

**Wellington Pub Company
Plc (formerly Trushelfco (No.
2281) Limited)**

Financial statements for the period
ended 31 December 1998

Registered Number: 3406623



, Wellington Pub Company Plc

Registered No. 3406623

DIRECTORS

H Osmond
A McIntosh
T Teichman
B Baldock
J Carrafiell
R Myers
M Jonas

SECRETARY

Trusec Limited

AUDITORS

Ernst & Young
1 Colmore Row
Birmingham
B3 2DB

BANKERS

Nat West
PO Box 75
3 Cornmarket
Thames
Oxon
OX9 3YS

SOLICITORS

Slaughter & May
35 Basinghall Street
London
EC2V 5DB

REGISTERED OFFICE

54 Baker Street
London
W1M 1DJ

Wellington Pub Company Plc

DIRECTORS' REPORT

The directors present their report and accounts for the period ended 31 December 1998.

RESULTS AND DIVIDENDS

The loss for the period, after taxation, amounted to £4,865,000. The directors do not propose a dividend.

PRINCIPAL ACTIVITY AND REVIEW OF THE BUSINESS

The principal activity of the company is managing leased properties.

The company was incorporated on 11 July 1997 as Trushelfco (No. 2281) Limited. On 29 October 1997 the name of the company was changed to Grovebase Properties Limited and on 16 January 1998, the company re-registered as a public company with limited liability under the name of Wellington Finance Plc. On the 23 February 1998, the company changed its name to Wellington Pub Company Plc.

DIRECTORS AND THEIR INTERESTS

E J Zuercher (appointed 11 July 1997; resigned 29 October 1997)
D C Rowe (appointed 11 July 1997; resigned 29 October 1997)
J Gustein (appointed 4 November 1997; resigned 15 January 1998)
C Rochat (appointed 4 November 1997; resigned 5 March 1998)
A McIntosh (appointed 29 October 1997)
H Osmond (appointed 29 October 1997)
T Teichman (appointed 3 November 1997)
M Jonas (appointed 20 November 1997)
R Myers (appointed 20 December 1997)
B Baldock (appointed 15 January 1998)
J Carrafiell (appointed 15 January 1998)

None of the directors had any declarable interest in the shares of the company at 31 December 1998.

A McIntosh, H Osmond, M Jonas, B Baldock, T Teichman and R Myers are also directors of the parent undertaking and controlling party, Wellington Investments Ltd.

Their interests in Wellington Investments Limited are shown as follows:

	<i>No. of shares at 31 December 1998</i>	
	<i>Ordinary</i>	<i>"B" Shares</i>
A McIntosh	6,832	-
H Osmond	13,333	-
M Jonas	3,835	-
B Baldock	-	20
T Teichman	-	20
R Myers	16,667	-

CREDITOR PAYMENT POLICY AND PRACTICE

It is the company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the company and its suppliers, provided that all trading terms and conditions have been complied with.

At 31 December 1998, the company had an average of 30 days purchases outstanding in trade creditors.

DIRECTORS' REPORT

YEAR 2000 COMPLIANCE

As is well known, many computer and digital storage systems express dates using only the last two digits of the year and will thus require modification or replacement to accommodate the Year 2000 and beyond in order to avoid malfunctions and resulting widespread commercial disruption. This is a complex and pervasive issue. The operation of our business depends not only on our own computer systems, but also to some degree on those of our suppliers and customers. This could expose us to further risk in the event that there is a failure by other parties to remedy their own Year 2000 issues.

The company is at an advanced stage of a project which is dealing with the key risks and is continuing to develop prioritised action plans.

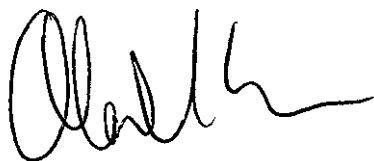
AUDITORS

Ernst & Young were appointed as auditors during the period, and have expressed their willingness to continue in office. A resolution proposing their reappointment will be put to the members at the Annual General Meeting.

By order of the board

A McIntosh
Director

23 March 1999



STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE
ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which 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 those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts; and
- prepare the accounts 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 which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

REPORT OF THE AUDITORS
to the members of Wellington Pub Company Plc

We have audited the accounts on pages 6 to 16, which have been prepared under the historical cost convention as modified by the revaluation of land and buildings and on the basis of the accounting policies set out on page 9.

