Company Number 3517207

Annual Report and Accounts

53 weeks ended 2 May 2004

Contents

Highlights

- Overall turnover up 2% to £33.65m *(2003: £32.97m)*
- Adjusted profit before tax of £1.8m *(2003: £1.76m)**
- Statutory profit before tax of £0.3m *(2003: £2.6m)*
- Adjusted EPS of 3.9p *(2003: 3.8p)**
- Basic EPS of 0.3p (loss per share) *(2003: 6.6p)*
- Final dividend for the year has been increased by 5% to 2.3p *(2003: 2.2p)*
- Strategy from growth through pub management contracts delivering increasing opportunities
- Honeycombe's strategy puts it at the forefront of significant sector change as the pub market separates the ownership and management of pub assets
- Punch Taverns ("Punch") – two management contracts of high value sites completed with two more close to completion – Honeycombe believes both companies are keen to accelerate the pace of their joint activity
- Nectar Taverns ("Nectar") close to full investment with excellent opportunity to set up a repeat model

* Management use results that write back amortisation of goodwill, profit on sale of assets and exceptional costs as a primary measure to provide a better comparison of underlying business performance

Sandy Anderson, Chairman, commented:

"As I noted in my interim statement in January, this year just completed has been one of major transition following the sale and leaseback of 12 sites to Punch in February 2003 which significantly reduced our gearing but gave a short term loss of earnings. We have managed to replace this potential shortfall through our trading results.

"It is pleasing to report that the income streams from Management Services that will drive our future growth have now been established and this has resulted in an increase in our underlying profitability. As we go forward, we are energetically looking at the various opportunities available to us for further developing this increasingly successful offering and I look forward to the future with considerable confidence."

Directors and Advisers

DIRECTORS

A C Anderson	*Non-Executive Chairman*
S Wood	*Non-Executive*
J E Baer	*Joint Chief Executive*
G B L Wardman	*Joint Chief Executive*
A P A Snape	*Finance Director*

REGISTERED OFFICE

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COMPANY SECRETARY

A P A Snape

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Bank of Scotland
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Chairman's Statement

It is pleasing to report that the income streams from management services that will drive our future growth have now been established and this has resulted in an increase in our underlying profitability. This will continue to grow as we take advantage of further market opportunities. We are currently managing 95 units compared to 72 at this stage last year and we expect to reach the hundred mark in the near future.

As I noted in my interim statement in January, the year just completed has been one of major transition following the sale and leaseback of 12 sites to Punch in February 2003 which significantly reduced our gearing but gave a short term loss of earnings. We have managed to replace this potential shortfall through our trading results. The pace of acquiring more management contracts with Punch has been slower to start, however, pleasingly there is currently a good level of joint activity. We now have concluded on two substantial sites and have agreed terms on a further two and we believe that both companies have a strong desire to accelerate the pace of work together.

Our strategy is clear and now well established in a market place that continues to see major structural change, with further evidence highlighting the separation of pub ownership and pub management. The traditional pub owners are now in competition with a number of property companies attracted by the returns in the sector. Both are short of the management pub retailing skills that we can offer as the number of companies operating managed pubs continues to shrink.

We can now demonstrate real success with our management contract with Nectar, which now has 17 trading units. We also concluded a deal to manage six Ma Hubbards outlets from a private operator in December and these have traded above our expectations and we believe we can extend this concept.

Results

I am pleased to report another year of progress from your company. For the year to 2 May 2004, profit before tax, before goodwill amortisation, exceptionals and profit on sale of fixed assets was £1.80 million *(2003: £1.76 million)*, with earnings per share adjusted for goodwill amortisation, exceptionals and profit on sale of fixed assets of 3.9p compared to 3.8p last year. This performance represents a modest increase on last year, but given the loss of earnings from our Punch Taverns sale and manage-back of around £400,000, the underlying performance has improved and will continue to improve as new management contracts are completed.

Total revenues increased to £33.65 million *(2003: £33.0 million)*, reflecting the net effect of the disposal of sites in 2003 and the contribution of Ma Hubbards' for four months. Trading was softer at some pubs in the group's Inns and Taverns division in the last quarter of the period, but recently trading has been more encouraging.

Dividend

The Board is recommending a final dividend of 2.3p *(2003: 2.2p)* to be paid on 21 October 2004 to shareholders on the register on 24 September 2004. This gives a total for the year of 3.25p *(2003: 3.1p)*, an increase of 5%.

