Palmer & Harvey McLane (Holdings) Limited

Directors' report and financial statements

Registered number 2274812

7 Aprıl 2007

Contents

Directors' report

The directors present their report and audited financial statements for Palmer and Harvey McLane (Holdings) Limited for the period ended 7 April 2007 The comparative period was for the year to 8 April 2006

Principal activity and business review

The principal activity of the company is that of an intermediate holding company

Results and dividends

A summary of the company's results for the period is set out in the profit and loss account on page 5

Inter-group dividends of £10,000,000 were paid during the period *(2006 £nil)* Inter-group dividends of £10,416,939 were received during the period *(2006 £1,138,006)*

Directors and directors' interests

The directors who held office during the period were as follows

Christopher Adams
Graham McPherson
Christopher Etherington (appointed 5 June 2006)
Christopher Little

These directors were also directors of the ultimate parent undertaking and their beneficial interests in the shares of the company in the group are disclosed in that company's financial statements

Christopher Adams retires by rotation and, being eligible, offers himself for re-election

Political and charitable contributions

The company made no political or charitable contributions during the period *(2006 £ nil)*

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

Auditors

In accordance with section 384 of the Companies Act 1985, a resolution for the re-appointment of KPMG LLP as auditors of the company is to be proposed at the forthcoming Annual General Meeting

By order of the board

Paula Tomlinson
Secretary

P&H House
Davigdor Road
Hove
East Sussex
BN3 1RE

22 June 2007

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' 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 they have elected to prepare the financial statements in accordance with UK Accounting Standards

The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985 They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

KPMG

KPMG LLP
1 Forest Gate
Brighton Road
Crawley
RH11 9PT
United Kingdom

Independent auditors' report to the members of Palmer & Harvey McLane (Holdings) Limited

We have audited the financial statements of Palmer & Harvey McLane (Holdings) Limited for the period ended 7 April 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes hese financial statements have been prepared under the accounting policies set out therein

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Practice) are set out in the Statement of Directors' Responsibilities on page 2

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland)

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, 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 read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it

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 It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 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

Independent auditors' report to the members of Palmer & Harvey McLane (Holdings) Limited *(continued)*

Opinion

In our opinion

• the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 7 April 2007 and of its profit for the period then ended,

• the financial statements have been properly prepared in accordance with the Companies Act 1985, and

• the information given in the Directors' Report is consistent with the financial statements

KPMG LLP

KPMG LLP
Chartered Accountants
Registered Auditor

22 June 2007

Profit and loss account
for the period ended 7 April 2007

	Note	Period ended 7 April 2007 £000	Period ended 7 April 2007 £000	Year ended 8 April 2006 £000	Year ended 8 April 2006 £000
Administration expenses		**(1,583)**		(1,172)	
Operating loss			**(1,583)**		(1,172)
Profit on sale of fixed asset investments			**83**		81
Interest receivable and similar income	*3*	**-**		5	
Interest payable and similar charges	*4*	**(4,032)**		(3,728)	
			(4,032)		(3,723)
Dividend income	*5*		**10,417**		1,138
Profit/(loss) on ordinary activities before taxation	*6*		**4,885**		(3,676)
Tax credit on profit/(loss) on ordinary activities	*8*		**1,208**		1,142
Profit/(loss) for the period			6,093		(2,534)

The company has no recognised gains or losses for the period other than the profit/(loss) for the period

The profit/(loss) arose solely from continuing activities

There is no difference between the reported results and those prepared on a historical cost basis

The notes on page 7 to 17 form part of these financial statements

Balance sheet
at 7 April 2007

	Note	2007 £000	2007 £000	2006 £000	2006 £000
Fixed assets					
Intangible assets	10		-		-
Tangible assets	11		88		-
Investments	12		77,547		75,483
			77,635		75,483
Current assets					
Debtors	13	7,315		6,664	
Cash at bank and in hand		-		12	
Creditors: amounts falling due within one year	14	(72,711)		(66,013)	
Net current liabilities			(65,396)		(59,337)
Total assets less current liabilities			12,239		16,146
Net assets			12,239		16,146
Capital and reserves					
Called up share capital	16		1,701		1,701
Share premium account	17		2,202		2,202
Capital redemption reserve	17		79		79
Profit and loss account	17		8,257		12,164
Equity shareholders' funds	18		12,239		16,146

