The Rank Group Plc interim results

"This has been a challenging first half for Rank. Trading conditions in Gaming resulted in a more modest performance and, as expected, Deluxe Media had a more difficult half year. Film performed in line with expectations. Current trading trends in Hard Rock and Deluxe Film are similar to the first half whilst Gaming is showing signs of improvement. The outcome for the full year will be influenced by these trends and by the seasonal performance of Deluxe Media.

In order to take full advantage of the scale and scope of opportunities now facing each of the Group's businesses, the Board believes that, in principle and subject to a detailed review of the implications, now would be an opportune time to separate both Deluxe Film and Deluxe Media from the rest of the Group."
Mike Smith, Chief Executive

- Earnings per share* of 7.8p (2003 – 7.7p); 2.2p after goodwill amortisation and exceptional items (2003 – 3.8p)
- Group operating profit* of £80.2m (2003 – £94.4m); £49.4m after goodwill amortisation and exceptional items (2003 – £64.0m)
- Profit before tax* of £63.9m (2003 – £80.2m); £29.0m after exceptional items and goodwill amortisation (2003 – £53.8m)
- Gaming operating profit* down 4% to £54.7m (2003 – £57.1m), reflecting more challenging short-term trading conditions in casinos
- Hard Rock operating profit of £11.6m (2003 – £13.3m) with improved like for like sales in restaurants but a lower distribution from hotels
- Deluxe operating profit* of £19.2m (2003 – £27.8m), with Film in line with expectations but larger seasonal losses in Media
- Net debt decreased to £668.1m (2003 year end – £700.5m)
- Interim dividend increased to 4.8p (2003 – 4.6p)
- Board to investigate separation of Deluxe Film and Deluxe Media from the rest of the Group

* before goodwill amortisation and exceptional items

The full interim statement can be found at **www.rank.com**

Alternatively a copy can be requested from
The Rank Group Plc
Investor Relations
6 Connaught Place
London W2 2EZ

Tel 020 7706 1111
Fax 020 7262 9886

Rank Group

Consolidated profit and loss account for the six months ended 30 June 2004

31 December 2003 £m		30 June 2004 (unaudited) £m	30 June 2003 (unaudited) £m
1,925.9	**Turnover**	**931.4**	879.9
223.0	Operating profit before goodwill amortisation	**80.2**	94.4
(6.4)	Goodwill amortisation	**(3.7)**	(2.8)
(51.1)	Exceptional items within operating profit	**(27.1)**	(27.6)
0.8	Associates	**0.5**	0.3
166.3	**Operating profit**	**49.9**	64.3
4.6	Non-operating items	**(4.1)**	4.0
	Interest:		
(29.7)	Managed businesses	**(16.5)**	(14.3)
(0.4)	Associates and joint ventures	**(0.3)**	(0.2)
(11.5)	Exceptional interest charge	**–**	–
129.3	Profit before tax	**29.0**	53.8
187.3	**Profit before tax and exceptional items**	**60.2**	77.4
(54.2)	Tax on ordinary activities	**(16.9)**	(23.4)
26.1	Exceptional tax credit	**0.4**	0.7
101.2	**Profit after tax**	**12.5**	31.1
0.5	Equity minority interests	**0.4**	1.7
(17.1)	Preference dividends	**–**	(10.5)
84.6	**Profit for the period attributable to ordinary shareholders**	**12.9**	22.3
(82.8)	Equity dividends	**(29.0)**	(26.1)
1.8	**Retained profit (loss) for the Group and its share of joint ventures and associates**	**(16.1)**	(3.8)
15.2p	Basic earnings per Ordinary share before goodwill amortisation	**2.7p**	4.2p
14.3p	Basic earnings per Ordinary share	**2.2p**	3.8p
19.2p	– before exceptional items	**7.3p**	7.3p
13.8p	Diluted earnings per Ordinary share	**2.1p**	3.7p
18.5p	– before exceptional items	**7.2p**	7.3p

Consolidated balance sheet at 30 June 2004

31 December 2003 (as restated) £m		30 June 2004 (unaudited) £m	30 June 2003 (as restated) (unaudited) £m
983.6	Fixed assets	**940.6**	963.7
1,018.7	Current assets	**901.9**	957.6
(733.8)	Creditors (amounts falling due within one year)	**(665.0)**	(422.1)
284.9	Net current assets	**236.9**	535.5
1,268.5	**Total assets, less current liabilities**	**1,177.5**	1,499.2
	Creditors (amounts falling due after more than one year)		
(580.5)	Loan capital and borrowings	**(541.6)**	(649.8)
(144.9)	Other creditors and provisions	**(94.9)**	(88.0)
543.1	Net assets before equity minority interests	**541.0**	761.4
(16.1)	Equity minority interests	**(15.0)**	(16.7)
527.0	**Net assets**	**526.0**	744.7
	Capital and reserves		
59.6	Called up share capital	**60.1**	104.7
17.5	Share premium account	**25.9**	15.2
449.9	Other reserves	**440.0**	624.8
527.0	**Equity shareholders' funds**	**526.0**	744.7

