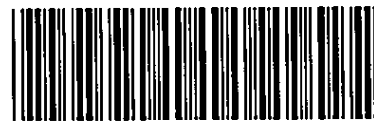


The Grand Pub Company Limited

Report and Consolidated Financial Statements for the year ended 31 December 2006

Registered No. 03438235

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The Grand Pub Company Limited

Report and Consolidated Financial Statements for the year ended 31 December 2006

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The Grand Pub Company Limited

Directors and Advisors

Directors

F S Duncan
C H B Redford
J A R Turner
C P T O'Haire

Secretary

TJG Secretaries Limited

Registered Office

Carmelite
50 Victoria Embankment
Blackfriars
London
EC4Y 0DX

Auditors

PricewaterhouseCoopers LLP

The Grand Pub Company Limited

Directors' report for the year ended 31 December 2006

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

Principal Activities

The principal activity of the company is that of a holding company. The principal activities of the group during the financial period were property investment and property trading.

Result for the year

The group made a profit on ordinary activities before taxation of £1,035,000 for the year (2005 Profit of £996,000). No dividends are proposed.

Directors

The membership of the Board of Directors during the year and since the year end is set out on page 1.

According to the Register of Directors' interests maintained under the Companies Act 1985 none of the Directors had an interest in the shares of the Company or its subsidiaries and no rights to subscribe for shares in the Company or its subsidiaries were granted to any of the Directors or their immediate families or were exercised by them during the financial period.

Donations

The Group made no charitable donations during the period (2005 £nil).

Post balance sheet events

For details of post balance sheet events, refer to Note 18 of the financial statements.

Directors' Responsibilities

The directors are responsible for preparing 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 elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). 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 group and of the profit or loss of the group for that period.

In preparing those 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 whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company 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 comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the

The Grand Pub Company Limited

company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Statement of disclosure of information to auditors

In accordance with Section 234 of the Companies Act, each director who was a director at the time the report was approved confirms the following


- (a) so far as each director is aware, there is no relevant audit information of which the company's auditors are unaware, and
- (b) each director has taken all steps that each ought to have taken as a director to make himself aware of any relevant information and to establish that the company's auditors are aware of that information

Auditors

The company has passed an elective resolution to dispense with the requirement to appoint auditors annually. PricewaterhouseCoopers LLP will consequently remain in office.

By Order of the Board

Director
Colin McQuinn
12 October 2007



The Grand Pub Company Limited

Independent Auditors' report to the members of The Grand Pub Company Limited.

We have audited the group and parent company financial statements of The Grand Pub Company Limited for the year ended 31st December 2006 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements 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 are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not 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 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

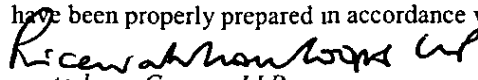
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 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 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.

Opinion

In our opinion the financial statements

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31st December 2006 and of the group's result and cash flows for the year then ended, and
- have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

15 October 2007

The Grand Pub Company Limited

Consolidated Profit and Loss Account for the year ended 31 December 2006

		2006	2005
	Note	£000	£'000
Turnover		-	-
Cost of sales		-	-
Gross profit		-	-
Net operating expenses	2	(898)	(566)
Group operating ((loss)		(898)	(566)
Profit on disposal of investment properties		-	-
		(898)	(566)
Liability on warrants and related charges	9	(2,138)	(2,306)
Investment income	4	4,071	3,868
Profit on ordinary activities before taxation		1,035	996
Tax on profit on ordinary activities	5	(1,035)	(996)
Result for the financial year		-	-

Movements in reserves and movements in shareholders' funds are set out in Note 14

There were no recognised gains and losses in the year other than those shown in the profit and loss account
Consequently, no statement of total recognised gains and losses has been presented

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the company is not presented as part of these accounts The company made a loss for the financial period of £32,142,000 (2005 loss of £31,648,000)

The notes on pages 8 to 19 form an integral part of these accounts

The Grand Pub Company Limited

Balance Sheets as at 31 December 2006

		Group 31 December 2006 £'000	Group 31 December 2005 £'000	Company 31 December 2006 £'000	Company 31 December 2005 £'000
	Note				
Fixed assets					
Investments	6	-	-	902,579	870,437
Tangible fixed assets	7	-	-	-	-
		-	-	902,579	870,437
Current assets					
Debtors	8	1,157	2,207	78,644	65,862
Short term investments		84,165	83,005	-	-
Cash at bank and in hand		3,278	1,011	-	-
		88,600	86,223	78,644	65,862
Creditors amounts falling due within one year	9	(88,593)	(86,216)	(981,216)	(936,292)
Net current assets/(liabilities)		7	7	(902,572)	(870,430)
Net assets		7	7	7	7
Capital and Reserves					
Called up share capital	13	-	-	-	-
Revaluation reserve	14	-	-	459,253	427,111
Profit and loss account	14	7	7	(459,246)	(427,104)
Equity shareholders' funds		7	7	7	7