Operational Review

The core estate has experienced tough trading conditions, but despite the lack of world cup related sales in this year's business, pleasingly, we have maintained our levels of trade. Bar margins rose by just under 1.0% and food margins in like for like units rose by 1.5%. The industry continues to experience tough trading conditions, and against this backdrop, we have been careful to manage our cost base accordingly and are pleased to have absorbed increasing national insurance costs, Sky TV and music licence costs, as well as escalating business insurance premiums. We are pleased to report that the actions taken by the

Chairman's Statement *(continued)*

company to reduce the risk of claims has been recognised with a significant reduction of premium negotiated from 25 June 2004. Despite all these pressures and constraints, I am pleased to report that we have maintained the profitability of our existing estate.

A number of capital schemes were brought forward to February and March in order to take advantage of seasonal trading. A number of sites were converted to our successful Last Orders concept, including the Victorian House at Thornton and sites in Radcliffe and Morley. Major successful schemes were undertaken at the Elephant & Castle Hotel in Newtown, Arena in Liverpool, Thatch and Thistle in Blackrod, Grey Walls in Windermere and the Kendal Arms in Kendal.

We acquired a new free of tie site, the Yew Tree in Bunbury, Cheshire that benefited from a major refit and opened just before Christmas.

Management Contracts

Nectar

Four Nectar sites opened in December, bringing the operating number up to 14 by the year end. Three further sites have since been purchased and reopened with terms agreed on a further three. Nectar's accounts for the year show sales being above budget by 20% and site contribution by 37%.

We have been very pleased with the performance of Nectar Taverns where our patient policy of cherry picking unloved pubs in good locations has created a large increase in value for the Nectar shareholders. Our fees have been very healthy as they are directly related to the profit performance of the sites with the overall return on capital being over 20%. Our fees from Nectar have risen to £336,000 from £26,000 last year. This is based on only 50% investment of the funds available to Nectar. Fees are expected to rise to close to £600,000 once Nectar is fully invested.

Our option of up to 15% of Nectar's ordinary share capital, exercisable on disposal is now material and although this value cannot be formally recognised in the accounts, the Directors believe that the value is in excess of £750,000 based on independent valuations undertaken on behalf of Nectar.

The demonstrable success of Nectar and the extra tax benefits granted in the Chancellor's last budget have led to a strong demand for the setting up of a second "Nectar", ready to trade once the first is fully invested. The Board welcomes and supports this opportunity.

Punch

Punch Taverns acquired the Pooley Bridge Hotel near Ullswater in November and simultaneously we took out our first management contract with them. Because of the highly seasonal nature of the site, no contribution was made in the period but trade has exceeded expectations since Easter.

Last week we completed our second deal with Punch on the Dovenby Ship, near Cockermouth. Terms have currently been agreed on a further two sites. The activity level with Punch has risen markedly recently and we believe that there are good opportunities for acquiring contracts on a number of new units in the coming months.

Finance

The reduction in gearing following the sale and leaseback to Punch provided the background for a renegotiation of banking facilities with the Bank of Scotland. As part of the review of overall funding facilities, we have charged, as a one-off exceptional cost, the sum of £533,000, for the removal of onerous hedging arrangements. This has allowed us to benefit from significantly lower market rates.

Chairman's Statement *(continued)*

With intense speculation on the future of interest rates and to provide protection against any major upward movement, we have taken an interest rate cap of 6% on £20m for the period from 1 July 2004 to 28 April 2006.

Following the renogitiation of banking facilities and the shorter term of the facilities we now believe it is prudent to write off as an exceptional finance cost £447,000 of bank costs incurred with the financing of the Devonshire acquisition which were being amortised over the life of the previous facilities. Last year we made a major profit on the sale of fixed assets of £1.86m, largely as a result of the property deal with Punch. This year we have achieved a profit of £186,000 from the sale of one leasehold unit.

We continue to benefit from tax losses within the Devonshire group and no tax will be payable. This benefit will continue into the following year. The tax charge of £377,000 relates to movement on the deferred tax asset/liability.

Current Trading

The new year has started satisfactorily. New developments at the Crescent, Ilkley and the Vanilla Lounge, Keighley have been completed and they are trading in line with expectations. In addition, we have re-opened two new sites for Nectar Taverns, which are both performing to plan.

The two largest external factors in our business are football and the weather. Amidst the sunshine and showers we have enjoyed some big nights due to Euro 2004. Our like for like sales are running some 1.5% ahead of last year. Given competition from both other operators and discounting on an unprecedented scale from supermarkets, we believe this to be a creditable performance.