The notes on pages 7 to 17 form part of these financial statements

The financial statements were approved by the board of directors on 22 June 2007 and were signed on its behalf by

Christopher Adams
Director

C Etherington

Christopher Etherington
Director

Notes

(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below

In these financial statements the following new standard has been adopted for the first time

- FRS 20 'Share-based payments'

FRS 20 'Share-based payments' has been adopted in the period However, due to materiality no prior period adjustment has been made

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting convention

Group financial statements

The company is exempt by virtue of section 228 of the Companies Act 1985 from the requirement to prepare group financial statements These financial statements present information about the company as an individual undertaking and not about its group

Related parties

As the company is a wholly owned subsidiary of Palmer & Harvey (Holdings) Plc, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group The consolidated financial statements of Palmer & Harvey (Holdings) Plc, within which this company is included, can be obtained from Companies House

Cash flow statement

Under FRS 1 (Revised), the company is exempt from the requirement to prepare a cash flow statement on the grounds that it is a wholly owned subsidiary undertaking of Palmer & Harvey (Holdings) Plc and its cash flows are included within the consolidated cash flow statement of that company

Goodwill

Goodwill arising on acquisitions, (being the excess of the fair value of the consideration given, including related legal costs over the fair value of the separable net assets acquired) is capitalised It is amortised to nil by equal instalments over its estimated useful life of five years

Fixed asset investments

Fixed asset investments are stated at cost less amounts written off

Tangible fixed assets

Tangible fixed assets are depreciated to their residual value over their useful lives as follows

Motor vehicles 30% per annum on written down value

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes

Deferred taxation

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

Notes *(continued)*

1 Accounting policies *(continued)*

Employee benefit trust

Shares owned by the Employee Benefit Trust are held for the continuing benefit of the business and are included in the company balance sheet as a fixed asset investment at cost The net result of the Employee Benefit Trust including profits and losses on sale of shares and tax thereon is included in the company's profit and loss account

Share Based Payments

The Group's share option programme allows employees to acquire shares of the parent company from the Employee Benefit Trust The Employee Benefit Trust's shares in the parent company are shown as an investment within this company's balance sheet

Share options granted to employees of subsidiary companies are accounted for as a cash-settled share based payment The fair value of the options granted is initially measured at grant date and re-measured at each balance sheet date As the benefit of the option-holders service is derived in the employing company, the share based payment is recorded as an increase in this company's investment in the subsidiary company with a corresponding liability being recorded

Pensions

The company is a member of a group pension scheme providing benefits based on final pensionable pay The assets of the scheme are held separately from those of the group mainly being invested with insurance companies Contributions to the scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the group FRS 17 'Retirement benefits' applies but since the company is unable to identify its share of the underlying asset and liabilities in this scheme on a consistent and reasonable basis it accounts for the cost on a contributions payable basis Further details are provided in note 19

2 Staff numbers and costs

The average number of persons employed by the company (including directors) during the period was as follows

	2007	2006
Administration and management	**12**	12

The aggregate payroll costs of these persons were as follows

	2007 **£000**	2006 £000
Wages and salaries	**1,187**	815
Social security costs	**149**	125
Other pension costs	**15**	61
	1,351	1,001

Notes *(continued)*

3 Interest receivable and similar income

	2007	2006
	£000	£000
Bank interest	**-**	5

4 Interest payable and similar charges

	2007	2006
	£000	£000
Bank interest	**301**	97
Inter-group interest	**3,731**	3,631
	4,032	3,728

5 Dividend income

	2007	2006
	£000	£000
Inter-group dividends receivable	**10,000**	-
Dividends received in respect of the Employee Benefit Trust	**417**	1,138
	10,417	1,138