Respective responsibilities of directors and auditors

As described on page 4 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

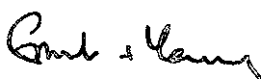
Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 1998 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Registered Auditor
Birmingham

23 March 1999



• Wellington Pub Company Plc

PROFIT AND LOSS ACCOUNT
for the period ended 31 December 1998

	<i>Notes</i>	<i>1998 £000</i>
TURNOVER	2	26,931
Administrative expenses		(4,495)
Other operating income		103
OPERATING PROFIT	3	<u>22,539</u>
Interest receivable		700
Interest payable and similar charges	5	(21,264)
Exceptional finance costs	6	(6,840)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>(4,865)</u>
Taxation		-
RETAINED LOSS FOR THE PERIOD		<u><u>(4,865)</u></u>

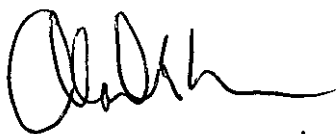
The company has no recognised gains and losses other than those above and therefore no separate statement of total recognised gains and losses has been presented.

Wellington Pub Company Plc

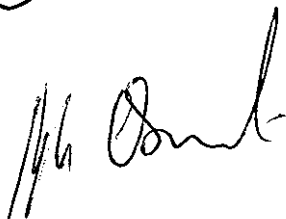
BALANCE SHEET at 31 December 1998

	Notes	1998 £000
FIXED ASSETS		
Tangible assets	9	242,324
CURRENT ASSETS		
Debtors	10	1,581
Cash at bank and in hand	11	13,728
		<u>15,309</u>
CREDITORS: amounts falling due within one year	12	<u>(11,590)</u>
NET CURRENT ASSETS		<u>3,719</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		246,043
CREDITORS: amounts falling due after more than one year	13	<u>(227,763)</u>
		<u>18,280</u>
CAPITAL AND RESERVES		
Called up share capital	14, 15	13
Revaluation reserve	15	23,132
Profit and loss account	15	<u>(4,865)</u>
		<u>18,280</u>

A McIntosh
Director



H Osmond
Director



23 March 1999

Wellington Pub Company Plc

STATEMENT OF CASH FLOW for the period ended 31 December 1998

	Notes	£000	1998 £000
NET CASH INFLOW FROM OPERATING ACTIVITIES	16(a)		26,246
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid		(17,203)	
Interest received		588	
Issue costs of debt finance		(3,327)	
Arrangement fee for credit facility		(2,100)	
Fee for hedging		(3,805)	
Finance fees for credit facility and subordinated debt		(884)	
Fee for subordinated debt		(200)	
Set up costs		(51)	
			(26,982)
TAXATION			-
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT			
Payments to acquire tangible fixed assets		(776)	
Receipts from sales of tangible fixed assets		846	
			70
ACQUISITIONS AND DISPOSALS			
Purchase of properties, assets and liabilities from Phoenix Inns (See note 8)		(219,019)	
			(219,019)
NET CASH FLOW BEFORE FINANCING			(219,685)
FINANCING			
Issue of ordinary share capital		13	
Receipt of debt finance from bond issue	16(b)	231,000	
Receipt of bridge loan	16(b)	210,000	
Payment of bridge loan	16(b)	(210,000)	
Receipt of subordinated debt	16(b)	10,000	
Payment of subordinated debt	16(b)	(7,600)	
			233,413
INCREASE IN CASH			13,728

NOTES TO THE ACCOUNTS
at 31 December 1998

1. ACCOUNTING POLICIES

Basis of preparation

The accounts are prepared under the historical cost convention as modified to include the revaluation of properties and have been prepared in accordance with applicable accounting standards.

Tangible fixed assets and depreciation

Expenditure on additions and improvements to tangible fixed assets is capitalised as the expenditure is incurred.

Surpluses arising from the professional valuation of the estate are taken direct to the revaluation reserve. Valuation surpluses realised on sale are transferred from the revaluation reserve to the profit and loss account reserve. The carrying values of tangible fixed assets are reviewed for impairment in periods if events or changes in circumstances indicate the carrying value may not be recoverable.

It is the company's policy to maintain the properties comprising the licensed estate in such a condition that the residual values of the properties, based on prices prevailing at the time of acquisition or subsequent revaluation are at least equal to their book values. Having regard to this, it is the opinion of the directors that depreciation of any such property as required by the Companies Act 1985 and generally accepted accounting practice would not be material.

Repairs and maintenance

Expenditure on repairs and maintenance are charged to profit on the basis of costs incurred.

Deferred taxation

Deferred taxation is provided using the liability method on all timing differences which are expected to reverse in the future without being replaced, calculated at the rate at which it is anticipated the timing differences will reverse. Advance corporation tax which is expected to be recoverable in the future is deducted from the deferred taxation balance.

Deferred tax assets are only recognised if recovery without replacement by equivalent debit balances is reasonably certain.

Leasing commitments

Rentals paid under operating leases are charged to income on a straight line basis over the lease term.

Capital instruments

The issue costs recognised in the profit and loss account are allocated to periods over the life of the bonds on a straight line basis.

2. TURNOVER

Turnover, which is stated net of value added tax, represents amounts invoiced to third parties. Turnover relates to one continuing activity, leasing of public houses to independent publicans. All of the company's business is performed in the United Kingdom.

