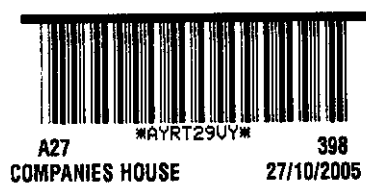


# **The Grand Pub Company Limited**

## **Report and Consolidated Financial Statements for the year ended 31 December 2004**

**Registered No. 03438235**



# **The Grand Pub Company Limited**

## **Report and Consolidated Financial Statements for the year ended 31 December 2004**

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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  
R Punja

### **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 2004**

The Directors present their report and audited financial statements for the year ended 31 December 2004.

### **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, principally in public houses and property trading.

### **Result for the year**

The group made a loss on ordinary activities before taxation of £6,331,000 for the year (2003: Profit of £1,989,000). 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 (2003:£nil).

### **Directors' Responsibilities**

The directors are required by United Kingdom Company Law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group as at the end of the financial year and of the profit or loss of the group for that period.

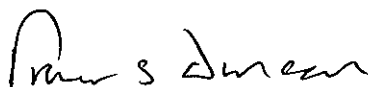
The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 2004. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **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

24 October 2005

# **The Grand Pub Company Limited**

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

We have audited the financial statements which comprise the Consolidated Profit and Loss Account, the Balance Sheets, the Consolidated Cash Flow Statement and the related notes.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.


### **Basis of audit 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 financial statements. It also includes an assessment of the significant estimates and judgements 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.

### **Opinion**

In our opinion the financial statements give a true and fair view of the state of the affairs of the company and the group at 31 December 2004 and of the result and cash flows of the Group 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

24 October 2005

# The Grand Pub Company Limited

## Consolidated Profit and Loss Account for the year ended 31 December 2004

		2004	2003
	Note	£000	£'000
Turnover		525	1,263
Cost of sales		(451)	(721)
Gross profit		74	542
Operating expenses	2	(624)	1,034
Other operating income		96	497
<b>Operating ((loss)/profit)</b>		<b>(454)</b>	<b>2,073</b>
Profit on disposal of investment properties	4	109	112
		(345)	2,185
Net interest payable and similar charges	5	-	(3)
Liability on warrants and related charges	11	(9,815)	(3,461)
Investment income	5	3,829	3,268
<b>(Loss)/Profit on ordinary activities before taxation</b>		<b>(6,331)</b>	<b>1,989</b>
Taxation	6	6,331	(1,989)
<b>Result for the year transferred to reserves</b>		<b>-</b>	<b>-</b>

Movements in reserves and movements in shareholders' funds are set out in Note 16.

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 £37,625,000 (2003: loss of £29,063,000).

The notes on pages 7 to 17 form an integral part of these accounts.

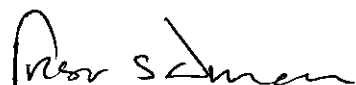
# The Grand Pub Company Limited

## Balance Sheets as at 31 December 2004

		Group 31 December 2004 £'000	Group 31 December 2003 £'000	Company 31 December 2004 £'000	Company 31 December 2003 £'000
	Note				
<b>Fixed assets</b>					
Investments	8	-	-	838,790	801,351
		-	-	838,790	801,351
<b>Current assets</b>					
Assets held for sale	9	-	242	-	-
Debtors	10	3,323	5,565	53,153	41,319
Short term investments		79,957	75,944	-	-
Cash at bank and in hand		1,255	2,738	-	-
		84,535	84,489	53,153	41,319
<b>Creditors: amounts falling due within one year</b>					
	11	(84,528)	(84,482)	(891,936)	(842,663)
<b>Net current assets/(liabilities)</b>		7	7	(838,783)	(801,344)
<b>Net assets</b>		7	7	7	7
<b>Capital and Reserves</b>					
Called up share capital	15	-	-	-	-
Revaluation reserve	16	-	-	395,463	357,838
Profit and loss account	16	7	7	(395,456)	(357,831)
<b>Equity shareholders' funds</b>		7	7	7	7