6 Profit on ordinary activities before taxation

Profit on ordinary activities before taxation arose solely from the company's principal activity and was stated after charging

		2007	2006
		£000	£000
Auditors' remuneration	- Audit of these financial statements	**8**	7
	- Other	**12**	-
Depreciation		**24**	-

7 Directors' remuneration

Aggregate directors' remuneration consists of

	2007	2006
	£000	£000
Directors' emoluments for management services	**1,195**	587

The emoluments of the highest paid director were £393,557 *(2006 £282,917)* In 2006, the Chairman was also the highest paid director The emoluments of the Chairman were £151,678 *(2006 £282,917)*

Notes *(continued)*

7 Directors' remuneration *(continued)*

The highest paid director is not a member of the group pension scheme The accrued pension benefits of the Chairman at 8 April 2006 were £152,919 per annum and the accrued lump sum payable was £365,268, which would have resulted in a reduced pension payable of £121,538 per annum

At 7 April 2007 the accrued pension benefits of the highest paid director among the active members of the scheme were £30,456 per annum and the accrued lump sum payable was £122,787, which would result in a reduced pension payable of £18,418 per annum

As stated above, the highest paid director is not a member of the group pension scheme Two directors, including the Chairman, are drawing their pensions and two of the directors are currently contributing members of the group defined benefit pension scheme and as such have benefits accruing to them under this scheme

8 Tax on profit on ordinary activities

The tax credit based on the profit for the period comprises

	2007	2006
	£000	£000
Current tax for the period	**1,346**	1,142
Adjustments in respect of prior years	**(143)**	-
Total current tax	**1,203**	1,142
Deferred tax credit (see note 15)	**5**	-
	1,208	1,142

Reconciliation of current period tax charge

The standard rate of corporation tax for the period is 30% *(2006 30%)* The current period tax credit is lower *(2006 lower)* than 30% for the reasons stated below

	2007	2006
	£000	£000
Loss on ordinary activities before tax (excluding dividends)	**(5,532)**	(4,814)
Tax (charge)/credit on profit/(loss) on ordinary activities at standard rate	**(1,660)**	(1,444)
Factors affecting credit		
Share based payments	**36**	-
Disallowed expenses	**32**	36
Depreciation in excess of capital allowances	**5**	-
Employee Benefit Trust tax	**241**	266
Adjustment relating to earlier periods	**143**	-
Current tax credit for the period	**(1,203)**	(1,142)

9 Dividends paid

	2007	2006
	£000	£000
Inter-group dividends paid	**10,000**	-

Notes *(continued)*

10 Intangible fixed assets

	2007 £000	2006 £000
Goodwill		
Cost		
At beginning and end of period	**207**	207
Amortisation		
At beginning and end of period	**(207)**	(207)
Net book value		
At beginning and end of period	-	-

The goodwill represented legal fees capitalised on the acquisition of KP McVities Snacksdirect The goodwill arising on the acquisition was amortised on a straight line basis over its economic life, having regard to the nature of the business The economical life of KP McVities Snacksdirect was estimated by the directors to be 5 years

11 Tangible fixed assets

	2007 £000
Motor Vehicles	
Cost	
At beginning of period	-
Additions	112
At end of period	112
Depeciation	
At beginning of period	-
Charge for the period	24
At end of the period	24
Net book value	
At 7 April 2007	88
Net book value	
At 8 April 2006	-

Notes *(continued)*

12 Fixed asset investments

	Shares in Group Undertakings		Shares in Palmer & Harvey (Holdings) Plc	
	2007	2006	**2007**	2006
	£000	£000	**£000**	£000
At beginning of period	**71,870**	71,870	**3,613**	3,665
Additions	**680**	-	**1,472**	-
Disposals	**-**	-	**(88)**	(52)
At end of period	**72,550**	71,870	**4,997**	3,613

The following cash-settled options to subscribe for B ordinary shares in Palmer & Harvey (Holdings) Plc have been granted by the Employee Benefit Trust