Wellington Pub Company Plc

NOTES TO THE ACCOUNTS at 31 December 1998

3. OPERATING PROFIT

This is stated after charging/(crediting)

	1998 £'000
Professional fees	2,632
Bad debt expense	254
Maintenance and repairs	76
Auditors' remuneration	
audit services	7
Operating lease rentals - land and buildings	76
Profit on sale of properties	(57)

The company contracts a third party administrator to manage the pub portfolio as well as to perform the credit control function and other accounting functions. These costs are described as professional fees above. As a result the company has not hired any full time staff.

4. DIRECTORS EMOLUMENTS

The company was charged management fees of £700,000 for the period by Wellington Investments Limited. At 31 December 1998, there was £100,000 remaining to be paid. The directors, apart from T Teichman whose fees are disclosed in note 18, are paid from Wellington Investments Limited. The directors believe that it is not practicable to apportion this amount between their services as directors of this company and their services as directors of Wellington Investments Limited.

5. INTEREST PAYABLE AND SIMILAR CHARGES

	1998 £'000
Interest on bonds	13,884
Interest on subordinated debt	883
Interest on bridge loan	6,207
Amortisation of issue costs	90
Finance fees for subordinated debt	200
	21,264

6. EXCEPTIONAL FINANCE COSTS

	1998 £'000
Set up costs	51
Arrangement fee for credit facility (see note 18)	2,100
Fee for hedging (see note 18)	3,805
Finance fees for credit facility and subordinated debt (see note 18)	884
	6,840

Wellington Pub Company Plc

NOTES TO THE ACCOUNTS at 31 December 1998

7. DEFERRED TAXATION

Deferred taxation provided and deferred taxation not provided are as follows:

	<i>Provided</i> <i>£'000</i>	<i>Not provided</i> <i>£'000</i>
Taxation on revaluation surplus	-	5,191
	<u>-</u>	<u>5,191</u>
	<u>-</u>	<u>5,191</u>

Deferred tax has not been provided on the revaluation surplus, as there is no intention to dispose of the properties.

8. ACQUISITION

On the 4 November 1997 the company acquired properties and certain assets and liabilities from Phoenix Inns.

The properties, assets and liabilities have been included in the company's balance sheet at the date of acquisition.

	<i>£000</i>
Tangible fixed assets	219,205
Debtors	1,572
Creditors due within one year	(1,758)
	<u>219,019</u>
Net assets	<u>219,019</u>
Discharged by:	
Cash	219,019
	<u>219,019</u>

Wellington Pub Company Plc

NOTES TO THE ACCOUNTS at 31 December 1998

9. TANGIBLE FIXED ASSETS

	<i>Freehold Land and Buildings £000</i>	<i>Leasehold Buildings £000</i>	<i>Total £000</i>
Cost:			
Acquisition	212,737	6,468	219,205
Revaluations	22,442	690	23,132
Additions	772	4	776
Disposals	(789)	-	(789)
At 31 December 1998	235,162	7,162	242,324

The split of leasehold buildings is as follows:

	<i>Long Leasehold £000</i>	<i>Short Leasehold £000</i>	<i>Total £000</i>
Cost:			
Acquisition	5,596	872	6,468
Revaluations	597	93	690
Additions	-	4	4
Disposals	-	-	-
At 31 December 1998	6,193	969	7,162

On the 2 February 1998, Davis Coffey Lyons valued the pubs on a portfolio basis to £240 million including additions of £220,000 prior to the valuation. The valuation was performed on an open market basis and was in accordance with RICS Appraisal and Valuation Manual with the exception of the following:

- (1) no individual property values were assigned to each of the pubs nor was an aggregate of individual property values given
- (2) inspections of a sample were undertaken

Subsequent to the valuation there was a project undertaken by the company to allocate the net book value to individual pubs.

10. DEBTORS

	<i>1998 £000</i>
Trade debtors	1,350
Other debtors	70
Prepayments and accrued income	161
	1,581

NOTES TO THE ACCOUNTS
at 31 December 1998

11. CASH AT BANK AND IN HAND

Included in cash is £6 million held in a liquidity reserve account. This was set up as part of the bond issue and is used for any deficiency of funds for interest payments on bond issue. This account was not drawn down at any point during the period.

12. CREDITORS: amounts falling due within one year

	1998 £000
Trade creditors	87
Other creditors	124
Subordinated debt	2,400
Corporation tax	-
Other taxes	928
Accruals and deferred income	4,173
Amounts owed to group undertakings	107
Accrued interest on subordinated debt and bond issue	3,771
	<hr/>
	11,590
	<hr/>

13. CREDITORS: amounts falling due after more than one year

	1998 £000
<i>Not wholly repayable within five years</i>	
Class A secured fixed rate bonds at 6.735% repayable January 2029	160,000
Class B secured fixed rate bonds at 7.335% repayable January 2029	51,000
Class C secured fixed rate bonds at 11% repayable January 2029	20,000
	<hr/>
	231,000
Less: Unamortised issue costs	(3,237)
	<hr/>
	227,763
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On the 2 March 1998, the company performed a bond issue for £231 million. The issue costs of £3.3 million are being amortised over the life of the bonds on a straight line basis. The bonds are secured on the freehold and leasehold properties of the company.

