0.6)**	(3.0)	**–**	–
Purchase of property, plant and equipment		**(50.2)**	(28.2)	**–**	–
Proceeds from sale of property, plant and equipment		**10.1**	1.6	**–**	–
Proceeds from sale and leaseback net of lease assignment		**171.9**	–	**–**	–
Proceeds from sale of investments		**8.8**	–	**–**	–
Discontinued operations		**(21.8)**	(70.9)	**–**	–
Net cash from (used in) investing activities		**568.0**	(100.5)	**–**	–
Cash flows from financing activities					
Net proceeds from issue of ordinary share capital		**5.2**	5.0	**5.2**	5.0
Debt due within one year					
– repayment of Sterling borrowings		**–**	(10.5)	**–**	–
Debt due after more than one year					
– repayment of Sterling borrowings		**(35.0)**	–	**–**	–
– repayment of Dollar borrowings		**(219.1)**	(51.9)	**–**	–
– drawdown on syndicated facilities		**300.1**	328.9	**–**	–
– repayment of syndicated facilities		**(326.3)**	(153.8)	**–**	–
– other		**–**	(2.8)	**–**	–
Finance lease principal payments		**(1.6)**	(3.0)	**–**	–
Dividends paid to shareholders		**(74.1)**	(92.5)	**(74.1)**	(92.5)
Share buy-back		**(201.4)**	–	**(201.4)**	–
Amounts received from subsidiaries		**–**	–	**281.0**	99.3
Discontinued operations		**(13.8)**	(4.5)	**–**	–
Net cash (used in) from financing activities		**(566.0)**	14.9	**10.7**	11.8
Effects of exchange rate changes		**(1.7)**	1.6	**–**	–
Net (decrease) increase in cash and cash equivalents		**(34.0)**	43.9	**(0.7)**	0.8
Cash and cash equivalents at 1 January	28	**109.4**	65.5	**0.8**	–
Cash and cash equivalents at 31 December	28	**75.4**	109.4	**0.1**	0.8

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

The notes on pages 43 to 88 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 25.

Statement of compliance
The Group financial statements have been prepared in accordance with EU endorsed International Accounting and Financial Reporting Standards ('IFRS') and IFRIC interpretations 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 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.

(a) Amendments to published standards effective in 2006
– IAS 39 and IFRS 4 (Amendment), Financial guarantee contracts;

Under the amendment to IAS 39 the Company has recognised a liability in relation to financial guarantees provided to certain subsidiary undertakings' external borrowings. This resulted in a £0.6m reduction in the Company's opening equity. There is no impact on the Group results as the external borrowings to which the guarantees relate are consolidated within the Group balance sheet.

(b) Standards, amendments and interpretations effective in 2006 but not relevant
The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2006 but they are not material to the Group's operations:

– IAS 19 (Amendment), Employee benefits;

– IAS 39 (Amendment), The fair value option;

– IAS 39 (Amendment), Cash flow hedge accounting of forecast intragroup transactions;

– IAS 21 (Amendment), Net investment in a foreign operation;

– IFRS 1, (Amendment), First-time adoption of International Financial Reporting Standards;

– IFRS 6, (Amendment), exploration for and evaluation of mineral resources;

– IFRS 6, Exploration for and evaluation of mineral resources;

– IFRIC 4, Determining whether an arrangement contains a lease;

– IFRIC 5, Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds; and

– IFRIC 6, Liabilities arising from participating in a specific market – Waste electrical and electronic equipment.

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 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 below. The best estimates of the Directors may differ from the actual results.

	Note
Categorisation of items as exceptional	1-V, 4
Assets and liabilities carried at fair value	1-G
Hedge accounting	1-G
Retirement benefits	1-M, 34
Assets and liabilities held for sale	1-T
Carrying value of assets and potential impairments	1-L, 13
Estimated economic lives and residual values	1-J, 1-K
Recoverability of deferred tax assets	1-O, 15

B 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 (discontinued operations)
Joint ventures are all entities over which the Group exercises joint control. Associates are all entities over which the Group exercises significant influence but not control. 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 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.

1 General information and accounting policies continued
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.

C 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. Revenue for bingo is net of prizes and value added tax before deduction of gross profits tax. Revenue for Blue Square including sportsbetting and on-line casinos represents gross win margin. Although disclosed as revenue, gaming win meets the definition of a gain under IAS 39 Financial instruments: Recognition and measurement.

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

D 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.

E 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.

F 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 when deferred in equity 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 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 was 1.96 (2005: 1.72), and the closing Euro rate against Sterling was 1.48 (2005: 1.46);

(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 1.84 (2005: 1.81), and the average Euro rate against Sterling was 1.47 (2005: 1.46); 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 net of hedging 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.

G Financial instruments

Financial assets

The Group classifies its financial assets in the following categories: loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured 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. The Group designates certain derivatives as either:

(i) hedges of the fair value of recognised liabilities (fair value hedge);

(ii) hedges of a particular risk associated with a recognised liability or a highly probable forecast transaction (cash flow hedge); or

(iii) hedges of a net investment in a foreign operation (net investment hedge).

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in note 21.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

(i) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group applies only fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within finance costs.

The gain or loss relating to the ineffective portion is recognised in the income statement within financing cost. Changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk are recognised in the income statement within finance costs.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

Notes to the financial statements continued

1 General information and accounting policies continued
(ii) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within operating costs.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement within operating costs.

(iii) Net investment hedge
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within financing costs. Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

(iv) Derivatives at fair value through profit or loss
Certain derivative instruments do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within operating costs.

Other
The fair value of the liability portion of the convertible bond was determined on the date of issue. This amount is recorded as a liability and is held on an amortised cost basis until such time as it is extinguished on conversion or the maturity of the bonds. The remaining proceeds have been allocated to the conversion option and are recognised in shareholders' funds. 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.

H 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.

I 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. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(a) 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.

(b) Provision on disposal
Following the disposal of an operation, provision is made for the estimated future costs and potential warranty claims directly attributable to the disposal.

J 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.

1 General information and accounting policies continued
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.

The Group does not capitalise interest.

K 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.

L 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 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 in the income statement 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 in the income statement immediately, unless the relevant asset is carried at a revalued amount.

1 General information and accounting policies continued
M 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 amount recognised in the balance sheet in respect of the defined benefit pension plan 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.

The Group recognises actuarial gains and losses immediately in the statement of recognised income and expense.

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 vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity.

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.

N 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 Holidays division which operates a time-share business (discontinued operations only).

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.

O 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 liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if deferred 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.

1 General information and accounting policies continued
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 assets and liabilities are offset when there is a legally enforceable right to set off current taxation assets against current taxation liabilities and it is the intention to settle these on a net basis.

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.

P 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.

Q 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 (discontinued operations only).

R 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.

S Share capital
Ordinary shares are classified as equity.

Where any Group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

T Discontinued operations and non-current assets held for sale
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 non-recurring 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
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
IFRS 8	Operating Segments	1 January 2009
IAS 1	Amendment – Presentation of Financial Statements: Capital Disclosures	1 January 2007

In addition, IFRIC have issued the following standards and interpretations that are not applicable to The Rank Group Plc:

IFRIC 7	Applying the restatement approach under IAS 29
IFRIC 8	Scope of IFRS 2
IFRIC 9	Re-assessment of embedded derivatives
IFRIC 11	IFRS 2 Group and treasury share transactions
IFRIC 12	Service concession arrangements

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.

Notes to the financial statements continued

2 Segmental reporting
Primary reporting format – business segments

	Mecca 2006 £m	Mecca 2005 (restated)* £m	Top Rank España 2006 £m	Top Rank España 2005 (restated)* £m
Continuing operations				
Segment revenue	**261.7**	264.0	**31.1**	31.6
Operating profit (loss) before exceptional items	**63.2**	77.9	**8.9**	10.0
Exceptional operating profit (costs)	**37.7**	–	**–**	–
Segment result	**100.9**	77.9	**8.9**	10.0
Finance costs				
Finance income				
Amortisation of equity component of convertible bond				
Foreign exchange gain (loss) on inter-company loans including hedging				
Profit before taxation				
Taxation				
Profit for the year from continuing operations				
Assets and liabilities				
Segment intangible assets:				
Intangible assets with indefinite useful lives	**–**	–	**19.6**	19.9
Intangible assets with finite useful lives	**0.6**	0.6	**–**	–
Property, plant and equipment	**106.2**	216.7	**23.9**	20.6
Financial assets – investments	**–**	–	**–**	–
Other segment assets (including cash)	**31.5**	28.9	**3.6**	3.6
Total segment assets	**138.3**	246.2	**47.1**	44.1
Unallocated assets				
Total assets – continuing operations				
Assets of disposal group held for sale (see note 7)				
Hard Rock and US Holidays assets (2005)				
Total assets				
Total segment liabilities	**(38.9)**	(39.3)	**(7.1)**	(6.2)
Unallocated liabilities				
Total liabilities – continuing operations				
Liabilities of disposal group held for sale (see note 7)				
Hard Rock and US Holidays liabilities (2005)				
Total liabilities				
Net assets				
Other segment items – continuing operations				
Capital expenditure	**16.3**	13.7	**5.5**	2.0
Depreciation and amortisation	**12.1**	12.5	**1.8**	1.6
Impairment losses	**8.6**	0.6	**–**	–

*The 2005 comparatives have been restated to reclassify US Holidays and Hard Rock to discontinued operations. The continuing operations qualifies as a reportable segment under IAS 14 Segment reporting.

Intangible assets with indefinite useful lives include £53.8m (2005: £53.8m) goodwill relating to Blue Square.

Segmental information for discontinued operations is disclosed in note 7.

31 December

	Grosvenor		Blue Square		Gaming shared services		Other		Total	
	2006 £m	2005 (restated)* £m	2006 £m	2005 (restated)* £m	2006 £m	2005 (restated)* £m	2006 £m	2005 £m	2006 £m	2005 (restated)* £m
	217.6	207.9	39.2	26.3	–	–	–	–	549.6	529.8
	39.5	35.0	7.8	1.0	(24.8)	(18.1)	(17.2)	(15.3)	77.4	90.5
	37.3	–	–	–	(6.7)	–	(12.1)	(12.1)	56.2	(12.1)
	76.8	35.0	7.8	1.0	(31.5)	(18.1)	(29.3)	(27.4)	133.6	78.4
									(50.9)	(50.5)
									3.2	6.9
									(3.0)	(3.0)
									10.0	(16.0)
									92.9	15.8
									21.6	(0.7)
									114.5	15.1
	77.2	94.3	53.8	53.8	–	–	–	–	150.6	168.0
	0.3	0.2	6.3	7.1	1.5	1.6	–	–	8.7	9.5
	84.5	105.0	1.5	2.9	1.5	1.6	0.1	1.4	217.7	348.2
	–	–	–	–	–	–	0.5	9.4	0.5	9.4
	27.6	28.4	19.5	12.3	0.9	(2.2)	155.2	82.3	238.3	153.3
	189.6	227.9	81.1	76.1	3.9	1.0	155.8	93.1	615.8	688.4
									9.7	62.5
									625.5	750.9
									242.0	512.1
									–	245.1
									867.5	1,508.1
	(28.3)	(25.7)	(10.3)	(10.1)	(4.8)	(4.1)	(42.2)	(29.2)	(131.6)	(114.6)
									(616.1)	(972.1)
									(747.7)	(1,086.7)
									(44.5)	(209.1)
									–	(44.2)
									(792.2)	(1,340.0)
									75.3	168.1
	24.4	7.9	2.8	3.6	1.1	1.0	0.1	–	50.2	28.2
	8.6	8.7	3.3	3.0	1.4	1.4	1.7	1.6	28.9	28.8
	–	3.2	1.2	–	–	–	–	–	9.8	3.8

have been presented to reflect more accurately the way in which we now manage its businesses. Furthermore Top Rank España also now

2 Segmental reporting continued

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

	Revenue		Profit (loss) for the year	
	2006 **£m**	2005 (restated) £m	**2006** **£m**	2005 (restated) £m
From continuing operations	**549.6**	529.8	**114.5**	15.1
From discontinued operations (see note 7)	**488.5**	963.3	**4.5**	(223.6)
	1,038.1	1,493.1	**119.0**	(208.5)

At 31 December 2006, 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 8 to 17 of the Operating and financial review.