Number of Options	Exercise Period	Exercise Price	Grant Date
330,000	May 2006 to April 2013	£1 35	May 2003
60,000	November 2008 to October 2015	£3 22	November 2005
60,000	February 2009 to January 2016	£3 31	February 2006
30,000	October 2009 to September 2016	£3 31	October 2006

All options are exercisable within 3 to 10 years of grant or change of ownership if earlier and are settled by physical delivery of shares

The number and weighted average exercise prices of share options are as follows

	2007 Weighted Average Exercise Price	**2007 Number of Options**	2006 Weighted Average Exercise Price	2006 Number of Options
Outstanding at the beginning of the period	1 83	480,000	1 35	360,000
Granted during the period	3 31	30,000	3 27	120,000
Forfeited during the period	-	-	-	-
Exercised during the period	(1 35)	(30,000)	-	-
Lapsed during the period	-	-	-	
Outstanding at the end of the period	**1 95**	**480,000**	**1.83**	**480,000**
Exercisable at the end of the period	**1 35**	**330,000**	-	-

Notes *(continued)*

12 Fixed asset investments *(continued)*

The range of inputs into the Black-Scholes model were as follows

	2007	2006
Share price	**3 62**	3 31
Weighted average exercise price	**1 95**	1 83
Expected volatility	**25%**	25%
Option life	**0 2 – 2 6 years**	0 2 – 2 9 years
Expected dividends	**4%**	4%
Risk free interest rate (based on national government bonds)	**5%**	5%

The expected volatility is based on the historic volatility adjusted for any expected changes to future volatility due to publicly available information

The total expenses recognised for the period arising from share based payments are as follows

	2007	2006
	£000	£000
Cash settled share based payments	**800**	Nil
Total carrying amount of liabilties	**800**	Nil

In July 2006 the Trustees of the Group's Employee Benefit Trust entered into an arrangement with the Group's Chief Executive, Christopher Etherington, whereby the EBT loaned Christopher Etherington £5,987,790 which was used to acquire 1,800,000 'B' Ordinary shares in the company Under the terms of the loan agreements, Christopher Etherington may sell the shares back to the company at any time, in full settlement of the loan This arrangement has been treated as a share based payment, and valued on the same basis as a share option (per above) The share based payment charge relating to this arrangement is £120,000 and is included in the total share based payment expense shown above

Notes *(continued)*

12 Fixed asset investments *(continued)*

The principal subsidiary undertakings which are wholly owned and registered in England, together with their principal activities were as follows

Name	Nature of Business	Percentage of Ordinary Shares Held
Palmer & Harvey McLane Limited	Distribution and delivered wholesaling of tobacco, confectionery, soft drinks, crisps and snacks, ambient and chilled and frozen groceries, alcohol and related products	100%
P & H (1925) Limited	Property management	100%
Winerite Limited	Wine shippers and agents, importers, bonded-warehouse keepers and wholesale wine and spirit merchants	(indirectly held) 100%
YP Electronics Limited	Supply and support of electronic point of sale computer systems	(indirectly held) 100%
P & H Snacksdirect Limited	Distribution and delivered sale of snacks products	(indirectly held) 100%
P & H Symbol Limited	Dormant	(indirectly held) 100%
P & H International Limited	Dormant	100%
P & H Retail Services Limited	Holding company	100%
P & H Direct Limited	Holding company	100%
P & H Trustees Limited	Dormant	100%
Liquor Leaders Limited	Non-trading	(indirectly held) 100%
Mace Marketing Services Limited	Dormant	(indirectly held) 100%

In the opinion of the directors, a statement of the information required to be disclosed in respect of investments indirectly held by the company in accordance with Schedule 5 of the Companies Act 1985, where all the companies concerned are dormant and are registered in England and Wales would be excessively long and therefore this information is not provided

13 Debtors

	2007	2006
	£000	£000
Amounts owed by subsidiary undertakings	**7,274**	6,649
Others debtors	**36**	15
Deferred taxation (See Note 15)	**5**	-
	7,315	6,664