Wellington Pub Company Plc

NOTES TO THE ACCOUNTS at 31 December 1998

14. SHARE CAPITAL

	<i>Authorised 1998 £</i>	
Ordinary shares of £0.50 each	50,000	
	<hr/>	
	<i>1998 No.</i>	<i>Called up and fully paid 1998 £</i>
Ordinary shares of £0.50 each	400	200
	<hr/>	<hr/>
	<i>1998 No.</i>	<i>Called up and partly paid 1998 £</i>
Ordinary shares of £0.50 each	99,600	12,450
	<hr/>	<hr/>

The allotted share capital equalled 100,000 shares at £.50p each, 400 shares which were fully paid and 99,600 shares which were partly paid at £.125p each.

15. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	<i>Share Capital £000</i>	<i>Revaluation Reserve £000</i>	<i>Profit and loss account £000</i>	<i>Total share- holders' funds £000</i>
At incorporation	-	-	-	-
Revaluation	-	23,132	-	23,132
Loss for period	-	-	(4,865)	(4,865)
Shares issued	13	-	-	13
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 1998	13	23,132	(4,865)	18,280
	<hr/>	<hr/>	<hr/>	<hr/>

NOTES TO THE ACCOUNTS
at 31 December 1998

16. NOTES TO THE CASHFLOW STATEMENT

(a) *Reconciliation of operating profit to net cash inflow from operating activities*

	1998 £000
Operating profit	22,539
Decrease in debtors	66
Increase in creditors	3,698
Profit on sale of tangible fixed assets	(57)
Net cash inflow from operating activities	<u>26,246</u>

(b) *Reconciliation of net cashflow to movement in net debt*

	1998 £000
Increase in cash in the period	13,728
Cash inflow from increase in debt finance	(231,000)
Issue Costs	3,327
Amortisation of issue costs	(90)
Cash inflow from increase in bridge debt	(210,000)
Cash outflow from decrease in bridge debt	210,000
Cash inflow from increase in subordinated debt	(10,000)
Cash outflow from decrease in subordinated debt	7,600
	<u>(216,435)</u>

(c) *Analysis of changes in net debt*

	<i>Amortisation of Issue Costs £000</i>	<i>Cash 31 December flows £000</i>	<i>At 1998 £000</i>
Cash at bank and in hand	-	13,728	13,728
Debt due before one year	-	(2,400)	(2,400)
Debt due after one year	(90)	(227,673)	(227,763)
At 31 December 1998	<u>(90)</u>	<u>(216,345)</u>	<u>(216,435)</u>

17. CAPITAL COMMITMENTS

	1998 £000
Contracted	<u>154</u>

NOTES TO THE ACCOUNTS
at 31 December 1998

18. RELATED PARTY DISCLOSURE

On the 4 November 1997 the company drew down the full amount on a £210 million credit facility. The lender of the credit facility was Morgan Stanley Principal Finance Limited, who owned 25% of the shares of the company until 19 May 1998 at which time 12,500 shares were transferred to MSREF III International T.L.P and 12,500 shares were transferred to Morgan Stanley Cayman Investors L.P. On the 2 March 1998 the company repaid the £210 million credit facility. In addition, the company paid total interest of £6.2 million on the credit facility, £2.1 million in arrangement fees and £3.8 million in hedging fees.

In addition, on the 4 November 1997, the company also entered into a subordinated debt facility of £10 million equally with Morgan Stanley Principal Finance Limited and Wellington Investments Limited acting as lenders. At 31 December 1998, the company had repaid £7.6 million in principal and £883,000 in interest. Of the remaining balance £1.2 million is due to Morgan Stanley Principal Finance Limited and £1.2 million is due to Wellington Investment Limited. The year end balance is accruing interest at 20%.

In addition, there was £884,000 in original financing fees paid as a result of the described debt facilities which have been classified as exceptional finance costs in the profit and loss account.

In addition, the company was recharged £26,875 by Wellington Investments Limited (of which £6,875 was outstanding at 31 December 1998) for non-executive directors fees of B Baldock. The company was also charged £65,000 for the period directly by NewMedia Investors Limited for the fees of T Teichman as non-executive director.

19. PARENT UNDERTAKING

The company's parent undertaking and controlling party is Wellington Investments Limited. Copies of its group accounts are available from Companies House, Crown Way, Maindy, Cardiff CF4 3UZ.