- Mecca Bingo
- Top Rank España
- Grosvenor Casinos
- Blue Square
- Gaming shared services
- Other (includes primarily central costs and expenses relating to non-trading properties)

There are immaterial sales between the business segments.

Unallocated costs represent corporate expenses.

Segment assets include property, plant and equipment, intangible assets, stocks, receivables, retirement benefit asset 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 and other intangible assets.

At 31 December 2006 the assets and liabilities of Hard Rock were classified as discontinued operations held for sale. For segmental reporting purposes, at 31 December 2005 the assets and liabilities of Hard Rock and US Holidays 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 2006

	UK £m	North America £m	Europe £m	Rest of the World £m	Total £m
Revenue	**564.0**	**329.9**	**138.8**	**5.4**	**1,038.1**
Less sales attributable to discontinued operations (see note 7)	**(58.7)**	**(329.9)**	**(94.5)**	**(5.4)**	**(488.5)**
Segment revenue from continuing operations	**505.3**	**–**	**44.3**	**–**	**549.6**
Other segment information					
Segment assets (including cash)	**505.6**	**33.9**	**76.3**	**–**	**615.8**
Unallocated assets					**9.7**
Total assets – continuing operations					**625.5**
Assets of disposal groups held for sale (see note 7)					**242.0**
Total assets					**867.5**
Capital expenditure relating to continuing operations	**44.0**	**–**	**6.2**	**–**	**50.2**

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)	(177.4)	(644.9)	(141.0)	(963.3)
Segment revenue from continuing operations	485.3	–	44.5	529.8
Other segment information				
Segment assets (including cash)	584.7	30.8	72.9	688.4
Unallocated assets				62.5
Total assets – continuing operations				750.9
Assets of disposal groups held for sale (see note 7)				512.1
Hard Rock and US Holidays				245.1
Total assets				1,508.1
Capital expenditure relating to continuing operations	24.9	–	3.3	28.2

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

Analysis of revenue by category – continuing operations

	2006 £m	2005 £m
Sales of goods	**31.1**	33.6
Rendering of services	**518.5**	496.2
Total	**549.6**	529.8

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

Notes to the financial statements continued

3 Profit for the year

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

	2006 £m	2005 (restated) £m
Employee benefits expense	**168.7**	164.4
Cost of inventories recognised as expense	**43.2**	41.2
Depreciation of property, plant and equipment		
– owned assets (including £21.7m (2005: £21.5m) within cost of sales)	**24.3**	24.3
– under finance leases (included within cost of sales)	**1.1**	1.4
Amortisation of intangibles (including £0.4m (2005: £0.6m) within cost of sales)	**3.5**	3.1
Foreign exchange (gain) loss on inter-company loans including hedging	**(10.0)**	16.0
Operating lease rentals payable		
– minimum lease payments	**34.5**	31.6
– sub-lease income	**(8.4)**	(10.2)
Impairment of property, plant and equipment	**9.8**	3.8
Profit on sale of property, plant and equipment	**(6.3)**	(0.5)
Auditors' remuneration for audit services	**1.0**	1.7

The above table includes continuing operations only.

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

		2006 £m	2005 £m
Audit services			
– Fees payable to Company auditor for the parent company and consolidated financial statements		**0.4**	0.5
Other services			
Fees payable to the Company's auditor and its associates for other services:			
– the audit of the Company's subsidiaries pursuant to legislation		**0.6**	1.2
– services relating to corporate finance transactions		**2.5**	2.3
– tax services		**0.2**	0.4
– other services	0.6	**0.1**	
		3.8	5.0

£68,000 (2005: £60,000) 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	2006 £m	2005 £m
Exceptional items relating to continuing operations			
Profit on sale and leaseback transaction		**55.3**	–
Profit on disposal of Clermont Club		**13.0**	–
Loss on sale of investment		**(12.1)**	–
Provision for onerous leases on vacant properties		**–**	(12.1)
Financing charge		**(14.7)**	(3.6)
Taxation	6	**25.2**	24.3
Exceptional items relating to continuing operations		**66.7**	8.6
Exceptional items relating to discontinued operations			
US Holidays		**(20.0)**	–
Deluxe Media Services		**–**	(136.5)
Deluxe Film		**–**	(150.4)
Taxation	6	**3.0**	20.8
Exceptional items relating to discontinued operations		**(17.0)**	(266.1)
Total exceptional items		**49.7**	(257.5)

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

2006 exceptional items
Continuing operations
During the year, the Group completed a sale and leaseback and exit of surplus properties, for net proceeds of £171.9m. The exceptional pre-tax profit arising was £55.3m.

On 1 December 2006 the Group disposed of its Clermont Club for proceeds of £31.0m. The exceptional pre-tax profit arising on disposal was £13.0m.

The Group incurred an exceptional loss of £12.1m on the disposal of its investment in Universal Studios Japan. This loss had been previously recognised in reserves and is now recycled in net profit on its realisation.

During the year, the Group incurred a £14.7m exceptional charge on the early repayment of the US private placement, as a consequence of the refinancing following the sale of its Deluxe businesses.

Discontinued operations
On 15 December 2006 the Group disposed of its US Holidays business for proceeds equivalent to £16.8m. The exceptional pre-tax loss arising on disposal was £20.0m.

2005 exceptional items
Continuing operations
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 charge on the early repayment of the US private placement, financing costs of £3.6m as a result of the closure of an outstanding issue with the tax authorities.

Discontinued operations
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 Section 75 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 disposed of Deluxe Media Services in component parts in 2006 (see note 7). In 2005 the Group reported a pre-tax £136.5m exceptional charge which included 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).

Notes to the financial statements continued

5 Financing

	2006 £m	2005 (restated) £m
Continuing operations:		
Finance costs:		
Interest payable on bank borrowings (current and non-current)	**(3.0)**	(1.6)
Amortisation of issue costs of bank loan	**(1.8)**	(1.6)
Interest payable on other loans	**(29.3)**	(41.1)
Interest payable on finance leases	**(1.3)**	(1.4)
Unwinding of discounts in provisions	**(0.8)**	(1.2)
Total interest expense and similar charges	**(36.2)**	(46.9)
Finance income	**3.2**	6.9
Net finance cost	**(33.0)**	(40.0)
Foreign exchange gain (loss) on inter-company loans including £3.6m hedging gain (2005: £2.1m)	**10.0**	(16.0)
Amortisation of equity component of convertible bond	**(3.0)**	(3.0)
Total net financing cost for continuing operations before exceptional items	**(26.0)**	(59.0)
Exceptional financing costs (see note 4)	**(14.7)**	(3.6)
Total net financing cost for continuing operations	**(40.7)**	(62.6)

6 Taxation

	2006 £m	2005 (restated) £m
Current income tax on continuing operations		
Current tax – UK	**1.3**	(21.6)
Current tax – overseas	**(5.6)**	(4.3)
Current tax charge	**(4.3)**	(25.9)
Current tax on exceptional items	**8.7**	24.3
Amounts over (under) provided in previous year	**2.2**	(6.9)
Total current tax	**6.6**	(8.5)
Deferred tax on continuing operations		
Deferred tax – UK	**0.7**	6.5
Deferred tax – overseas	**1.4**	(8.8)
Deferred tax on exceptional items	**16.5**	–
Amounts (under) over provided in previous year	**(3.6)**	10.1
Total deferred tax	**15.0**	7.8
Tax credit (charge) in the income statement on continuing operations	**21.6**	(0.7)

In 2006 current tax on exceptional items within continuing operations includes a tax credit of £4.4m relating to exceptional financing costs and a tax credit of £4.3m relating to transferred lease liabilities in respect of surplus properties.

In 2006 deferred tax on exceptional items includes a tax credit of £11.4m which relates to the sale and leaseback of properties, and £5.1m on the sale of the Clermont Club licence during the year. The credits arise due to previously unrecognised losses.

In 2005 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.

6 Taxation continued

	2006 £m	2005 (restated) £m
Current income tax on discontinued operations		
Current tax – UK	**6.9**	(18.4)
Current tax – overseas	**(2.9)**	(7.9)
Current tax credit (charge)	**4.0**	(26.3)
Current tax on exceptional items	**–**	20.8
Amounts (under) over provided in previous year	**(1.4)**	6.8
Total current tax	**2.6**	1.3
Deferred tax on discontinued operations		
Deferred tax – UK	**(2.2)**	(5.5)
Deferred tax – overseas	**(3.8)**	(21.4)
Deferred tax on exceptional items	**3.0**	–
Amounts (under) over provided in previous year	**(0.5)**	3.9
Total deferred tax	**(3.5)**	(23.0)
Tax charge on discontinued operations	**(0.9)**	(21.7)

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

	2006 £m	2005 (restated) £m
Profit before tax on continuing operations	**(92.9)**	(15.8)
Profit before tax at 30% (2005: 30%)	**27.9**	4.7
Effects of:		
(Income) expenses not subject to tax	**(12.9)**	17.8
Difference in overseas tax rates	**0.5**	1.0
Adjustments relating to prior years	**1.4**	(22.8)
Utilisation of previously unrecognised tax losses	**(21.5)**	–
Deferred tax movement on fair valued assets	**(17.0)**	–
Total taxation (continuing operations)	**(21.6)**	0.7

Tax on items included in equity

	2006 £m	2005 £m
Current tax (charge) credit on exchange movements offset in reserves	**(21.7)**	13.3
Deferred tax (charge) credit on actuarial gain (loss) on defined benefit pension scheme	**(17.4)**	2.4
Tax credit on non-qualifying leasehold property	**–**	4.3
	(39.1)	20.0

Income from joint ventures and associates, included in discontinued operations, includes a £0.2m tax credit (2005: £0.6m charge).