14 Creditors: amounts falling due within one year

	2007	2006
	£000	£000
Bank loans and overdrafts	**9,777**	5,899
Amounts owed to subsidiary undertakings	**61,450**	59,547
Corporation tax	**352**	238
Others creditors	**1,132**	329
	72,711	66,013

Notes *(continued)*

15 Deferred Taxation

	2007 £000	2006 £000
At beginning of period	-	-
Credit for period	5	-
	5	-

Deferred taxation has been provided in respect of

	2007 £000	2006 £000
Depreciation in excess of capital allowances	5	-

The deferred tax asset of £5,000 *(2006 Nil)* is included in debtors

16 Share capital

	2007 £000	2006 £000
Authorised		
50,000,000 ordinary shares of 5p each	2,500	2,500
Allotted, issued and fully paid		
34,020,400 ordinary shares of 5p each	1,701	1,701

17 Reserves

	Share Premium Account £000	Capital Redemption Reserve £000	Profit and Loss Account £000
At the beginning of the period	2,202	79	12,164
Profit for the period	-	-	6,093
Inter-Group dividends paid	-	-	(10,000)
At the end of the period	2,202	79	8,257

Notes *(continued)*

18 Reconciliation of movements in shareholders' funds

	2007 £000	2006 £000
Opening shareholders funds	**16,146**	18,680
Profit/(loss) for financial period	**6,093**	(2,534)
Dividends paid	**(10,000)**	-
Closing shareholders' funds	**12,239**	16,146

19 Pension costs

As explained in note 1, the company is a member of a group pension scheme providing benefits based on final pensionable pay Because the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 'Retirement benefits', the scheme has been accounted for in these financial statements as if the scheme was a defined contribution scheme Further details relating to the actuarial valuation and the scheme assets and liabilities are disclosed in the financial statements of Palmer & Harvey (Holdings) Plc, the company's ultimate holding company

The latest full actuarial valuation was carried out at 31 March 2005 and was updated to 31 March 2007 by a qualified independent actuary The members' contribution for the year was £14,820 *(2006 £60,986)* It has been agreed that an employer contribution rate of 6 1% of pensionable salaries or £122,000 per month if higher for future years will apply, plus £270,000 per month for past service Insurance premiums for death in service benefits are also incurred

20 Contingencies

Guarantees and indemnities have been given by the company to a number of suppliers in connection with trade liabilities incurred by Palmer & Harvey McLane Limited, a fellow group undertaking, which at 7 April 2007, amounted to £443,725,387 *(2006 £383,278,544)*

The company and its principal subsidiaries are jointly and severally liable for the indebtedness of the group to its bankers, Barclays Bank Plc and are subject to a fixed and floating charge over the company's assets, with the exception of the bank accounts which support a bank guarantee to the 'A' Loan stock and 'A' Preference share holders There is right of set off between all other bank accounts At 7 April 2007 the company's contingent liability amounted to £Nil *(2006 £81,622,000)*

21 Related parties

During the year, Christopher Etherington, the Chief Executive, received two loans from the Employee Benefit Trust of £1,330,620 and £4,657,170 respectively for the purpose of purchasing shares in Palmer & Harvey (Holdings) Plc The loans are interest free and repayable on demand Note 12 provides information on how this arrangement has been dealt with in these financial statements

The company has not entered into any other transactions which are required to be disclosed under FRS 8

Notes *(continued)*

22 Ultimate parent undertaking and parent company of a larger group

The company's ultimate parent undertaking is Palmer & Harvey (Holdings) Plc, which is incorporated in the United Kingdom and registered in England and Wales

The directors consider Palmer & Harvey (Holdings) Plc to be the company's ultimate controlling party The largest group in which the results of the company are consolidated is that headed by Palmer & Harvey (Holdings) Plc The consolidated financial statements of Palmer & Harvey (Holdings) Plc are available to the public and may be obtained from Companies House