Prospects

The company's existing estate is expected to show modest profit growth from selective capital investment and from improved beer and food buying terms. We will benefit from a full year's contribution from the Ma Hubbards sites and steadily increasing fees from Nectar as it moves towards full investment later in the year. In addition, we will be looking to set up a repeat Nectar style pub company and will be investigating the demand for a similar company acquiring Ma Hubbards type units.

As far as licensing reform is concerned, it represents the largest fundamental change in our industry for over one hundred years. We have prepared thoroughly for the transition and we have the infrastructure in place to manage it satisfactorily.

Further opportunities for Management Services are expected as new sites are acquired by both traditional pub owners and those new to the sector.

Sandy Anderson
28 June 2004

Directors' Report

The directors present their report and the audited accounts for the 53 weeks ended 2 May 2004.

Principal Activities and Business Review

The principal activity of the company and its subsidiaries is the management of public houses. The results for the period are set out on page 13. The directors consider the results for the period to be satisfactory and the group to be well placed to develop its future position in the market.

Profit, Dividends and Appropriations

The loss for the period after taxation was £86,000 *(2003: profit of £1,936,000)*. The directors recommend a final dividend of 2.3p per share *(2003: 2.2p per share)*, amounting to £722,000 *(2003: £652,000)*, making a total dividend of 3.25p per share *(2003: 3.1p)* amounting to £1,020,000 *(2003: £938,000)* for the period *respectively. A loss of* £1,106,000 *(2003: profit of £998,000)* was transferred to reserves.

Fixed Assets

Details of movements in fixed assets during the period are set out in notes 10 to 12 to the financial statements. The directors consider there is no material difference between the market value and book value of the trading estate and intend to commission a full valuation of the estate during the year ended April 2005.

Creditor Payments Policy

It is the group's policy that all creditors are paid in accordance with the agreed terms of trading with that supplier. The company does not follow any particular code or standard.

Trade creditor days of the group for the period ended 2 May 2004 were 44 days *(2003: 44 days)* based on the ratio of trade creditors at the period end and the amounts invoiced during the period by trade creditors.

Corporate Governance

The board comprises two non-executive directors (including the chairman) and three other executive directors. The directors meet on a monthly basis to receive and discuss reports covering trading and financial performance and to consider strategic issues.

The board has appointed an audit committee and a remuneration committee with formally delegated duties and responsibilities. The audit committee is comprised of the two non-executive directors and the finance director and a representative of the external auditors will normally attend meetings. The audit committee will meet at least twice a year, and will consider all aspects of the company's system of internal control as well as all reports from the external auditors.

The committee also has the authority to review specific matters relating to both internal control and the external audit on an ad hoc basis.

The remuneration committee comprises the two non-executive directors and will meet at least twice a year. The committee's principal role is to determine the remuneration package of the executive directors.

The remuneration committee determines an overall remuneration package for executive directors in order to attract and retain high quality executives capable of achieving the company's objectives. The package consists of basic salary, benefits, pension contributions and performance related bonuses, which are principally share based and are dependent on the achievement of demanding targets. The remuneration committee takes advice as considered necessary from executive remuneration consultants, as regards salary and benefits packages.

Directors' Report *(continued)*

In addition to the publication of the annual report and an interim report, there is regular dialogue with shareholders and analysts. The AGM is normally attended by all directors and provides an opportunity for communication with all shareholders attending.

Going Concern

Having made reasonable enquiries, the directors are of the opinion that the group has adequate resources to continue in operational existence for the foreseeable future and hence these accounts have been prepared on the going concern basis.

Directors

The directors who served during the period and their interests in the share capital of the company were as follows:

	At 2 May 2004 1p ordinary	27 April 2003 1p ordinary
A C Anderson	**11,847,100**	11,847,100
J E Baer	**657,500**	657,500
G B Wardman	**720,000**	720,000
S Wood	**-**	-
A P A Snape	**6,000**	6,000

Directors had the following options over ordinary shares:

The Unapproved Scheme:

Name	**No of ordinary shares at the beginning and end of period**	**Date of grant**	**Exercise price (pence)**	**Expiry date**
J E Baer	151,098	4 November 1998	59.6	4 November 2008
	50,366	4 November 1998	54.6	4 November 2008
	25,000	7 March 2000	105.0	7 March 2010
G B L Wardman	151,098	4 November 1998	59.6	4 November 2008
	50,366	4 November 1998	54.6	4 November 2008
	25,000	7 March 2000	105.0	7 March 2010
A P A Snape	75,000	4 July 2001	54.6	4 July 2011