Notes to the financial statements continued

7 Discontinued operations and disposal groups held for sale

Discontinued operations in 2006 include Hard Rock, US Holidays, Deluxe Media Services and Deluxe Film. As a result, revenue relating to these businesses is excluded from the income statement and the results, including any associated exceptional costs, are recorded in a single line on a post-tax basis. The Deluxe Film sale completed on 27 January 2006 and the US Holidays sale completed on 15 December 2006. On 7 December 2006, the Group announced that it had reached agreement with Seminole Hard Rock Entertainment Inc. to sell Hard Rock. The disposal was approved by shareholders at an Extraordinary General Meeting on 8 January 2007 and completed on 5 March 2007. In June 2006 Deluxe Media Services sold its UK DVD replication and distribution businesses for net consideration of approximately £6m and in July 2006 sold its UK CD replication business for net consideration of approximately £3m. In December 2006 the Group sold all remaining Deluxe Media Services businesses in Europe for an aggregate consideration of approximately £1m and reached agreements with the remaining customers to terminate its media replication and distribution services in the US.

A breakdown of the results of discontinued operations is shown below.

	2006				
	Hard Rock £m	**US Holidays £m**	**Deluxe Media Services £m**	**Deluxe Film £m**	**Total discontinued operations £m**
Revenue	**271.2**	**28.0**	**163.1**	**26.2**	**488.5**
Operating profit (loss) before exceptional items	**40.4**	**2.1**	**(13.9)**	**1.5**	**30.1**
Exceptional items (see note 4)	**–**	**(20.0)**	**–**	**–**	**(20.0)**
Operating profit (loss)	**40.4**	**(17.9)**	**(13.9)**	**1.5**	**10.1**
Share of post-taxation (loss) income from joint ventures and associates	**(1.3)**	**–**	**–**	**0.1**	**(1.2)**
Net financing charge	**(2.6)**	**–**	**(0.9)**	**–**	**(3.5)**
Profit (loss) before taxation	**36.5**	**(17.9)**	**(14.8)**	**1.6**	**5.4**
Taxation	**0.4**	**(3.7)**	**5.3**	**(2.9)**	**(0.9)**
Net profit (loss)	**36.9**	**(21.6)**	**(9.5)**	**(1.3)**	**4.5**
Other segment information:					
Depreciation and amortisation	**12.7**	**0.7**	**–**	**–**	**13.4**
Capital expenditure	**(7.7)**	**(1.8)**	**(1.4)**	**(2.6)**	**(13.5)**

	2005 (restated)				
	Hard Rock £m	US Holidays £m	Deluxe Media Services £m	Deluxe Film £m	Total discontinued operations £m
Revenue	250.1	30.4	267.1	415.7	963.3
Operating profit (loss) before exceptional items	34.8	2.2	(16.4)	65.7	86.3
Exceptional items (see note 4)	–	–	(136.5)	(150.4)	(286.9)
Operating profit (loss)	34.8	2.2	(152.9)	(84.7)	(200.6)
Share of post-taxation (loss) income from joint ventures and associates	(1.4)	–	–	0.8	(0.6)
Net financing (charge) credit	(0.7)	–	(1.0)	1.0	(0.7)
Profit (loss) before taxation	32.7	2.2	(153.9)	(82.9)	(201.9)
Taxation	(4.3)	(0.1)	(3.3)	(14.0)	(21.7)
Net profit (loss)	28.4	2.1	(157.2)	(96.9)	(223.6)
Other segment information:					
Depreciation and amortisation	13.3	0.7	–	17.8	31.8
Capital expenditure	(16.8)	(1.1)	(10.3)	(31.7)	(59.9)

The 2005 results have been restated to treat Hard Rock and US Holidays as discontinued operations in accordance with IFRS 5.

7 Discontinued operations and disposal groups held for sale continued

Cash flows relating to the discontinued operations are as follows:

	2006				
	Hard Rock £m	**US Holidays £m**	**Deluxe Media Services £m**	**Deluxe Film £m**	**Total discontinued operations £m**
Cash flows from operating activities	**45.0**	**(3.0)**	**(53.0)**	**18.5**	**7.5**
Cash flows from investing activities	**(17.5)**	**(1.8)**	**0.1**	**(2.6)**	**(21.8)**
Cash flow from financing activities	**(4.4)**	**(0.1)**	**(9.2)**	**(0.1)**	**(13.8)**
	23.1	**(4.9)**	**(62.1)**	**15.8**	**(28.1)**

	2005 (restated)				
	Hard Rock £m	US Holidays £m	Deluxe Media Services £m	Deluxe Film £m	Total discontinued operations £m
Cash flows from operating activities	44.8	5.5	(23.3)	35.1	62.1
Cash flows from investing activities	(3.2)	(1.1)	(17.7)	(48.9)	(70.9)
Cash flow from financing activities	1.3	(0.3)	(4.8)	(0.7)	(4.5)
	42.9	4.1	(45.8)	(14.5)	(13.3)

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

	2006	2005		
	Hard Rock* £m	Deluxe Media Services £m	Deluxe Film £m	Total £m
Intangible assets	**6.6**	–	7.6	7.6
Property, plant and equipment	**105.2**	–	68.2	68.2
Financial assets – investments	**52.2**	–	10.3	10.3
Inventories	**13.0**	8.0	18.8	26.8
Receivables	**65.0**	61.4	337.8	399.2
Assets held for sale	**242.0**	69.4	442.7	512.1
Loan and capital borrowing	**(5.2)**	(11.7)	(1.6)	(13.3)
Payables due within one year	**(33.7)**	(69.8)	(65.2)	(135.0)
Provisions	**(4.6)**	(43.7)	(0.7)	(44.4)
Payables greater than one year – reclassified as current	**(1.0)**	(0.8)	(15.6)	(16.4)
Liabilities held for sale	**(44.5)**	(126.0)	(83.1)	(209.1)

*Hard Rock did not meet the criteria of IFRS 5 to be classified as held for sale at 31 December 2005.

At 31 December 2006 the fair value less costs to sell of Hard Rock exceeded the carrying amount. Immediately before classification as a disposal group the carrying amounts of all the assets and liabilities were measured in accordance with applicable IFRS.

Intangible assets relating to Hard Rock include goodwill of £6.1m arising on the £13.8m acquisition of Universal Studios' minority interest in the Orlando and Hollywood Hard Rock Cafes on 31 December 2006.

In 2005, the loss made on remeasuring the disposal groups to fair value less costs to sell amounted to £80.2m for Deluxe Media Services and £150.4m for Deluxe Film.

Notes to the financial statements continued

8 Results attributable to the parent company

The loss for the financial year in the financial statements of The Rank Group Plc was £25.2m (2005: £603.3m profit). As permitted by s230 Companies Act 1985, no income statement is presented in respect of The Rank Group Plc.

9 Dividends

	2006 £m	2005 £m
Equity – ordinary		
Final for 2005 paid on 11 May 2006 – 10.3p (2004: 9.8p) per share	**62.6**	61.1
Interim for 2006 paid on 13 October 2006 – 2.0p (2005: 5.0p) per share	**11.5**	31.4
	74.1	92.5

In addition, the Directors are proposing a final dividend in respect of the year ended 31 December 2006 of 4.0p per share which will absorb an estimated £15.6m of shareholders' funds. It will be paid on 11 May 2007 to shareholders who are on the register of members on 27 April 2007.

In accordance with IFRS, the final dividend has not been accounted for as a liability as at 31 December 2006.

Following the sale of Hard Rock, a special dividend of 65.0 pence per share, will be paid no later than 9 April 2007 to shareholders on the register at 23 March 2007. The payment of the special dividend is conditional on the share consolidation detailed in note 24 taking place. The special dividend and related share consolidation, was approved at an Extraordinary General Meeting held on 8 January 2007.

10 Earnings (loss) per share

Continuing operations	2006	2005 (restated)
Basic earnings per share		
Before exceptional items	**8.1p**	1.0p
After exceptional items	**19.5p**	2.4p
Diluted earnings per share		
Before exceptional items	**8.1p**	1.0p
After exceptional items	**19.5p**	2.4p

Discontinued operations	2006	2005 (restated)
Basic earnings (loss) per share		
Before exceptional items	**3.4p**	6.7p
After exceptional items	**0.4p**	(36.0)p
Diluted earnings (loss) per share		
Before exceptional items	**3.4p**	6.6p
After exceptional items	**0.4p**	(35.9)p

Total	2006	2005
Basic earnings (loss) per share		
Before exceptional items	**11.5p**	7.7p
After exceptional items	**19.9p**	(33.6)p
Diluted earnings (loss) per share		
Before exceptional items	**11.5p**	7.6p
After exceptional items	**19.9p**	(33.5)p
Adjusted earnings per share	**5.1p**	5.4p

10 Earnings (loss) per share continued

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.

	2006			2005 (restated)		
	Before exceptional items	Exceptional items	Total	Before exceptional items	Exceptional items	Total
Adjusted earnings (£m) – see below	**30.0**	**–**	**30.0**	33.6	–	33.6
Weighted average number of Ordinary shares (millions)	**587.5**	**587.5**	**587.5**	624.5	624.5	624.5
Adjusted earnings per Ordinary share	**5.1p**	**–**	**5.1p**	5.4p	–	5.4p
Basic earnings (loss) (£m)	**67.5**	**49.7**	**117.2**	47.8	(257.5)	(209.7)
Weighted average number of Ordinary shares (millions)	**587.5**	**587.5**	**587.5**	624.5	624.5	624.5
Basic earnings (loss) per Ordinary share	**11.5p**	**8.4p**	**19.9p**	7.7p	(41.3)p	(33.6)p
Basic earnings (£m) – continuing operations	**47.8**	**66.7**	**114.5**	6.5	8.6	15.1
Weighted average number of Ordinary shares (millions)	**587.5**	**587.5**	**587.5**	624.5	624.5	624.5
Basic earnings per Ordinary share – continuing operations	**8.1p**	**11.4p**	**19.5p**	1.0p	1.4p	2.4p
Basic earnings (loss) less attributable minority interest (£m) – discontinued operations	**19.7**	**(17.0)**	**2.7**	41.3	(266.1)	(224.8)
Weighted average number of Ordinary shares (millions)	**587.5**	**587.5**	**587.5**	624.5	624.5	624.5
Basic earnings (loss) per Ordinary share – discontinued operations	**3.4p**	**(3.0)p**	**0.4p**	6.7p	(42.7)p	(36.0)p

Details of the proposed share consolidation in 2007 are disclosed in note 24.

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. 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.