The financial statements on pages 5 to 19 were approved by the Board of Directors on 12 October 2007 and signed on their behalf by

Director

Colin Mac O'Hara

The Grand Pub Company Limited

Consolidated Cash Flow Statement for the year ended 31 December 2006

		2006	2006	2005	2005
	Note	£'000	£'000	£'000	£'000
Net cash inflow from operating activities	10		99		413
Returns on investments and servicing of finance					
Interest received		4,071		3,868	
Net cash inflow from returns on investments and servicing of finance			4,071		3,868
Taxation					
UK corporation tax			(833)		(1,512)
Capital expenditure					
Sale of fixed assets		-		-	
Net cash inflow from investing activities			-		-
Net cash inflow before management of liquid resources and financing			3,337		2,769
Management of liquid resources					
Short term investments			(1,160)		(3 048)
Increase/(decrease) in cash	11		2,177		(279)

The Grand Pub Company Limited

Notes to financial statements for the year ended 31 December 2006

1 Accounting policies

The financial statements are prepared under the historic cost convention as modified by the revaluation of certain fixed assets, in accordance with applicable Accounting Standards in the United Kingdom

The significant accounting policies of the Group are as follows

Basis of preparation

The financial statements have been prepared on the basis that the Company will continue as a going concern

Basis of consolidation

The consolidated financial statements include the audited accounts of the company made up for the year ended 31 December 2006. All Group companies have a year ended 31 December 2006

Taxation

Corporation tax is provided on taxable profits at the rate of 30% (2005 30%)

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or right to pay less or to receive more, tax, with the following exceptions

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, or gains on disposal of fixed assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date

Pension costs

The group operates defined contribution pension schemes for eligible employees. The pension cost charged in the financial statements in relation to these schemes represents contributions payable by the group

Warrants

Where warrants in issue are in the money it is assumed that they will be exercised. The liability is stated at the directors' best estimate given the values of the assets and the other liabilities of the company. It is assumed that the warrant holders will select the cash settlement option. Where warrants in issue are not in the money it is assumed that they will not be exercised

Profit on disposal of properties

Profit on disposal of properties is the excess of net proceeds (gross proceeds less fees) over the net book value at date of sale

Investment in subsidiary undertakings

Investments in subsidiary undertakings are valued individually at underlying net asset value

Properties and related fixed assets

The company has a policy of not revaluing its properties, as permitted by Financial Reporting Standard 15 – Tangible Fixed Assets. The transitional procedures in the standard have been adopted, with previously revalued

The Grand Pub Company Limited

assets held at their revalued amounts as at 30 September 1998

A review of all properties to identify possible impairment is undertaken at the end of each year, with charges made as necessary. Depreciation is not charged systematically as such a charge would not be material.

Leasehold properties that have less than 20 years to run are amortised at rates and bases to reduce the book value to nil at the expiry of the leases.

Short term investments

Short term investments represent money market deposits held in financial institutions.

The Grand Pub Company Limited

Notes to financial statements for the year ended 31 December 2006 (cont'd)

2 Net operating expenses

	2006 £'000	2005 £'000
Net Operating Expenses		
Property management and administrative expenses	1,626	566
Reversal of provision no longer required	(728)	-
	<u>898</u>	<u>566</u>

Operating loss is stated after (charging)/crediting

Auditors' remuneration

- Audit fees	(28)	(28)
Other operating income	12	42

The auditor's remuneration for the audit of the company was £5,000 (2005 £5,000), and for other services to the company was £nil (2005 £nil)

The Grand Pub Company Limited

Notes to financial statements for the year ended 31 December 2006 (cont'd)

3 Employee costs

	2006 £'000	2005 £'000
Total remuneration was		
Wages and salaries	229	233
Social security costs	16	16
Other pension costs	17	17
	<u>262</u>	<u>266</u>

The average monthly number of persons employed by the Group, including directors, during the year was 2 (2005 2) both of whom were engaged in the administration and management of the group

Directors emoluments

Two directors earned emoluments for their services to the group

	2006 £'000	2005 £'000
Aggregate emoluments	229	233
Company contributions to money purchase pension scheme	16	16
	<u>245</u>	<u>249</u>

The total amount of emoluments and amounts receivable under long term incentive schemes for the highest paid director were £200,000 (2005 £190,000) The company contributions to the highest paid director's money purchase pension scheme were £16,200 (2005 £16,200)

4 Net interest payable and similar charges

Investment income

	2006 £'000	2005 £'000
Interest receivable and similar income	<u>4,071</u>	<u>3,868</u>