Consolidated cash flow statement for the six months ended 30 June 2004

31 December 2003 (as restated) £m		30 June 2004 (unaudited) £m	30 June 2003 (as restated) (unaudited) £m
291.9	Net cash inflow from operating activities	**108.3**	78.5
(27.0)	Dividends paid to Preference shareholders and minorities	**(0.6)**	(10.5)
(38.6)	Interest paid (net)	**(17.5)**	(7.0)
(27.8)	Net cash inflow (outflow) from taxation	**17.4**	(16.2)
(104.4)	Net cash outflow from capital expenditure and financial investment	**(54.7)**	(46.9)
(52.1)	Net cash inflow (outflow) from acquisitions and disposals	**15.0**	(22.3)
(79.4)	Equity dividends paid	**(55.5)**	(52.1)
(37.4)	**Cash inflow (outflow) before use of liquid resources and financing**	**12.4**	(76.5)
19.6	Management of liquid resources	**(8.7)**	(0.1)
88.6	Financing	**(55.7)**	162.8
70.8	**(Decrease) increase in cash in the period**	**(52.0)**	86.2
(700.5)	**Net debt**	**(668.1)**	(529.6)

Segmental analysis of turnover and operating profit* (unaudited)

	30 June 2004 turnover £m	30 June 2003 turnover £m	30 June 2004 operating profit £m	30 June 2003 operating profit £m
Gaming	**443.9**	422.6	**54.7**	57.1
Hard Rock	**112.9**	115.1	**11.6**	13.3
Deluxe	**359.1**	324.3	**19.2**	27.8
US Holidays	**15.5**	17.9	**1.5**	3.4
Central costs and other	**–**	–	**(6.8)**	(7.2)
Continuing operations including acquisitions	**931.4**	879.9	**80.2**	94.4

* before goodwill amortisation and exceptional items

Notes

- The interim financial statements have been prepared on the basis of the accounting policies set out in the Group's statutory financial statements for the year ended 31 December 2003, with the exception of the change detailed below.
- The Group has adopted Urgent Issues Task Force ("UITF") abstract 38 "Accounting for ESOP trusts" and abstract 17 (2003) "Employee share schemes" in 2004. UITF 38 requires investments in own shares to be deducted from equity and not disclosed as an investment. In addition, in the Cash Flow Statement, amounts paid to purchase own shares are disclosed as financing and not capital expenditure and financial investment. This change in accounting policy has been accounted for as a prior period adjustment and accordingly the results reported in 2003 have been restated. The change reduces shareholders' funds for the six months ended 30 June 2003 by £1.4m and by £nil for the year ended 31 December 2003 and reduces cash outflow before use of liquid resources and financing for the six months ended 30 June 2003 by £2.4m and by £3.7m for the year ended 31 December 2003. UITF 17 (2003) requires the cost of the shares awarded to be equal to the fair value of the shares at the grant date. There has been no restatement of the Group's profit and loss account as this change is not significant.
- Taxation – This has been provided at an estimated effective rate of 28.1% (2003 – 30.3%), before exceptional items.
- EPS – weighted average number of shares in the calculation of basic earnings per share is 596.8m (2003 first half – 592.4m, full year – 592.3m). For diluted earnings per share the weighted average number of shares used in the calculation is 600.4m (2003 first half – 595.3m, full year – 618.5m).
- Contingent liability – As disclosed in the Group's annual report and accounts, the Group has for some years been involved in a dispute with Serena Holdings Limited over the purchase consideration of an acquisition which has been referred to an expert for determination. It is expected that this determination will be made during the course of the next few weeks and that any associated liability will not be material in the context of the Group. Any liability that could arise will be accounted for as an adjustment to the purchase price of the acquisition concerned with no impact on the profit and loss account.
- Exceptional items – In May 2004, Deluxe Media Services was informed by a major studio that they would be transferring their business to another supplier on a staged basis over the period to July 2005. This contract relates primarily to European DVD manufacturing and distribution. Although negotiations for replacement contracts are ongoing, none have yet been secured and accordingly an exceptional charge of £23.1m, comprising an impairment charge of £18.0m, onerous lease provisions of £3.8m and other costs of £1.3m, has been recorded. Deluxe Media Services also incurred an exceptional charge of £4.0m in respect of the VHS restructuring announced at the time of the 2003 year end results in February 2004. These charges relate to the closure of VHS manufacturing facilities in Germany, Italy and Portugal.
- Rank Leisure Machine Services – The sale was completed on 10 February 2004. There was a loss on disposal which has been recorded as a non-operating exceptional item.

Independent review report to The Rank Group Plc

We have been instructed by the Company to review the financial information which comprises the profit and loss account, the balance sheet, the cash flow statement and the related notes. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

Directors' responsibilities – The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed – We conducted our review in accordance with guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information. This report, including the conclusion, has been prepared for, and only for, the Company for the purpose of the Listing Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, 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.

Review conclusion – On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2004.

PricewaterhouseCoopers LLP
Chartered Accountants
London **3 September 2004**

MECCA Bingo · Grosvenor Casinos · Hard Rock Casino · Blue SQ bluesq.com · Hard Rock Cafe · Hard Rock Hotel · Hard Rock Live · deluxe