Approved by the Board on 24 October 2005

Director



F DUNCAN

# The Grand Pub Company Limited

## Consolidated Cash Flow Statement for the year ended 31 December 2004

		2004	2004	2003	2003
	Note	£'000	£'000	£'000	£'000
<b>Net cash inflow/(outflow) from operating activities</b>	12		<b>129</b>		<b>(4,453)</b>
<b>Returns on investments and servicing of finance</b>					
Interest received		4,019		2,847	
Interest paid		-		(3)	
<b>Net cash inflow from returns on investments and servicing of finance</b>			<b>4,019</b>		<b>2,844</b>
<b>Taxation</b>					
UK corporation tax			(1,567)		(1,042)
<b>Capital expenditure</b>					
Sale of fixed assets		109		112	
<b>Net cash inflow from investing activities</b>			<b>109</b>		<b>112</b>
<b>Net cash inflow/(outflow) before management of liquid resources and financing</b>			<b>2,690</b>		<b>(2,539)</b>
<b>Management of liquid resources</b>					
Short term investments			(4,013)		2,406
<b>Decrease in cash</b>	13		<b>(1,323)</b>		<b>(133)</b>



# **The Grand Pub Company Limited**

## **Notes to financial statements for the year ended 31 December 2004**

### **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 2004. All Group companies have a year ended 31 December 2004.

#### **Turnover**

All turnover during the year is derived from continuing activities.

Turnover attributable to Phoenix Inns Limited comprises the value of sales (excluding VAT and similar taxes) of properties in the normal course of business. Other operating income comprises rental income from the stock of licensed and unlicensed properties.

Turnover attributable to the other group companies comprises rents receivable from operating leases, income from amusements with prizes machines and from the supply of beer and related products.

#### **Assets held for resale**

Assets held for resale by Phoenix Inns Limited (a property trading company) are stated at lower of cost and net realisable value and comprise licensed and unlicensed properties. Cost is based on the purchase price of the portfolio allocated on a house-by-house basis. Net realisable value is based on estimated normal selling price, less further costs expected to be incurred to completion and disposal.

# **The Grand Pub Company Limited**

## **Notes to financial statements for the year ended 31 December 2004 (cont'd)**

### **1 Accounting policies (cont'd)**

#### **Taxation**

Corporation tax is provided on taxable profits at the rate of 30% (2003: 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.

#### **Operating lease costs**

Operating lease costs are charged to the profit and loss account on a straight line basis over the period of the lease.

#### **Finance costs**

The group operates different accounting policies in respect of finance costs relating to the issue of loan notes. For property trading companies within the group (Phoenix Inns Limited), costs are expensed to the profit and loss account in the period in which they are incurred. For property investment companies within the group, costs are capitalised and amortised over the life of the loan.

#### **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.*

# The Grand Pub Company Limited

## Notes to financial statements for the year ended 31 December 2004 (cont'd)

### 2 Net operating expenses

	2004 £'000	2003 £'000
<b>Operating Expenses</b>		
Property management and administrative expenses	694	1,236
Amount set aside no longer required	(70)	(2,270)
	<u>624</u>	<u>(1,034)</u>

Operating profit is stated after (charging)/ crediting:

Auditors' remuneration

- Audit fees	(30)	(24)
- Other	-	(70)
Rent receivable	12	250
Operating lease charges		
- Land & Buildings	-	-
Profit on disposal of investment properties	109	112

The auditor's remuneration for the audit of the company was £7,000 (2003: £8,000), and for other services to the company was £68,000 (2003: £nil).

# The Grand Pub Company Limited

## Notes to financial statements for the year ended 31 December 2004 (cont'd)

### 3 Employee costs

	2004 £'000	2003 £'000
Total remuneration was:		
Wages and salaries	221	209
Social security costs	16	26
Other pension costs	16	15
	<u>253</u>	<u>250</u>

The average monthly number of persons employed by the Group, including directors, during the year was 2 (2003: 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.