The Grand Pub Company Limited

Notes to financial statements for the year ended 31 December 2006 (cont'd)

5 Tax on profit on ordinary activities

	2006 £'000	2005 £'000
UK Corporation tax at 30% (2005 30%)	1,035	996

The difference between the total current tax shown above and the amount calculated by applying the standard rate of corporation tax to the profit before tax is as follows

	2006 £'000	2005 £'000
Operating Expenses		
Profit for the period before tax	1,035	996
Tax at 30%	311	299
2005 bonus provision paid in 2006	(36)	-
Disallowed administrative expenses	48	5
Prior year tax charge	71	-
Non-taxable warrant liability provision	641	692
Total	1,035	996

The Grand Pub Company Limited

Notes to financial statements for the year ended 31 December 2006 (cont'd)

6 Investments

The Group has no fixed asset investments at 31 December 2006

	31 December 2006 £'000
Company Investments in subsidiaries	
At 1 January 2006	870,437
Revaluation of investments to net asset value	32,142
At 31 December 2006	<u>902,579</u>

The principal subsidiaries are shown below. Ownership of their share capital, and the nature of their trade, are also listed below

	Proportion of all classes of issued share capital owned by the company	Nature of Trade
Inntrepreneur Pub Company *	100%	Holding company/property investments
Inntrepreneur Pub Company (GL) *	100%	Property Investment
Inntrepreneur Pub Company (CPC) *	100%	Property Investment
Spring Inns Limited	100%	Property Investment
Phoenix Inns	100%	Property Trading

*The Group's interest in these companies is held by subsidiaries

7 Tangible fixed assets

Group

	2006 £'000	2005 £'000
Net book value	-	-

All fixed assets are fully written down as at 31 December 2006 (31 December 2005 £nil)

The Grand Pub Company Limited

Notes to financial statements for the year ended 31 December 2006 (cont'd)

8 Debtors

Group

	2006	2005
	£'000	£'000
Amounts receivable within one year		
Other debtors	512	83
Prepayments and accrued income	645	2,124
	1,157	2,207

Company

	2006	2005
	£'000	£'000
Amounts receivable within one year		
Amounts owed by group companies	78,644	65,862
Other debtors	-	-
	78,644	65,862

The Grand Pub Company Limited

Notes to financial statements for the year ended 31 December 2006 (cont'd)

9 Creditors: amounts falling due within one year

Group

	2006 £000	2005 £000
Bank loans and overdraft	860	770
Liability on warrants	76,612	74,725
Corporation tax	571	438
Other creditors	5	55
Accruals and deferred income	10,545	10,228
	<u>88,593</u>	<u>86,216</u>

Liability on warrants issued

9,999 warrants remain in force on the shares of the Grand Pub Company Limited at the year end, exercisable at a strike price of £0.01 per warrant. The warrants are for cash settlement or the issue of one ordinary share per warrant at the option of the warrant holder. Upon exercise of the warrants, when a cash settlement has been selected, the cash settlement amount of a warrant shall be the price which is in excess (if any) of the open market value of an ordinary share over the cost to the subscriber at par for the ordinary share over which the warrant is being exercised. The value of the liability represents the director's best estimate of the value of the warrants. The increase in the potential cash settlement value of the warrants is shown in the profit and loss account after operating profit.

On 10 September 2001 The Grand Pub Company Limited agreed with certain current and former employees of the Grand Pub Company group that a proportion of any future cash settlement value of the warrants would be payable to those employees. This liability is linked directly, both in quantum and timing, to the liability to the warrant holders. It is included within "accruals and deferred income".

Summary of liability on warrants	£000
At 1 January 2006	(74,725)
Transfer to accrual for bonus	251
Charge in the year	(2,138)
At 31 December 2006	<u>(76,612)</u>

The Grand Pub Company Limited

Notes to financial statements for the year ended 31 December 2006 (cont'd)

9 Creditors: amounts falling due within one year (cont'd)

Company

	2006 £000	2005 £000
Amounts owed to group companies	893,279	850,963
Bank overdraft	860	770
Accruals and deferred income	10,465	9,834
Warrants issued	76,612	74,725
	<u>981,216</u>	<u>936,292</u>

10 Reconciliation of operating profit to net cash flow from operating activities

	2006 £'000	2005 £'000
Operating loss	(898)	(566)
Decrease in debtors	1,050	1,116
(Decrease) in creditors and other provisions	(53)	(137)
Cash inflow from operating activities	<u>99</u>	<u>413</u>

11 Analysis of net cash position

	1 January 2006 £000	Cashflow £000	Other non cash charges £000	31 December 2006 £000
Cash at bank and in hand	1,011	2,267	-	3,278
Overdraft	(770)	(90)	-	(860)
	<u>241</u>	<u>2,177</u>	<u>-</u>	<u>2,418</u>