	2006	2005 (restated)
Basic earnings (loss) attributable to equity holders of the Company (£m)	**117.2**	(209.7)
Discontinued operations, including attributable minority interest (£m)	**(2.7)**	224.8
Earnings attributable to equity holders of the Company from continuing operations (£m)	**114.5**	15.1
Earnings used to determine diluted earnings per share (£m)	**114.5**	15.1
Weighted average number of Ordinary shares in issue (millions)	**587.5**	624.5
Adjustments for		
– share options (millions)	**0.5**	1.5
Weighted average number of Ordinary shares for diluted earnings per share (millions)	**588.0**	626.0
Diluted earnings per share on continuing operations	**19.5p**	2.4p

Adjusted earnings

Adjusted earnings is calculated by excluding earnings relating to discontinued operations, exceptional items, foreign exchange on inter-company balances including hedging 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:

	2006 £m	2005 (restated) £m
Net profit (loss) attributable to equity shareholders	**117.2**	(209.7)
Discontinued operations (net of taxation and minority interest)	**(2.7)**	224.8
Exceptional items before tax on continuing operations	**(41.5)**	15.7
Foreign currency (gain) loss on inter-company balances including hedging	**(10.0)**	16.0
Amortisation of equity component of convertible bond	**3.0**	3.0
Taxation on adjusted items	**(36.0)**	(16.2)
Adjusted net earnings attributable to equity shareholders	**30.0**	33.6

11 Intangible assets

Group	Goodwill £m	Casino and other gaming licences £m	Other £m	Total £m
Cost				
At 1 January 2005	134.1	114.6	34.1	282.8
Acquisitions – through business combinations	5.7	0.5	–	6.2
Additions	–	–	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
Additions	–	–	4.0	4.0
Disposals	–	–	(0.7)	(0.7)
Businesses disposed	–	(16.6)	(0.1)	(16.7)
Fair value adjustments	–	(0.4)	(0.1)	(0.5)
Classified as held for sale	–	–	(7.0)	(7.0)
Exchange adjustments	–	(0.4)	(1.0)	(1.4)
At 31 December 2006	53.8	96.8	23.2	173.8
Aggregate amortisation and impairment				
At 1 January 2005	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
Charge for the period	–	–	3.8	3.8
Impairment losses	–	–	0.5	0.5
Disposals	–	–	(0.5)	(0.5)
Classified as held for sale	–	–	(6.3)	(6.3)
Exchange adjustments	–	–	(0.9)	(0.9)
At 31 December 2006	–	–	14.5	14.5
Net book value at 31 December 2005	53.8	114.2	10.2	178.2
Net book value at 31 December 2006	**53.8**	**96.8**	**8.7**	**159.3**

Other assets comprise brands, other licences, computer software and development technology and customer lists. Included within other assets are £1.5m (2005: £1.7m) of internally generated computer software and development technology.

Fair value adjustments of £(0.5)m in 2006 (2005: £(1.8)m) 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 2005	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 reclassification	8.8	13.4	(22.2)	–
At 31 December 2005	473.0	396.2	2.0	871.2
Exchange adjustments	(17.1)	(14.3)	(0.3)	(31.7)
Additions at cost	7.0	47.1	1.2	55.3
Disposals	(162.5)	(28.7)	–	(191.2)
Property, plant and equipment write off	(6.0)	(0.8)	–	(6.8)
Classified as held for sale	(126.3)	(89.7)	(0.9)	(216.9)
Businesses disposed	(24.5)	(27.8)	(1.3)	(53.6)
Inter-group reclassification	1.0	(0.3)	(0.7)	–
At 31 December 2006	144.6	281.7	–	426.3
Accumulated depreciation				
At 1 January 2005	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
Inter-group transfer	1.1	(1.1)	–	–
Exchange adjustments	(8.5)	(9.8)	–	(18.3)
Charge for the year	10.9	27.7	–	38.6
Impairment losses	3.3	6.0	–	9.3
Property, plant and equipment write off	(6.0)	(0.8)	–	(6.8)
Businesses disposed	(18.5)	(24.3)	–	(42.8)
Disposals	(26.2)	(23.8)	–	(50.0)
Classified as held for sale	(56.7)	(55.0)	–	(111.7)
At 31 December 2006	47.7	160.9	–	208.6
Net book value at 31 December 2005	324.7	154.2	2.0	480.9
Net book value at 31 December 2006	**96.9**	**120.8**	**–**	**217.7**

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

	2006 £m	2005 £m
Cost	**20.6**	34.4
Accumulated depreciation	**(9.6)**	(15.5)
Net book value	**11.0**	18.9

The book amounts for fixtures, fittings, plant and machinery include assets held under finance leases with a net book value of £0.3m (2005: £5.0m). The book amounts for land and buildings include buildings held under finance leases with a net book value of £10.7m (2005: £13.9m).

The net book amount of land and buildings comprises:

	2006 £m	2005 £m
Freeholds	**41.8**	191.3
Long leases (over 50 years unexpired)	**1.6**	14.1
Short leases	**53.5**	119.3
	96.9	324.7

13 Impairment review
Impairment review of intangible assets with indefinite lives
As stated in the accounting policies note (sections K and L) 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.

a) Goodwill
Blue Square
The Group has goodwill with a carrying value of £53.8m in respect of the acquisition of Blue Square (2005: £53.8m). As at 31 December 2006 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 £16.8m (2005: £12.1m).

The whole of Blue Square 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 11.3% (2005: 10.4%).

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 takes 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.

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 by 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 £2.2m each year the value in use would equal the carrying value of the cash-generating unit.

13 Impairment review continued

b) Casino and other gaming licences

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 2006 was £77.2m (2005: £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 along with projections for the following four years from the Group's Strategic Plan which was also approved by the Board. A long term growth rate of 2% was applied thereafter. The pre-tax discount rate applied to cash flow projections is 11.3% (2005: 10.4%).

Key assumptions used in value in use calculations

The calculation for the value in use of a casino licence is most sensitive to the following assumptions:

– admissions;
– spend per head;
– discount rate; and
– competition.

Admissions are the number of discrete visits by members to the casino and have been based on historic trends adjusted for the introduction of advertising.

Spend per head comprises the average amount of money (net of winnings) spent by a member on gaming tables, machines and food and beverages. This has been determined by historic trends.

Discount rate reflects 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.

Competition comprises other casinos located in the same geographic area. The impact of this has been assessed by individual location.

Sensitivity to changes in assumptions

With regard to the assessment of value in use of casino licences, there are possible changes in key assumptions that could cause the carrying value of individual licences to exceed their recoverable amount. These are discussed below:

- Competition from licences granted under the Gambling Act 2005 and Gaming Act 1968 could vary depending upon the number and location of new casinos as well as the date of opening

- Admissions levels could vary as the exact rules governing the advertising of casinos (to be permitted from September 2007) have not been finalised

- Spend per head may be impacted by the number of new members, changes in gaming legislation and macro economic conditions

Management does not believe that there are any reasonably possible changes to the key assumptions that would result in an impairment of a casino licence.

c) Spanish bingo licences

The inherent value of Spanish bingo licences are deemed to be an intrinsic part of value of the operations as a whole and not therefore split out from Spanish bingo assets in an impairment review. The cost of Spanish bingo licences as at 31 December 2006 was £19.6m (2005: £19.9m). Each individual bingo club has been created as a separate cash-generating unit, and tested for impairment on that basis. The recoverable amount 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. A long term growth rate of 3% was applied thereafter. The discount rate was the Group's pre-tax weighted average cost of capital, which is consistent with other value in use calculations.

Notes to the financial statements continued

13 Impairment review continued

Impairment review of property, plant and equipment

As stated in the accounting policies note (section L) 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. Assets are grouped into cash-generating units which are defined as individual clubs for Mecca Bingo, Top Rank España and Grosvenor Casinos and the whole of the operation for Blue Square.

Recoverable amount is 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. A long term growth rate of 2% was applied thereafter to Mecca Bingo and Grosvenor Casinos, 3% to Top Rank España and nil% to Blue Square.

The key assumptions and sensitivities in the impairment reviews for casino assets and licences are set out above.

The key assumption in the impairment review for Mecca Bingo is the impact of the smoking ban introduced in Scotland in 2006 and due for implementation in England and Wales in 2007. Management believes that the introduction of a smoking ban will result in a short term reduction in income, as seen in other jurisdictions that have introduced a ban. Its experience in Scotland to date is a 15% income reduction and we believe this pattern will apply to England and Wales. We anticipate this will be a short term decline that will return to pre-ban levels within three years. If revenue does not return to pre-ban levels then additional impairments may be required. The impact on each cash-generating unit is dependent upon various local factors such as customer propensity to smoke, physical lay-out, ability to license external smoking areas for gaming, etc. Management does not believe it is therefore possible to quantify the financial impact of additional impairments that would be required. Given the uncertainty of the potential long term impacts of the smoking ban, it is possible that material adjustments to the carrying value of cash-generating units will be required in future years.

2006

Mecca

In 2006 an impairment charge of £8.6m 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.

Blue Square

The operations of the Blue Square betting shop were disposed on 24 August 2006. Prior to the disposal its intangible assets and property, plant and equipment were impaired by £1.2m.

2005

Grosvenor

In 2005 an impairment charge of £3.2m was recognised in respect of the Hard Rock Casino Manchester (closed in 2006).

Mecca

In 2005 an impairment charge of £0.6m was 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.

14 Investments

	Group		Company	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Investments in joint ventures	**–**	(1.0)	**–**	–
Investments in subsidiaries	**–**	–	**1,343.6**	1,843.6
Financial assets – available-for-sale investments	**0.5**	46.1	**–**	–
Total investments	**0.5**	45.1	**1,343.6**	1,843.6

Financial assets – available-for-sale investments

	Group	
	2006 £m	2005 £m
Listed equity shares – fair value	**0.5**	0.5
Unlisted equity shares – fair value	**–**	45.6
	0.5	46.1

See accounting policies note section G for the accounting policy on financial instruments applied.

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 equity shares has been estimated using valuation guidelines based on market prices. No fair value gains have been recognised in equity.

Available-for-sale investments comprise £0.5m (2005: £0.5m) in respect of the Group's 10% equity investment in Medal Entertainment & Media plc. The Group disposed of its £8.9m investment in Universal Studios Japan in February 2006. The other unlisted equity shares and interest in joint ventures in 2005 were owned by the Hard Rock division, which is a disposal group held for sale as at 31 December 2006. Fair value gains of £22.8m relating to Hard Rock have been recognised in equity (2005: £6.8m).

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 £1,515.6m (2005: £1,987.4m) less provision for impairment of £172.0m (2005: £143.8m).

Notes to the financial statements continued

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

	Group	
	2006 £m	2005 £m
Deferred tax assets		
Accelerated capital allowances	**32.5**	17.8
Pensions in reserves	**–**	12.5
Tax losses carried forward	**10.1**	42.0
Other overseas timing differences	**–**	24.8
Deferred tax assets	**42.6**	97.1
Deferred tax liabilities		
Pensions in reserves	**(10.6)**	–
Other overseas timing differences	**(7.8)**	–
Business combinations in reserves – non-qualifying properties	**(3.3)**	(15.1)
Other UK timing differences	**(18.9)**	(19.5)
Deferred tax liabilities	**(40.6)**	(34.6)
Net deferred tax asset	**2.0**	62.5

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current taxation assets and current tax liabilities and it is the intention to settle these on a net basis. Deferred tax assets and liabilities of £32.9m (2005: £nil) have been offset and disclosed on the balance sheet as follows:

	2006 £m	2005 £m
Deferred tax asset	**9.7**	62.5
Deferred tax liability	**(7.7)**	–
Net deferred tax asset	**2.0**	62.5

The deferred tax assets recognised are recoverable against future taxable profits that the Directors consider more likely than not to occur on the basis of management forecasts.

In addition an unrecognised deferred tax asset of £60.4m (2005: £130.9m) existed at 31 December 2006. 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 2006, there was no recognised deferred tax liability (2005: £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 £0.2m (2005: £1.4m).