	2004 £'000	2003 £'000
Aggregate emoluments	225	206
Aggregate amounts receivable under long term incentive schemes	174	1,534
Company contributions to money purchase pension scheme	16	15
	<u>415</u>	<u>1,755</u>

The total amount of emoluments and amounts receivable under long term incentive schemes for the highest paid director were £263,982 (2003: £1,159,141). The company contributions to the highest paid director's money purchase pension scheme were £16,200 (2003: £nil).

### 4 Exceptional income

	2004 £'000	2003 £'000
Profit on disposal of properties	<u>109</u>	<u>112</u>

# The Grand Pub Company Limited

## Notes to financial statements for the year ended 31 December 2004 (cont'd)

### 5 Net interest payable and similar charges

#### Interest payable and similar charges

	2004 £'000	2003 £'000
Corporation Tax interest	-	3
	-	3

#### Investment income

	2004 £'000	2003 £'000
Interest receivable and similar income	3,829	3,268

### 6 Tax on profit on ordinary activities

	2004 £'000	2003 £'000
UK Corporation tax at 30% (2003:30%)	(6,331)	1,780
Prior year charge / (credit)	-	209
UK Corporation tax at 30% (2003:30%)	(6,331)	1,989

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:

	2004 £'000	2003 £'000
<b>Operating Expenses</b>		
(Loss)/profit for the period before tax	(6,331)	1,989
Tax at 30%	(1,899)	597
Capital allowances in excess of depreciation	(21)	(8)
Profit on disposal of properties	-	-
Taxable inter-company dividend	-	111
Disallowed administrative expenses	66	42
Prior year tax charge / (over provision)	-	209
Non-taxable warrant liability provision	2,944	1,038
Movement on provisions	(7,421)	-
<b>Total</b>	<b>(6,331)</b>	<b>1,989</b>

# The Grand Pub Company Limited

## Notes to financial statements for the year ended 31 December 2004 (cont'd)

### 7 Tangible fixed assets

Group	Computer Equipment £'000
Cost at 1 January 2004 and 31 December 2004	11
Depreciation at 1 January 2004 and 31 December 2004	11
Net book value at 31 December 2003 and 31 December 2004	-

The company does not own any tangible fixed assets (2003: nil).

### 8 Investments

The Group has no fixed asset investments at 31 December 2004.

	31 December 2004 £'000
<b>Company: Investments in subsidiaries</b>	
At 1 January 2004	801,351
Revaluation of investments to net asset value	37,439
At 31 December 2004	838,790

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 Limited	100%	Property Trading

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

Thame Insurance Company Ltd was liquidated in the year.

# The Grand Pub Company Limited

## Notes to financial statements for the year ended 31 December 2004 (cont'd)

### 9 Assets held for resale

#### Group

	2004 £'000	2003 £'000
Properties held for sale by the Group's property trading company	-	242
	<u>-</u>	<u>242</u>

At the balance sheet date there was no potential liability to capital gains tax (2003: £nil).

The company does not own any properties (2003: £nil).

### 10 Debtors

#### Group

	2004 £'000	2003 £'000
Amounts receivable within one year:		
Other debtors	3,217	5,537
Prepayments and accrued income	106	28
	<u>3,323</u>	<u>5,565</u>

A loan of £3,500,000, made by Phoenix Inns Limited to Thame Finance Limited on 24 June 2002, was fully repaid on 14 June 2004 along with the interest accruing of £789,783.