12 Reconciliation of net cash flow to movement in net cash position

	£'000
Increase in cash in the period	2,177
Movement in net debt in the period	2,177
Net cash at 1 January 2006	241
Net cash at 31 December 2006	<u>2,418</u>

The Grand Pub Company Limited

Notes to financial statements for the year ended 31 December 2006 (cont'd)

13 Called up share capital

	2006 £	2005 £
Authorised		
100,000 ordinary shares of 1p	1,000	1,000
Allotted, called up and fully paid		
1 Ordinary Share of 1p	-	-
Share warrants		
9,999 issued share warrants of 1p	100	100

14 Reconciliation of movements in shareholders' funds and statement of movements in reserves

Group

	Share capital	Revaluation reserve	Profit and loss account	Total
	£'000	£'000	£'000	£'000
At 1 January 2006	-	-	7	7
Profit/(Loss) for the year	-	-	-	-
At 31 December 2006	-	-	7	7

Company

	Share capital	Revaluation reserve	Profit and loss account	Total
	£'000	£'000	£'000	£'000
At 1 January 2006	-	427,111	(427,104)	7
Loss for the year	-	-	(32,142)	(32,142)
Revaluation of investment in subsidiaries	-	32,142	-	32,142
At 31 December 2006	-	459,253	(459,246)	7

15 Pension Costs

The Company operates a Group Personal Pension Plan which is a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge (shown in note 3) represents contributions payable by the company to the fund. At the Balance Sheet date nothing was outstanding (2005: £nil).

The Grand Pub Company Limited

Notes to financial statements for the year ended 31 December 2006 (cont'd)

16 Contingent Liabilities

Litigation

A significant number of legal claims have been made against members of the Grand Pub Company Limited group by former tenants, primarily related to the renewal of old tenancy agreements, alleged misrepresentation and allegations that the beer tie within the leases used by group companies contravened Article 81 (ex-Article 85) of the Treaty of Rome. In respect of the first two categories the claimants have made no attempt to progress their claims for many years, and in respect of the final category the House of Lords ruled in favour of the defendants in July 2006 in a test case. The directors regard the possibility of further cases coming to trial as remote and speculative.

17 Related Party Transactions

The Group has taken advantage of the exemption under FRS 8 - Related Party Transactions not to disclose related party transactions between wholly owned group companies.

18 Post Balance Sheet Events

On 5th February, 2007 the Company sent letters to its subsidiaries asking them to consider paying interim dividends to their immediate holding companies. To facilitate this process:

- in respect of those subsidiaries with intercompany loans due from GPC, GPC agreed with each of those subsidiaries to amend and restate these loans in terms of loan notes,
- the Company passed written resolutions i) registering its subsidiary Phoenix Inns Ltd ("PIL") as an unlimited company ii) cancelling PIL's entire share premium account and £99,552 of its capital redemption reserve with the resulting £4,650,552 credit to PIL's distributable reserves and iii) amending the articles of association of PIL and the Company's two other direct subsidiaries, IPC Alpha Ltd and Spring Inns Ltd ("IPCA" and "SIL" respectively), allowing these subsidiaries a wider range of assets to be used in satisfaction of any dividends declared,

The Company received interim dividends from PIL, IPCA and SIL of £7,726,706, £761,761,026 and £137,260,027 respectively, satisfied in aggregate by the transfer of £818,905,759 of loan notes issued by the Company and the balance, £87,842,000, in cash. The Company cancelled the loan notes received.

Also on 5th February 2007 the Company received a notice from the holder of the 9,999 warrants remaining in force on the shares of the Company (note 9) exercising 9,736 of the warrants and electing for cash settlement. The Directors of the Company agreed that the settlement amount payable in relation to all of the warrants exercised was £75,000,000. In addition, as a result of the exercise of the warrants the Company became liable to make payments under an incentive arrangement entered into with certain current and former employees of the Group (note 9). The Directors calculated the total of these payments, including employer's national insurance contributions, to be £10,148,960.

Using the financial records available to them, including interim accounts, the Directors assessed the level of cash resources available to the Company, the Company's future financial position, its trading prospects and whether

The Grand Pub Company Limited

after the above payments the Company would be able to pay its debts as they fell due and also have a positive net asset position taking account of its contingent and prospective liabilities. After thorough consideration, the Directors of the Company resolved to pay the cash settlement sum in respect of the warrants and the amounts due under the incentive arrangement.

19 Ultimate Controlling Party

The directors regard TFCP Holdings Limited, a company incorporated in Guernsey, as the ultimate controlling party and the ultimate parent entity.