The Approved Scheme:

Name	**No of ordinary shares at the beginning and end of period**	**Date of grant**	**Exercise price (pence)**	**Expiry date**
J E Baer	54,934	3 November 1998	54.6	3 November 2008
G B L Wardman	54,934	3 November 1998	54.6	3 November 2008

Directors' Report *(continued)*

The market price of Honeycombe Leisure plc shares at 2 May 2004 was 72.5p and the range of the market price during the period was 51.5p to 72.5p.

No rights to subscribe for shares of the company or any other group company were granted or exercised by any of the directors during the period.

Substantial Shareholdings

At 2 May 2004 the following interests in three per cent or more of the issued ordinary share capital had been notified to the company:

	Number of ordinary shares	Percentage of issued shares
A C Anderson	11,847,100	37.7
Unicorn Asset Management	4,295,800	13.7
Rights and Issues Investment Trust	1,775,000	5.7
Mr V Wardman	1,521,000	4.8
Framlington Investment Management	1,475,750	4.7
Close Finsbury Asset Management	1,440,220	4.6
Electra Quoted Management	1,312,061	4.2

Analysis of Ordinary Shareholders at 2 May 2004

Holder Type	Number of holders	Number of shares held	Percentage of total shares held
Private shareholders	310	4,031,177	12.84
Directors and Spouse of Directors	6	13,230,600	42.14
Limited Company	7	99,061	0.32
Nominee Company, Trust or Pension Fund	110	14,035,531	44.70
	433	31,394,369	100.00

Holding Range	Number of holders	Number of shares held	Percentage of shares held
0 – 499	76	24,366	0.08
500 – 999	69	61,836	0.20
1,000 - 9,999	217	880,217	2.80
10,000 - 49,999	35	740,033	2.36
50,000 - 99,999	10	600,640	1.91
100,000 - 249,999	7	1,120,203	3.57
250,000 - 499,999	4	1,777,089	5.66
Over 500,000	15	26,189,985	83.42
	433	31,394,369	100.00

Directors' Report *(continued)*

Employee Involvement

The group has continued its practice of keeping employees informed of matters affecting them as employees and the financial and economic factors affecting the performance of the group.

Disabled Persons

The company gives full consideration to applications for employment from disabled persons where the requirements for the job can be adequately fulfilled by a disabled person.

Where existing employees become disabled, it is the group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion wherever appropriate.

Auditors

KPMG Audit Plc were appointed as auditors during the period to fill the vacancy following the resignation of Baker Tilly.

A resolution in accordance with section 384 of the Companies Act 1985 for the appointment of KPMG Audit Plc as auditors of the company is to be proposed at the forthcoming Annual General Meeting.

On behalf of the Board.

A P A Snape
Company Secretary
5 August 2004

Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and group and of the profit or loss 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 group 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 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 group and to prevent and detect fraud and other irregularities.

Independent Auditors' Report to the Members of Honeycombe Leisure plc

We have audited the financial statements on pages 13 to 35.

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 are responsible for preparing the directors' report and, as described on page 11, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our professions' ethical guidance.

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 with the company is not disclosed.

We read the other information accompanying the financial statements and consider whether it is consistent with those financial statements. We 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 United Kingdom 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 groups' 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 as at 2 May 2004 and of the loss for the period then ended, and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditors
Preston
5 August 2004

KPMG Audit Plc

Consolidated Profit and Loss Account

for the 53 weeks ended 2 May 2004

	Note	53 weeks ended 2 May 2004 £'000	52 weeks ended 27 April 2003 £'000
Turnover	2	**33,649**	32,971
Cost of sales		**(19,665)**	(20,034)
Gross profit		**13,984**	12,937
Distribution costs		**(417)**	(419)
Administrative expenses			
- exceptional	4	**(283)**	(610)
- amortisation of goodwill		**(432)**	(432)
- normal		**(9,690)**	(7,945)
Administrative expenses		**(10,405)**	(8,987)
Operating profit		**3,162**	3,531
Profit on sale of fixed assets		**186**	1,858
Profit on ordinary activities before interest	3	**3,348**	5,389
Interest payable and similar charges			
- exceptional	4	**(980)**	-
- normal	6	**(2,077)**	(2,811)
Interest payable and similar charges		**(3,057)**	(2,811)
Profit on ordinary activities before taxation	3	**291**	2,578
Taxation on profit on ordinary activities	7	**(377)**	(642)
(Loss)/profit on ordinary activities after taxation		**(86)**	1,936
Dividends	8	**(1,020)**	(938)
Retained (loss)/profit for the period		**(1,106)**	998
Earnings Per Share - Basic	9	**(0.3p)**	6.6p
- Diluted	9	**(0.3p)**	6.6p
Adjusted Earnings Per Share* - Basic	9	**3.9p**	3.8p
- Diluted	9	**3.9p**	3.8p