15 Deferred tax continued

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

	Group 2006 £m	Group 2005 £m
Deferred tax in the income statement		
Accelerated capital allowances	**14.1**	3.3
Deferred tax movement on fair valued assets	**11.9**	–
Deferred tax asset written off	**–**	(23.2)
Tax losses	**(1.6)**	9.0
Share-based payment	**–**	(0.1)
Other timing differences	**(12.9)**	(4.2)
Deferred tax credit (expense)	**11.5**	(15.2)
Deferred tax expense relating to discontinued operations	**3.5**	23.0
Deferred tax credit on continuing operations	**15.0**	7.8

Deferred tax on discontinued operations includes deferred tax credits on accelerated capital allowances of £0.2m and tax losses of £5.0m and a deferred tax charge on other timing differences of £8.7m.

The deferred tax movement on the balance sheet is as follows:

	2006 £m	2005 £m
Net deferred tax asset at 1 January	**62.5**	59.4
Exchange adjustments	**(6.6)**	9.7
Deferred tax credit (expense)	**11.5**	(15.2)
Deferred tax on items included in equity	**(21.2)**	6.7
Businesses disposed	**(0.6)**	–
Classified as held for sale	**(43.6)**	1.9
Net deferred tax asset at 31 December	**2.0**	62.5

16 Inventories

	Group 2006 £m	Group 2005 £m
Raw materials	**0.5**	1.9
Finished goods	**3.8**	16.4
Completed properties for resale	**–**	14.7
	4.3	33.0

The Group wrote down £nil (2005: £nil) of inventories.

Notes to the financial statements continued

17 Trade and other receivables

	Group		Company	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Current				
Trade receivables	**20.8**	7.4	**–**	–
Less: provisions for impairment of trade receivables	**(1.0)**	(3.0)	**–**	–
Trade receivables – net	**19.8**	4.4	**–**	–
Amounts owed by related parties (all trading balances)	**–**	4.3	**–**	–
Other receivables	**17.4**	11.2	**0.6**	–
Prepayments and accrued income	**19.5**	24.8	**–**	–
Amounts owed by subsidiary undertakings repayable on demand	**–**	–	**43.7**	80.9
	56.7	44.7	**44.3**	80.9
Non-current				
Other receivables	**8.4**	14.0	**–**	–
Instalment sale debtors and note receivable	**–**	13.6	**–**	–
Prepayments and accrued income	**–**	1.1	**–**	–
	8.4	28.7	**–**	–

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	
	2006 £m	2005 £m	**2006 £m**	2005 £m
Trade payables	**28.0**	41.3	**–**	–
Other tax and social security payable	**9.5**	5.7	**–**	–
Other payables	**54.5**	63.2	**–**	–
Accruals	**30.1**	44.9	**1.8**	5.6
Deferred consideration	**0.1**	0.3	**–**	–
Pension fund creditor	**3.0**	3.4	**–**	–
Amounts owed to subsidiary undertakings repayable on demand	**–**	–	**131.5**	374.7
	125.2	158.8	**133.3**	380.3

19 Current tax liabilities

	Group	
	2006 £m	2005 £m
Corporation tax payable	**2.3**	2.8

20 Financial liabilities

Financial liabilities comprise the following:

	Group		Company	
	2006	2005	**2006**	2005 (restated)
	£m	£m	**£m**	£m
Bank overdrafts	**8.2**	8.3	**–**	–
Derivative financial instruments	**4.2**	8.3	**–**	–
$105m Private Placement @ LIBOR + 1.9% 2007	**–**	61.2	**–**	–
$89m Private Placement @ 5.39% 2010	**–**	51.8	**–**	–
$134m Private Placement @ 6.11% 2013	**–**	78.1	**–**	–
£35m Private Placement @ 6.5% 2013	**–**	35.0	**–**	–
$60m Private Placement @ 6.31% 2015	**–**	35.0	**–**	–
US$100m @ 6.375% Yankee bonds 2008	**49.5**	56.1	**–**	–
US$14.3m @ 7.125% Yankee bonds 2018	**7.3**	8.6	**–**	–
£167.7m @ 3.875% convertible unsecured loan stock 2009 (net of unamortised facility fees and equity component)	**158.7**	154.9	**158.7**	154.9
Syndicated loan facilities	**282.4**	328.9	**–**	–
Other (including accrued interest and unamortised facility fees)	**(1.5)**	5.9	**2.7**	2.7
Obligations under finance leases	**16.7**	25.9	**–**	–
Financial guarantees	**–**	–	**1.1**	0.6
Total	**525.5**	858.0	**162.5**	158.2
Bank overdrafts	**8.2**	8.3	**–**	–
Other borrowings repayable:				
Within one year or on demand	**5.2**	11.3	**3.8**	3.3
Between one and two years	**292.5**	397.3	**–**	–
Between two and five years	**201.0**	268.2	**158.7**	154.9
In five years or more	**18.6**	172.9	**–**	–
Total	**525.5**	858.0	**162.5**	158.2
Current	**13.4**	19.6	**3.8**	3.3
Non-current	**512.1**	838.4	**158.7**	154.9
Total	**525.5**	858.0	**162.5**	158.2
Unsecured convertible bond	**158.7**	154.9	**158.7**	154.9
Other unsecured borrowings	**350.1**	677.2	**2.7**	2.7
Obligations under finance leases (secured see note 35)	**16.7**	25.9	**–**	–
Financial guarantees	**–**	–	**1.1**	0.6
Total	**525.5**	858.0	**162.5**	158.2

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:

2006 2005 Floating				
	rate £m	rate £m	**Total** **£m**	Total £m
Expiring within one year	–	–	**–**	–
Expiring within one or two years	–	–	**–**	86.1
Expiring in more than two years	367.6	–	**367.6**	–
	367.6	–	**367.6**	86.1

The analysis of other borrowings repayable includes £158.7m of convertible bonds (2005: £154.9m). 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 2006 were exercised, 44.6m Ordinary shares would fall to be issued (2005: 44.6m). Unless previously redeemed or converted, the bonds will be redeemed at par in 2009.

Included in other borrowings repayable are the drawings of the syndicated bank facility £282.4m (2005: £328.9m). The facility was negotiated on 1 March 2006 and consists of a £250m term loan and £400m revolving credit facility. The term loan expires in March 2009 and the revolving credit facility in March 2011. Interest is payable on a monthly basis.

Also included in other borrowings is $114.3m (£56.8m) (2005: $114.8m (£64.7m)) of Yankee bonds, of which $100m matures in 2008 and $14.3m matures in 2018. Interest is payable half yearly in January and July.

20 Financial liabilities continued
The analysis of other borrowings repayable above includes obligations under finance leases, of which £1.7m (2005: £1.6m) expire within one year, £0.8m (2005: £3.5m) expire between one and two years, £2.6m (2005: £4.6m) expire between two and five years, and £11.6m (2005: £16.2m) 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 £158.7m of borrowings at 31 December 2006 (2005: £154.9m) excluding accrued interest and financial guarantees.

21 Financial instruments
A description of the policies relating to financial instruments is set out in the Operating and financial review on page 19 and also in the accounting policies on pages 45 and 46.

(a) Interest risk management
Financial liabilities
Gross borrowings of £758.6m (2005: £1,450.1m) include loan capital and borrowings of £525.5m (note 20) (2005: £858.0m) 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 2006 and 2005 was:

2006	**Gross borrowings £m**	**Floating rate borrowings £m**	**Fixed rate borrowings £m**
Sterling	**440.4**	**264.6**	**175.8**
US/Canadian Dollar	**223.4**	**161.3**	**62.1**
Other currencies (net)	**94.8**	**93.7**	**1.1**
	758.6	**519.6**	**239.0**

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

At 31 December 2006 the fixed interest rates vary from 3.9% to 7.1% (2005: 5.4% to 7.1%) and floating rates are LIBOR +1.0% (2005: LIBOR + 1.9%).

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

Sterling borrowings above include the £158.7m convertible bond.

A movement of 1.00% in the base interest rate will have a £0.4m effect on interest payable.

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

– the Group's provisions of £7.2m (2005: £37.8m) 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. £7.2m (2005: £32.9m) is denominated in Sterling and the balance in 2005 in US and Canadian Dollars.

21 Financial instruments continued

Financial assets

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

	2006 £m	2005 £m
Sterling	**62.3**	79.0
US/Canadian Dollar	**16.9**	54.2
Other currencies	**16.2**	35.8
Cash, investments and other financial assets	**95.4**	169.0

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 (2005: £0.5m) 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.

			Fixed rate assets		
	[illegible]				Weighted
Instalment sale debtors and notes receivable after one year	**asset £m**	**rate asset £m**	**asset £m**	**interest rate %**	**rate is fixed years**
2006	–	–	–	–	–
2005 US Dollar	13.6	9.6	4.0	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, is as follows:

2006	**Onerous contracts £m**	**Provisions on disposal £m**	**Other £m**	**Deferred consideration £m**	**Total 2006 £m**
Within one year or on demand	**1.6**	**10.5**	**0.6**	**0.1**	**12.8**
Between one and two years	**1.2**	**35.8**	**–**	**0.6**	**37.6**
Between two and five years	**2.3**	**–**	**–**	**0.3**	**2.6**
Over five years	**2.1**	**–**	**–**	**–**	**2.1**
	7.2	**46.3**	**0.6**	**1.0**	**55.1**

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

21 Financial instruments continued
(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 2006 and 2005 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.

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

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 2006 £m	**Fair value 2006 £m**	Net carrying amount 2005 £m	Fair value 2005 £m
Short term financial liabilities and current portion of long term borrowings	**(10.8)**	**(10.8)**	(11.3)	(11.3)
Derivative financial instrument liabilities	**(4.2)**	**(4.2)**	(8.3)	(8.3)
Long term borrowings	**(510.5)**	**(510.5)**	(838.4)	(824.5)
Cash at bank and liquid investments	**83.6**	**83.6**	117.7	117.7
Derivative financial instrument assets	**9.5**	**9.5**	5.2	5.2

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 2006. 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 include the £158.7m (2005: £154.9m) of convertible bonds.

The fair value of the guarantees issued by the Company is £1.1m (2005: £0.6m). This is calculated by applying the Company's probability of default, derived from the Company's credit rating, to the 31 December 2006 drawn debt of subsidiaries guaranteed by the Company.