#### Company

	2004 £'000	2003 £'000
Amounts receivable within one year:		
Amounts owed by group companies	52,807	41,071
Other debtors	346	248
	<u>53,153</u>	<u>41,319</u>

# The Grand Pub Company Limited

## Notes to financial statements for the year ended 31 December 2004 (cont'd)

### 11 Creditors: amounts falling due within one year

#### Group

	2004 £000	2003 £000
Bank loans and overdraft	735	895
Liability on warrants	72,676	63,843
Corporation tax	954	1,431
Other creditors	218	7,868
Accruals and deferred income	9,945	10,445
	<u>84,528</u>	<u>84,482</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 2004	(63,843)
Transfer to accrual for bonus	982
Charge in the year	(9,815)
At 31 December 2004	<u>(72,676)</u>



# The Grand Pub Company Limited

## Notes to financial statements for the year ended 31 December 2004 (cont'd)

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

Company

	2004 £000	2003 £000
Amounts owed to group companies	808,621	769,357
Bank overdraft	735	464
Accruals and deferred income	9,904	8,999
Warrants issued	72,676	63,843
	<u>891,936</u>	<u>842,663</u>

### 12 Reconciliation of operating profit to net cash flow from operating activities

	2004 £'000	2003 £'000
Operating (loss)/profit	(454)	2,073
Decrease/(Increase) in Assets held for resale	242	(158)
Decrease in debtors	2,052	1,221
(Decrease) in creditors and other provisions	(1,711)	(7,589)
Cash outflow from operating activities	<u>129</u>	<u>(4,453)</u>

### 13 Analysis of net cash position

	1 January 2004 £000	Cashflow £000	Other non cash charges £000	31 December 2004 £000
Cash at bank and in hand	2,738	(1,483)	-	1,255
Overdraft	(895)	160	-	(735)
	<u>1,843</u>	<u>(1,323)</u>	<u>-</u>	<u>520</u>

### 14 Reconciliation of net cash flow to movement in net cash position

	£'000
Decrease in cash in the period	(1,323)
Movement in net debt in the period	(1,323)
Net cash at 1 January 2004	1,843
Net cash at 31 December 2004	<u>520</u>

# The Grand Pub Company Limited

## Notes to financial statements for the year ended 31 December 2004 (cont'd)

### 15 Called up share capital

	2004 £	2003 £
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

### 16 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 2004	-	-	7	7
Profit/(Loss) for the year	-	-	-	-
At 31 December 2004	-	-	7	7

#### Company

	Share capital	Revaluation reserve	Profit and loss account	Total
	£'000	£'000	£'000	£'000
At 1 January 2004	-	357,838	(357,831)	7
Loss for the year	-	-	(37,625)	(37,625)
Revaluation of investment in subsidiaries	-	37,625	-	37,625
At 31 December 2004	-	395,463	(395,456)	7

### 17 Operating lease commitments

The Group and the company have no commitments under non-cancellable operating leases at 31 December 2004 (2003: nil).

# **The Grand Pub Company Limited**

## **Notes to financial statements for the year ended 31 December 2004 (cont'd)**

### **18 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 (2003: £nil).

### **19 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.

The claims made by tenants include claims for damages caused by the operation of the beer tie which have generally been expressed as claims for the difference between prices charged to tenants for beer supplied pursuant to the beer tie and the prices which the tenants claim would have been payable if they had been free from the tie. If these claims were successful, the amount of damages could be substantial.

The Group has received legal advice on the claims that have been made and will defend these claims vigorously. Based on this advice, the Board has made accruals in these financial statements for the overall liability it considers to be appropriate in defending these claims. Because this litigation is ongoing and the outcome uncertain, the group believes that it is correct to apply the disclosure requirements of paragraph 97 of Financial Reporting Standard 12, Contingent Liabilities and Contingent Assets.

### **20 Related Party Transactions**

The following related party transactions took place in the year / or were outstanding at the year end.

#### **Phoenix Inns Limited**

Loan notes to the value of £4,289,731 including interest of £789,783 were redeemed during the year. The loan notes were issued to the company in 2002 by Thame Finance Limited, a subsidiary of Le Grand Cap Limited, a related party in that the companies have a common controlling party and ultimate parent company in Terra Firma Capital Partners Holdings Limited.

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.

### **21 Ultimate Controlling Party**

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