All amounts relate to continuing operations.

There were no other recognised gains and losses during the period other than those shown above.

* Adjusted Earnings Per Share is calculated after adding back amortisation of goodwill, profit on sale of fixed assets and exceptional costs.

Consolidated Balance Sheet
as at 2 May 2004

	Note	2 May 2004 £'000	2 May 2004 £'000	27 April 2003 £'000	27 April 2003 £'000
Fixed assets					
Intangible assets	*10*		6,668		7,100
Tangible assets	*11*		45,714		44,749
			52,382		51,849
Current assets					
Stocks	*13*	914		941	
Debtors	*14*	2,342		1,310	
Cash at bank and in hand		992		1,834	
		4,248		4,085	
Creditors: amounts falling due within one year	15	(6,600)		(9,401)	
Net current liabilities			(2,352)		(5,316)
Total assets less current liabilities			50,030		46,533
Creditors: amounts falling due after more than one year	16		(31,214)		(28,050)
Provision for liabilities and charges	18		(2,662)		(2,286)
Net assets			16,154		16,197
Capital and reserves					
Called up share capital	21		314		296
Share premium account	22		17,119		16,074
Profit and loss account	23		(1,279)		(173)
Equity shareholders' funds	20		16,154		16,197

These financial statements were approved by the board of directors on 5 August 2004 and were signed on its behalf by:

J E Baer
Director

Company Balance Sheet

as at 2 May 2004

	Note	2 May 2004 £'000	2 May 2004 £'000	27 April 2003 £'000	27 April 2003 £'000
Fixed assets					
Intangible assets	10		3,343		3,578
Tangible assets	11		28,445		27,386
Investments	12		14,864		14,864
			46,652		45,828
Current assets					
Stocks	13	627		647	
Debtors – due within one year	14	1,491		995	
Debtors – due after one year	14	12,836		11,571	
Cash at bank and in hand		670		462	
		15,624		13,675	
Creditors: amounts falling due within one year	15	(6,242)		(8,659)	
Net current assets			9,382		5,016
Total assets less current liabilities			56,034		50,844
Creditors: amounts falling due after more than one year	16		(35,642)		(32,451)
Provision for liabilities and charges	18		(1,994)		(1,953)
Net assets			18,398		16,440
Capital and reserves					
Called up share capital	21		314		296
Share premium account	22		17,119		16,074
Profit and loss account	23		965		70
Equity shareholders' funds	20		18,398		16,440

These financial statements were approved by the board of directors on 5 August 2004 and were signed on its behalf by:

J E Baer
Director

Baer

Consolidated Cash Flow Statement

for the 53 weeks ended 2 May 2004

	Note	53 weeks ended 2 May 2004 £'000	52 weeks ended 27 April 2003 £'000
Net cash inflow from operating activities	24	3,838	4,738
Returns on investment and servicing of finance			
Interest paid		(2,610)	(2,972)
Capital expenditure			
Payments to acquire fixed assets		(2,467)	(2,126)
Receipts from sale of tangible fixed assets		128	14,203
		(2,339)	12,077
Equity dividends paid		(950)	(1,007)
Cash (outflow)/inflow before financing		(2,061)	12,836
Financing			
Secured loans		2,044	2,803
Repayment of secured loans		(167)	(14,807)
Capital element of finance leases		(62)	(108)
Issue of ordinary share capital		1,137	598
Share issue costs		(75)	(31)
Increase in cash in the period	24	816	1,291

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 group's financial statements:

Basis of Preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention. The consolidated financial statements include the financial statements of the company and its subsidiary undertakings (as listed in note 12) and are made up for the 53 week period to 2 May 2004.