(e) Financial derivative instruments
As explained in the operating and financial review on page 19, the Group's policy is to hedge the following exposures:

– interest rate risk, using Interest rate swaps, currency swaps and cap and collar; and

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

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

	Assets 2006 £m	**Liabilities 2006 £m**	Assets 2005 £m	Liabilities 2005 £m
Cross currency swap – net investment hedge	**–**	**–**	1.5	(4.1)
Cross currency swap – inter-company loan hedge (held for trading)	**4.3**	**(2.5)**	2.6	(1.3)
Cross currency swap – quasi equity hedge	**1.8**	**–**	0.7	(0.1)
Interest rate swap – fair value hedge	**–**	**(1.6)**	–	(2.1)
Interest rate cap and collar (held for trading)	**0.2**	**–**	–	(0.1)
Forward foreign exchange contract (held for trading)	**0.1**	**(0.1)**	0.4	(0.6)
Fair value of derivative used to hedge flows from continuing operations	**6.4**	**(4.2)**	5.2	(8.3)
Currency option – cash flow hedge	**3.1**	**–**	–	–
	9.5	**(4.2)**	5.2	(8.3)

21 Financial instruments continued

(e) Financial derivative instruments continued

Nominal values of derivative financial instruments

The nominal values of derivative financial instruments and designated for hedges at 31 December 2006 were:

2006	£m	US$m	AUS$m	€m	¥m	CAN$m
Cross currency swap – net investment hedge	–	–	–	–	–	–
Cross currency swap – inter-company loan hedge (held for trading)	–	128	–	138	–	–
Cross currency swap – quasi equity hedge	–	–	–	98	–	–
Interest rate swap – fair value hedge	–	100	–	–	–	–
Interest rate cap and collar (held for trading)	50	–	–	–	–	–
Forward foreign exchange contract (held for trading)	–	1	–	1	–	–
Currency option – cash flow hedge	–	675	–	–	–	–

2005	£m	US$m	AUS$m	€m	¥m	CAN$m
Cross currency swap – net investment hedge	–	–	45	120	11	220
Cross currency swap – inter-company loan hedge (held for trading)	–	245	–	180	–	–
Cross currency swap – quasi equity hedge	–	–	–	120	–	–
Interest rate swap – fair value hedge	–	100	–	–	–	–
Interest rate cap and collar (held for trading)	50	–	–	–	–	–
Forward foreign exchange contract (held for trading)	–	20	–	69	–	–
Currency option – cash flow hedge	–	–	–	–	–	–

(f) Fair value hedge

The notional principal amount of the outstanding interest rate swap contracts at 31 December 2006 was US$100m (2005: US$100m). These mature in 2008. The interest rate swaps hedge the interest due on the 2008 Yankee bonds, which is paid in January and July each year.

(g) Cash flow hedges

The Group entered into a currency option to hedge the receipt of US Dollar proceeds from the sale of Hard Rock in March 2007. The nominal value of the option at 31 December 2006 was $675m (2005: nil) with a fair value of £3.1m (2005: nil).

(h) Quasi equity hedges

The Group has hedged the translation risk on its quasi equity inter-company loans using a series of cross currency swaps. The nominal value of the swaps at 31 December 2006 was €98m (2005: €120m), with a net fair value of £1.8m (2005: £0.6m).

(i) Derivatives held for trading

The retranslation of the inter-company loan balances across the Group are hedged using a series of cross currency swaps. The nominal value of the swaps at 31 December 2006 was $128m and €138m (2005: $245m and €180m), with a net fair value of £1.8m (2005: £1.3m).

There were £(1.6)m derivatives outstanding at the balance sheet date that were designated as fair value hedges (2005: £(2.1)m), relating to interest rate swaps.

(j) Credit risk

The counterparties to the forward foreign exchange contracts, cross currency swaps, currency option and term deposits are major international financial institutions with strong credit ratings. The Group continually monitors its positions and the credit ratings of its counterparties.

The Group is exposed to £578.6m (2005: £584.0m) of credit risk on derivative fair value assets and £103.4m (2005: £122.1m) on trade and other receivables and cash, should the counterparty default.

22 Other non-current liabilities

£m	Group 2006	Group 2005
UK corporation tax and overseas taxation	**31.5**	28.2
Deferred consideration	**0.9**	1.3
Accruals	**0.5**	1.5
	32.9	31.0

23 Provisions for other liabilities and charges

Group	Onerous contracts £m	Provision on disposal £m	Other £m	**Total £m**
At 1 January 2006	37.8	0.5	3.8	**42.1**
Exchange adjustments	–	(0.1)	–	**(0.1)**
Charged to the income statement	2.5	17.6	–	**20.1**
Utilised in year	(28.3)	(15.4)	(3.2)	**(46.9)**
Classified to held for sale	(5.6)	–	–	**(5.6)**
Classified from held for sale	–	43.7	–	**43.7**
Unwinding of discount	0.8	–	–	**0.8**
At 31 December 2006	**7.2**	**46.3**	**0.6**	**54.1**
Current	1.6	10.5	0.6	**12.7**
Non-current	5.6	35.8	–	**41.4**
Total	**7.2**	**46.3**	**0.6**	**54.1**

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

	2006 £m	2005 £m
Current	**12.7**	11.4
Non-current	**41.4**	30.7
	54.1	42.1

Provisions have been discounted at a risk free interest rate of 5% where the effects of inflation will have a material impact.

Further details on the maturity profile of provisions are provided in note 21.

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. The provision utilised in the year includes the amounts provided in relation to onerous leases that were disposed of in August 2006 as part of the sale and leaseback transaction.

Provisions on disposals
This provision was established following the disposal of Rank Leisure Machine Services, Deluxe Film, US Holidays and Deluxe Media Services. The provision held at 31 December 2006 relates to the following categories:

– Outstanding insurance claims relating to the period of ownership by the Group.
– Closure costs for businesses that have been sold including contractual obligations to provide transitional services post sale for a defined period and onerous property lease obligations.
– Warranty provisions for potential claims as a consequence of the sale or closure of businesses, including environmental exposures.

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 2006, the Company held a legal provision of £1.0m. During the year £0.4m was utilised leaving a provision at 31 December 2006 of £0.6m.

24 Share capital

	2006 Authorised		2005 Authorised	
	Number m	**Nominal value £m**	Number m	Nominal value £m
US$ cumulative preference shares	**–**	**–**	–	3
Convertible preference shares of 20p each	**–**	**–**	300	60
Ordinary shares of 10p each	**1,800**	**180**	1,200	120
	1,800	**180**	1,500	183

	2006 Issued and fully paid		2005 Issued and fully paid	
	Number m	**Nominal value £m**	Number m	Nominal value £m
As at 1 January	**626.0**	**62.6**	624.1	62.4
Shares issued in the year	**2.9**	**0.2**	1.9	0.2
Share buy-back	**(86.5)**	**(8.6)**	–	–
As at 31 December	**542.4**	**54.2**	626.0	62.6

202,852 (2005: 202,852) 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 2006 was £0.5m (2005: £0.6m).

On 26 April 2006, the Company’s shareholders approved a resolution at the Annual General Meeting for the Company to subdivide and re-designate the unissued convertible preference shares as Ordinary shares and to cancel the unissued US$ preference shares.

Share buy-back

On 26 April 2006, the Company’s shareholders approved a resolution at the Annual General Meeting for the Company to make market purchase of its Ordinary shares. During the financial year, the Company purchased, and subsequently cancelled, 86.5m Ordinary shares at an average price of £2.31 per share, with a nominal value of £8.6m, for a consideration of £201.4m. Consideration included stamp duty and commission of £1.4m. This represents 14% of called-up share capital at the beginning of the financial year.

Share consolidation

In conjunction with the special dividend disclosed in note 9, shareholders will receive 18 new Rank shares for every 25 existing Rank shares. Each new share will carry the same rights as are set out in the Articles of Association for each existing share.

Notes to the financial statements continued

25 Statement of changes in shareholders' equity

Group	Share capital £m	Share premium £m	Capital redemption £m	Exchange translation reserve £m	Other reserves £m	Total £m	Minority £m	Total £m
Balance as at 1 January 2005	62.4	88.3	24.8	(21.2)	253.2	407.5	8.7	416.2
Exchange adjustments net of tax	–	–	–	45.0	–	45.0	1.5	46.5
Actuarial loss on defined benefit pension scheme 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	(47.6)	156.7	11.4	168.1
Exchange adjustments net of tax	–	–	–	(28.3)	–	(28.3)	(1.0)	(29.3)
Actuarial gain on defined benefit pension scheme net of tax	–	–	–	–	64.7	64.7	–	64.7
Revaluation of available-for-sale securities	–	–	–	–	22.8	22.8	–	22.8
Revaluation of available-for-sale securities recycled within net profit	–	–	–	–	12.1	12.1	–	12.1
Net minority interest acquired	–	–	–	–	–	–	(8.1)	(8.1)
Issue of share capital	0.2	5.0	–	–	–	5.2	–	5.2
Share buy-back	(8.6)	–	8.6	–	(201.4)	(201.4)	–	(201.4)
Dividends	–	–	–	–	(74.1)	(74.1)	(4.1)	(78.2)
Credit in respect of employee share schemes	–	–	–	–	0.4	0.4	–	0.4
Net profit for the year	–	–	–	–	117.2	117.2	1.8	119.0
Balance as at 31 December 2006	**54.2**	**98.1**	**33.4**	**(4.5)**	**(105.9)**	**75.3**	**–**	**75.3**

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

Other reserves comprise retained losses of £157.6m (2005: £67.4m), fair value reserves of £44.2m (2005: £9.3m) and the £7.5m (2005: £10.5m) unamortised element of the equity component of the convertible bond.

Company	Share capital £m	Share premium £m	Capital redemption £m	Other reserves £m	Total £m
Balance as at 1 January 2005	62.4	88.3	24.8	694.7	870.2
Issue of share capital	0.2	4.8	–	–	5.0
Dividends	–	–	–	(92.5)	(92.5)
Credit in respect of employee share schemes	–	–	–	1.8	1.8
Net profit for the year	–	–	–	603.3	603.3
Balance as at 31 December 2005	62.6	93.1	24.8	1,207.3	1,387.8
Effects of amendment to IAS 39	–	–	–	(0.6)	(0.6)
Balance as at 1 January 2006 – as restated	62.6	93.1	24.8	1,206.7	1,387.2
Issue of share capital	0.2	5.0	–	–	5.2
Share buy-back	(8.6)	–	8.6	(201.4)	(201.4)
Dividends	–	–	–	(74.1)	(74.1)
Credit in respect of employee share schemes	–	–	–	0.1	0.1
Net loss for the year	–	–	–	(25.2)	(25.2)
Balance as at 31 December 2006	**54.2**	**98.1**	**33.4**	**906.1**	**1,091.8**

Following the amendment to IAS 39 relating to financial guarantees, the Company has recognised a liability of £0.6m in respect of guarantees provided to subsidiary undertakings on external borrowings.

Other reserves comprise retained earnings of £738.8m (2005: £537.0m), the £7.5m (2005: £10.5m) unamortised element of the equity component of the convertible bond and an unrealised profit reserve of £159.8m (2005: £659.8m).

26 Minority interest

	2006 £m	2005 £m
At 1 January	**11.4**	8.7
Exchange adjustments	**(1.0)**	1.5
Share of net profit	**1.8**	1.2
Dividend paid	**(4.1)**	–
Minority interest acquired	**(7.7)**	–
Minority interest disposed	**(0.4)**	–
At 31 December	**–**	11.4

Details of the minority interest acquired are disclosed in note 7.

