

## **To Rank Group Shareholders who Responded to our Mailing**

Since the note and the covering letter were written, the following events have taken place:

- The Rank share price has fallen as low as 189.5 pence (closing price on the 18<sup>th</sup> July).
- Rank issued a trading statement on the 4<sup>th</sup> July. It suggested that profits in the Gaming division were under pressure, with negative effects of the smoking ban in Scotland on Bingo revenues being particularly noted. It also announced a “strategic review” of the Hard Rock operations which most press commentators took to indicate that it may be sold off. The statement also indicated that £102 million had been spent on share buy-backs, of the planned £200 million.
- Soon after the above announcement, Merrill Lynch issued a “sell” note on the company. It expressed concerns about the likely impact of a smoking ban in England, and the increased casino capacity in the UK.
- On the 14<sup>th</sup> July Rank announced a “sale and leaseback” deal of a portfolio of 40 Mecca bingo clubs and 4 Grosvenor casinos for £211 million. Note: this will crystallise an immediate profit as they are only in the books at £137 million, but will result in Rank paying at least £11.2 million per annum in lease payments. Even taking into account a transfer of liabilities on some other properties, the immediate book gain will be £53 million. The cash proceeds of the transaction will be used to pay down debt.
- On the 21<sup>st</sup> July, Rank announced the completion of the disposal of the DeLuxe UK media replication business for a net £3 million. That completes the disposal of the UK media businesses, and disposal of the remaining overseas operations is apparently “in discussions”.

Note that these events do not change our view on the wisdom of share buy-backs, but clearly they potentially provide substantial additional surplus cash, particularly if the Hard Rock operations are sold also. The key question is what should be done with the cash.

Our note to shareholders received substantial support with many positive comments being made. Many shareholders seemed dissatisfied with the management of Rank Group in general in the last few years with comments such as “a tremendously poor investment” being made.

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