27 Cash flow from operating activities

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

Cash generated from operations

	Group		Company	
	2006 £m	2005 (restated) £m	2006 £m	2005 £m
Continuing operations				
Operating profit (loss)	**133.6**	78.4	**(0.6)**	(0.7)
Exceptional items	**(56.2)**	12.1	**–**	–
Operating profit (loss) before exceptional items	**77.4**	90.5	**(0.6)**	(0.7)
Depreciation and amortisation	**28.9**	28.8	**–**	–
(Increase) decrease in working capital	**(3.7)**	13.7	**(0.7)**	(4.0)
Other	**4.7**	(1.1)	**0.5**	0.6
	107.3	131.9	**(0.8)**	(4.1)
Cash payments in respect of exceptional costs and provisions	**(37.0)**	(29.5)	**(0.4)**	–
	70.3	102.4	**(1.2)**	(4.1)
Discontinued operations	**12.7**	72.9	**–**	–
Cash generated from operations	**83.0**	175.3	**(1.2)**	(4.1)

28 Cash and cash equivalents

	Group		Company	
	2006 £m	2005 £m	2006 £m	2005 £m
Cash at bank and in hand	**79.9**	106.7	**0.1**	0.8
Current asset investments	**3.7**	11.0	**–**	–
Total cash	**83.6**	117.7	**0.1**	0.8

For the purpose of the cash flow statements, cash and cash equivalents comprise the following at 31 December:

	Group		Company	
£m	2006	2005	2006	2005
Total cash	**83.6**	117.7	**0.1**	0.8
Bank overdrafts	**(8.2)**	(8.3)	**–**	–
	75.4	109.4	**0.1**	0.8

Notes to the financial statements continued

29 Borrowings to net debt reconciliation

Under IFRS (IAS 32), accrued interest and unamortised facility fees are 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	
£m	**2006**	2005
Borrowings, net of cash	**(437.7)**	(732.0)
Amounts disclosed within disposal groups	**(5.2)**	(13.3)
Net accrued interest and unamortised facility fees	**(4.3)**	5.9
Net debt	**(447.2)**	(739.4)

30 Post balance sheet events

The Group entered into a sale and purchase agreement to sell the Hard Rock business for $965m, subject to certain completion adjustments. The sale was approved by shareholders at the EGM on 8 January 2007 and completed on 5 March 2007. The disposal will generate a significant profit.

On 14 February 2007 the Group announced its intention to close nine Mecca Bingo clubs in England and Wales. The decision to close is in line with the Group's stated aim of improving the quality of its clubs portfolio in preparation for the introduction of the smoking ban in England and Wales in 2007. In addition the Group sold its Mecca Bingo club in Hounslow in February 2007. The closures and sale are not anticipated to have a material impact on the Group's results.

31 Disposals of businesses

	2006				
	Deluxe Film £m	**Clermont £m**	**US Holidays £m**	**DMS £m**	**Total £m**
Property, plant and equipment	**(68.3)**	**(1.0)**	**(9.8)**	**–**	**(79.1)**
Intangible assets	**(4.7)**	**(16.6)**	**(0.1)**	**–**	**(21.4)**
Inventories	**(17.2)**	**–**	**(14.3)**	**(3.4)**	**(34.9)**
Trade and other receivables	**(320.7)**	**(0.1)**	**(11.8)**	**(41.5)**	**(374.1)**
Investments	**(10.1)**	**–**	**–**	**–**	**(10.1)**
Trade and other payables	**86.8**	**–**	**3.1**	**19.2**	**109.1**
Other provisions	**2.3**	**–**	**–**	**(0.4)**	**1.9**
Net assets disposed	**(331.9)**	**(17.7)**	**(32.9)**	**(26.1)**	**(408.6)**
(Profit) loss on disposal before tax	**–**	**(13.0)**	**20.0**	**–**	**7.0**
Other related costs and provision utilisation	**(40.9)**	**–**	**(1.6)**	**16.3**	**(26.2)**
Section 75 Pension contribution	**(24.0)**	**–**	**–**	**–**	**(24.0)**
Minority interest	**0.4**	**–**	**–**	**–**	**0.4**
Sales consideration	**(396.4)**	**(30.7)**	**(14.5)**	**(9.8)**	**(451.4)**
Sales proceeds less related costs	**394.1**	**31.0**	**16.8**	**12.0**	**453.9**
Overdrafts and (cash) disposed with businesses	**0.7**	**(0.3)**	**(2.3)**	**(2.2)**	**(4.1)**
Borrowings disposed	**1.1**	**–**	**–**	**–**	**1.1**
Lease obligations disposed	**0.5**	**–**	**–**	**–**	**0.5**
Sales consideration	**396.4**	**30.7**	**14.5**	**9.8**	**451.4**

Sale proceeds less related costs	**453.9**
Overdrafts and (cash) disposed with businesses	**(4.1)**
Proceeds from sale of businesses per cash flow	**449.8**

32 Employees and Directors

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

	2006 £m	2005 £m
Wages and salaries	**273.3**	383.9
Social security costs	**28.9**	39.1
Other pension costs	**4.5**	5.3
Share-based payments	**0.5**	4.2
	307.2	432.5

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

(b) Average monthly number of employees by segment

	2006	2005
Gaming	**8,888**	9,524
Hard Rock	**6,900**	6,862
Deluxe	**2,534**	7,163
Resorts	**627**	724
Other	**53**	50
	19,002	24,323

(c) Key management compensation

	2006 £m	2005 £m
Salaries and short term employee benefits	**3.2**	3.9
Termination benefits	**1.7**	–
Post employment benefits	**0.5**	0.5
Share-based payments	**0.5**	1.0
	5.9	5.4

Key management is defined as the Directors of the Group and the Executive Committee. In addition to the executive Directors, the 2006 Executive Committee comprised Hamish Dodds (Managing Director – Hard Rock), Pamela Coles (Company Secretary) and Christine Ray (Group Human Resources Director until 31 October 2006). The composition of the Executive Committee from 1 January 2007 is set out on page 23. Details of the remuneration of each Director are set out in the Remuneration report on pages 26 to 32 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 2006 are also detailed in the Remuneration report.

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

	2006 £m	2005 £m
Aggregate emoluments	**3.9**	2.4
Aggregate gains made on the exercise of share options	**0.1**	–
Number of Directors accruing benefits under defined benefit schemes	**2**	3

Further details of emoluments received by Directors are included in the Remuneration report. The 2005 comparative includes £0.2m of emoluments in respect of two Directors who resigned in 2005.

Notes to the financial statements continued

33 Share-based payments

During the year ended 31 December 2006, the Company operated the ShareSave ('SAYE') scheme, the Executive Share Option Scheme ('ESOS'), the Long Term Incentive Plan ('LTIP') and a supplemental bonus opportunity. Details of these schemes are included on pages 27 and 28 of the Remuneration report.

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 2006	**Granted during 2006**	**Exercised during 2006**	**Lapsed during 2006**	**Outstanding at 31 Dec 2006**	**Exercisable at 31 Dec 2006**
ESOS						
Number of shares	**12,129,249**	**2,764,424**	**(971,986)**	**(2,108,845)**	**11,812,842**	**3,588,801**
WAEP	**280.91p**	**237.52p**	**233.84p**	**292.58p**	**272.62p**	**288.86p**
WASP	**–**	**–**	**264.00p**	**–**	**–**	**–**
ShareSave (3 year)						
Number of shares	**3,033,616**	**1,711,942**	**(811,289)**	**(1,285,529)**	**2,648,740**	**–**
WAEP	**225.03p**	**187.00p**	**191.65p**	**233.24p**	**206.63p**	**–**
WASP	**–**	**–**	**210.98p**	**–**	**–**	**–**
ShareSave (5 year)						
Number of shares	**2,581,567**	**612,435**	**(1,044,246)**	**(718,589)**	**1,431,167**	**957**
WAEP	**194.13p**	**187.00p**	**142.52p**	**232.81p**	**209.42p**	**141.00p**
WASP	**–**	**–**	**210.84p**	**–**	**–**	**–**

	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	–	–	–

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 2006			Outstanding at 31 December 2005		
	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	**155.25p–435.82p**	**5.5 years**	**11,812,842**	155.25p–475.76p	6.7 years	12,129,249
ShareSave (3 year)	**187.00p–268.00p**	**2.8 years**	**2,648,740**	191.00p–268.00p	1.4 years	3,033,616
ShareSave (5 year)	**141.00p–268.00p**	**3.9 years**	**1,431,167**	141.00p–268.00p	2.9 years	2,581,567

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.

	2006	2005
Risk-free interest rate (%)	**4.5%**	4.75%
Expected life of options – ESOS	**3 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 (%)	**28.06%**	33.66%
Expected dividend growth (%)	**5.25%**	4.86%

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.

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:

	2006	2005
ESOS	**37.13p**	60.94p
LTIP	**236.00p**	275.50p
ShareSave (3 year)	**67.45p**	84.03p
ShareSave (5 year)	**57.45p**	82.25p

Accounting for share-based payments in accordance with IFRS 2 reduced the Group's profit for the year by £0.5m (2005: £4.2m).

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 2006 of £0.4m (2005: £1.0m) of which £nil was in respect of vested grants.

34 Retirement benefit obligations

UK The Group has two pension schemes for UK employees. 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 2006 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 2006.

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

	2006 £m	2005 £m	2004 £m
Assets	**711.0**	636.5	556.4
Liabilities	**(635.2)**	(674.7)	(587.5)
Net defined benefit pension asset (liability)	**75.8**	(38.2)	(31.1)

The actuarial valuation of the Plan as at 5 April 2006 is ongoing and preliminary analysis indicates a deficit of approximately £100m under a buy-out basis.

Change in benefit obligation

	2006 £m	2005 £m
Benefit obligation at beginning of year	**674.7**	587.5
Current service cost	**5.8**	5.4
Interest cost	**31.1**	30.6
Past service cost	**1.4**	1.3
Plan members' contributions	**1.5**	1.9
Actuarial (gain) loss	**(51.2)**	75.9
Curtailment	**–**	(4.9)
Benefits paid	**(28.1)**	(23.0)
Benefit obligation at end of year	**635.2**	674.7

Change in plan assets

	2006 £m	2005 £m
Fair value of plan assets at beginning of year	**636.5**	556.4
Expected return on plan assets	**37.8**	33.6
Actuarial gains	**6.9**	60.1
Total actual return on plan assets	**44.7**	93.7
Employer contributions (includes benefits paid and reimbursed)		
– Section 75 contribution	**24.0**	–
– Other	**32.4**	7.5
Member contributions	**1.5**	1.9
Benefits paid (by fund and Company)	**(28.1)**	(23.0)
Fair value of plan assets at end of year	**711.0**	636.5

The estimated employer contributions expected to be paid to the Plan in 2007 are £24.8m.

34 Retirement benefit obligations continued

Components of pension cost

	2006 £m	2005 £m
Current service cost	**5.8**	5.4
Interest cost	**31.1**	30.6
Expected return on plan assets	**(37.8)**	(33.6)
Amortisation of prior service cost	**1.4**	1.3
Curtailment	**–**	(4.9)
Total pension charge (credit) recognised in operating profit in the income statement	**0.5**	(1.2)

Statement of recognised income and expense ('SORIE')

	2006 £m	2005 £m
Actuarial gains and losses immediately recognised		
Experience gains and losses	**39.7**	–
Changes in assumptions	**11.5**	(75.9)
Actual return less expected return in assets	**6.9**	60.1
Section 75 contribution	**24.0**	–
Total pension credit (expense) recognised in the SORIE before taxation	**82.1**	(15.8)
Taxation	**(17.4)**	2.4
Total pension credit (expense) recognised in the SORIE	**64.7**	(13.4)

The cumulative amount of gains and losses recognised in the SORIE was £95.9m (2005: £13.8m).

Experience gains and losses recognised in 2004 was a gain of £63.8m.

During 2006 the Group, in accordance with Section 75, paid £24.0m to the UK Rank Pension Plan, following the sale of Deluxe Film. The cost was recognised in 2005 as a deduction from the fair value less costs to sell calculated on classification of Deluxe Film as a disposal group. On payment to the Plan, the amount has been recognised back through the statement of recognised income and expense.

Plan assets

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

	2006		2005	
Investment category	**Market value £m**	**Expected return % p.a.**	Market value £m	Expected return % p.a.
Equities (UK and overseas)	**281.2**	**7.6**	378.9	6.6
Government bonds	**280.9**	**4.6**	112.9	4.1
Non-Government bonds	**130.3**	**5.1**	117.0	4.7
Insured pensions	**12.6**	**5.1**	16.0	4.7
Cash	**6.0**	**5.0**	11.7	4.5
Total	**711.0**	**5.9**	636.5	5.7

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 5.9% assumption (2005: 5.7%).

As at 31 December 2006 the Plan was undergoing a change in investment strategy. The £281.2m equity holding is due to be moved to diversified 'growth assets' (equities, GTAA, infrastructure and hedge funds). The £280.9m government bond exposure includes £117.9m cash with a swap overlay designed to increase the Plan exposure to bonds. The weighted return as at 31 December 2006 allows for these changes in the Plan's investment strategy, with an assumption that the growth assets as a whole will outperform the risk free rate by 3.0% p.a.

34 Retirement benefit obligations continued

Assumptions used to determine benefit obligations at:

	2006 % p.a.	2005 % p.a.
Yield – pre retirement	**5.1**	4.7
Yield – post retirement	**5.1**	4.7
Price inflation	**3.0**	2.8
Salary growth	**4.2**	4.0
Pension increases – 5% LPI	**3.0**	2.8

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

	2007 %	**2006 %**	2005 %
Discount rate	5.1	**4.7**	5.3
Expected long term return on plan assets	5.9	**5.7**	6.1
Rate of compensation increase	4.2	**4.0**	4.0

Mortality tables used to determine benefit obligations at:

	2006	2005
Current pensioner	**PA92 (YOB) mc**	PA92 (YOB = 1935) mc + 1
Active/preserved member	**PA92 (YOB) mc**	PA92 (YOB = 1965) mc + 1

Other UK pension commitments

During the year to 31 December 2006 the Group contributed a total of £1.3m (2005: £2.7m) to the Rank Money Purchase Pension Scheme ('the Scheme') which closed to future contributions on 5 April 2006 and the Rank Group Stakeholder Pension Plan which replaced the Scheme on 6 April 2006; both of these are defined contribution schemes with benefits which depend on the contribution levels and the emerging investment performance. There were no significant contributions outstanding.

The Group has an unfunded pension commitment relating to three former executives 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 £3.0m (2005: £3.4m). The Group paid £0.4m (2005: £0.1m) in pension payments during the year.

US

The Group operates defined contribution schemes in the US. Group contributions to these schemes totalled £2.7m (2005: £3.7m). There were no significant contributions outstanding.

Total

At 31 December 2006 there was a net pension surplus of £72.8m of which £75.8m relates to the Plan, and £(3.0)m relates to the unfunded UK commitment.

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:

	2006 £m	2005 (restated) £m
Group		
Not later than one year	**69.3**	67.8
After one year but not more than five years	**323.0**	209.1
After five years	**591.0**	458.5
	983.3	735.4
Of which relates to discontinued operations	**404.0**	241.5

	2006 £m	2005 £m
Total future minimum sub-lease payments expected to be received under non-cancellable sub-leases	**78.9**	102.5

Finance leases where the Group is a lessee

The minimum lease payments under finance leases, together with the present value of the net minimum lease payments, are as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2006 £m	2005 £m	2006 £m	2005 £m
Group				
Not later than one year	**2.8**	3.8	**1.7**	1.6
Later than one year but not more than five	**7.4**	13.9	**3.4**	8.1
More than five years	**17.1**	30.0	**11.6**	16.2
	27.3	47.7	**16.7**	25.9
Less future finance charges	**(10.6)**	(21.8)		
Present value of minimum lease payments	**16.7**	25.9		

	2006 £m	2005 £m
Total future minimum sub-lease payments expected to be received under non-cancellable sub-leases	**2.9**	30.3

36 Contingent liabilities

	Group	
	2006 £m	2005 £m
Guarantees by the Company and by subsidiary undertakings	**0.9**	1.3

	Company	
	2006 £m	2005 £m
Guarantees of advances to subsidiary undertakings	**768.7**	1,356.8

There were guarantees of £nil (2005: £nil) in respect of the Group's joint ventures.

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

Notes to the financial statements continued

37 Capital and other financial commitments

	Group 2006 £m	Group 2005 £m
Contracts placed for future capital expenditure not provided in the financial information	**7.0**	3.3

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

38 Related party transactions

2006

In the year the Group traded with its joint venture undertaking Lifestar and its subsidiaries. Royalties and costs reimbursed to the Group totalled £0.7m (2005: £1.1m), interest accrued on loans was £nil (2005: £0.2m) and at 31 December 2006 this joint venture and its subsidiaries owed the Group £1.3m (2005: £5.3m) for which the Group held an associated doubtful debt provision of £1.1m (2005: £0.5m).

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 2006 was £1.7m (2005: £1.9m).

2005

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.

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

*directly held by the Company
#discontinued operations

Five year review

Year ended 31 December

			IFRS		UK GAAP
	2006	2005 (restated)	2004	2003	2002
	£m	£m	£m	£m	£m
Revenue	**550**	530	788	1,926	1,509
Operating profit before goodwill amortisation and exceptional items	**77**	91	136	218	216
Goodwill amortisation (UK GAAP only)	**–**	–	–	(6)	(1)
Operating profit – current operations	**77**	91	136	212	215
	77	91	136	212	215
Exceptional items credited (charged) against operating profit	**56**	(12)	(42)	(51)	(6)
Non-operating items (including share of associates)	**–**	–	–	4	4
Net finance cost	**(48)**	(44)	(37)	(43)	(16)
Foreign exchange on inter-company loans including hedging	**10**	(16)	6	–	–
Amortisation of equity component of convertible bond	**(3)**	(3)	–	–	–
Other associates and joint ventures	**–**	–	–	1	3
Profit before tax	**93**	16	63	123	200
Tax	**22**	(1)	(3)	(28)	(59)
Discontinued operations	**5**	(224)	(74)	–	–
Preference dividends	**–**	–	–	(17)	(21)
Minority interests	**(2)**	(1)	(1)	1	(2)
Earnings (loss) for the year	**117**	(210)	(15)	79	118
Adjusted earnings per share	**5.1p**	5.4p	12.7p	n/a	n/a
Basic earnings (loss) per Ordinary share	**19.9p**	(33.6)p	(2.5)p	13.3p	19.6p
Basic earnings per Ordinary share before exceptional items	**11.5p**	7.7p	23.5p	18.2p	19.9p
Total dividend (including proposed) per Ordinary share	**6.0p**	15.3p	14.6p	13.9p	13.2p

Year ended 31 December

			IFRS		UK GAAP
	2006 £m	2005 £m	2004 £m	2003 £m	2002 £m
Group funds employed					
Intangible assets and property, plant and equipment	**377**	659	829	927	833
Investments	**1**	45	55	57	63
Other assets (net)	**135**	196	152	191	190
Total funds employed at year-end	**513**	900	1,036	1,175	1,086
Financed by					
Ordinary share capital and reserves	**75**	157	391	458	440
Preference share capital including premium	**–**	–	–	–	227
Minority interests	**–**	11	9	16	20
	75	168	400	474	687
Net borrowings	**438**	732	636	701	399
	513	900	1,036	1,175	1,086
Average number of employees (000s)	**19.0**	24.3	25.2	24.0	20.9

2006, 2005 and 2004 results above reflect IFRS. 2003 and 2002 reflect UK GAAP as applied at 31 December 2004.

The above numbers are rounded to the nearest £m.

Shareholder information

A wide range of information for shareholders and investors is available in the Investors & Press area of the Rank Group website: www.rank.com

Ordinary shares
The total number of Ordinary shares in issue as at 31 December 2006 was 542,356,176 shares which were held by a total of 24,471 shareholders.

Share price information
The latest information on the Rank Ordinary share price is available in the Investors & Press 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, the enhanced scrip dividend in March 1998, and the sub-division and share consolidation aligned with the special dividend payment in March 2007. More information regarding these adjustments is available on the Rank Group website: www.rank.com

Share dealing services
The sale or purchase of shares must be done through a stockbroker. The London Stock Exchange provides a 'Locate a broker' facility on its website which gives details of a number of companies offering share dealing services.

For more information, please visit the Investor Centre (>Tools) 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 Investors & Press 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.

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; and
– 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.

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.

Further information about ShareGift is available at www.sharegift.org or by writing to:

ShareGift
5 Lower Grosvenor Place
London SW1W 0EJ
Tel: 020 7828 1151

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).

Form 20-F
Prior to 2007, the Company was 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 was subject to those regulations, it filed its annual report on Form 20-F with the SEC. Copies of the Form 20-F can be viewed on the SEC website: www.sec.gov

2007 Financial calendar

3 May	Annual General Meeting
11 May	Final dividend payment on Ordinary shares
30 August	Interim results announcement
October	Interim dividend payment on Ordinary shares

2007 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 2007 Interim Results, which will be announced on 30 August 2007, the Company has again decided to take advantage of these provisions and will be placing an advertisement in the Daily Telegraph in the week commencing 4 September 2007 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.

For further information please contact:
Pamela Coles, Company Secretary
Dan Waugh, Director of Investor Relations

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Glossary

EBITDA
Earnings before interest, tax, depreciation, amortisation and exceptional items

Operating margin
Earnings before interest and tax as a percentage of revenue

Share buy-back
The purchase in the open market by a listed company of its own shares

1968 Act
1968 Gaming Act

2005 Act
Gambling Act 2005

24 hour rule
Requirement for new members to register at least 24 hours in advance of gaming in a casino. Rescinded in October 2005.

Active customers
Blue Square customers who have operated their Blue Square account within the previous 12 months

Active members
Members of Mecca Bingo/Grosvenor Casinos who have visited a Mecca/Grosvenor club within the previous 12 months

Admissions
Total individual customer visits to Mecca Bingo/Grosvenor Casinos

AWP
Amusement With Prizes gaming machine played under Section 34 of the 1968 Act.

Gross win
Total settled stakes less amounts paid out in customer winnings, also called revenue in Blue Square

Participation fee
Element of revenue from bingo sales retained by bingo club

Prizeboard
Element of revenue from bingo sales paid out in prizes (plus added prize money)

Rake
The commission fee taken by a casino operating a poker game

Section 21 terminal
Gaming terminal played under Section 21 of the 1968 Act

Section 31 machine (‘Jackpot’)
Gaming machine played under Section 31 of the 1968 Act

Spend per head
Total revenue divided by admissions (Mecca Bingo/Grosvenor Casinos)

Sportsbook
Sports betting

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