Under section 230 (4) of the Companies Act 1985 the company is exempt from the requirement to present its own profit and loss account. The profit of Honeycombe Leisure plc for the period was £895,000 *(2003: £712,000).*

The directors have taken advantage of the exemption in FRS8 paragraph 3(c) and have not disclosed related party transactions with group undertakings.

Goodwill

Purchased goodwill is capitalised in the year in which it arises and amortised over its estimated useful life, with no charge for amortisation in the financial year of acquisition. Directors consider the useful economic life of goodwill separately on each acquisition. Goodwill capitalised to date is written off over a 20 year period, being a fair estimate of its useful economic life.

Tangible Fixed Assets & Depreciation

Fixed assets are held at historical cost, less depreciation and provisions for any impairment.

Depreciation is provided on tangible fixed assets, at rates calculated to write off the cost, less estimated residual value, of each asset over its estimated useful life. The annual depreciation rates used are as follows:

Leasehold land and buildings	Period of lease
Motor vehicles	25% reducing balance
Fixtures and fittings	10% reducing balance
Freehold buildings	2% straight line

No depreciation is provided on freehold land.

The company capitalises directly attributable interest on all tangible fixed assets in the course of construction or refurbishment. Rates of capitalisation depend on whether a specific loan has been taken out (when actual interest rate and interest paid are used), or whether the work has been financed by general borrowings when the rate in force at the time of capitalisation on non-specific borrowings is used. The rate used for capitalisation purposes in the year was 6%.

Stocks

These are valued on a first in, first out basis at the lower of cost and net realisable value.

Notes

(forming part of the financial statements)

1 Accounting Policies *(continued)*

Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease'. The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included with creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

Deferred Taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Borrowings

Borrowings are carried at their net issue proceeds adjusted for finance costs less amounts repaid. Finance costs, which comprise interest and issue costs, are allocated over the period of the borrowing to achieve a constant rate on the carrying amount.

Pension Costs

The company operates a defined contribution pension scheme. Contributions are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. There were no accrued pension costs at the beginning or the end of the period.

Turnover

Turnover represents the amount derived from the provision of goods and services which fall within the company's ordinary activities, stated net of value added tax. Turnover also includes rents receivable.

Notes

(forming part of the financial statements)

2 Turnover

All the turnover relates to the principal activity and is located within the United Kingdom and as such the group has only one class of business and one geographical segment for segmental reporting purposes.

3 Profit on ordinary activities before taxation

	53 weeks ended 2 May 2004 £'000	52 weeks ended 27 April 2003 £'000
Profit on ordinary activities before taxation is stated after charging:		
Auditors' remuneration - group audit fees	**41**	50
Auditors' remuneration - other services	**15**	144
Operating lease rentals		
- land and buildings	**2,712**	1,026
- plant and machinery	**67**	30
Depreciation of tangible fixed assets	**861**	813
Impairment of tangible fixed assets	**-**	300
Amortisation of goodwill	**432**	432

The audit fee in respect of the company was £30,000 *(2003: £30,000)*

4 Exceptional items

The exceptional items relate to the following items:

	53 weeks ended 2 May 2004 £'000	52 weeks ended 27 April 2003 £'000
Administrative expenses:		
Impairment of non-trading asset	**-**	300
Professional fees in connection with an aborted warranty claim	**-**	113
Costs associated with the management agreement with Nectar Taverns Plc	**-**	34
Sundry asset write offs and unforeseen liabilities	**283**	163
	283	610
Interest payable and similar charges:		
Discharge of hedging instruments	**533**	-
Write off of loan facility fees	**447**	-
	980	-

Notes

(forming part of the financial statements)

4 Exceptional items *(continued)*

a) Discharge of hedging instruments

In October 2003, the company incurred costs of £533,000 to discharge itself from onerous hedging commitments, inherited as part of the acquisition of the Devonshire Pub Company in March 2001. The instruments obligated the company to pay the difference between 6.25% and LIBOR rate on £15m of borrowings up to October 2006. The company has since benefited fully from the lower market interest rates.

b) Write off of loan facility fees

In previous accounting periods, bank loans have been stated net of prepaid finance costs and these were being amortised over the life of the loan facility (12 years). Following the negotiation of the new bank facilities in October 2003 to a facility with a shorter term, it is felt appropriate to write these off in the current year. The amount charged as a non recurring finance cost is £447,000.

c) Exceptional administrative expenses

Following a detailed review, the directors have considered a number of historic items which are not appropriate to charge to the current year. These relate to balance sheet differences (non cash) and unforeseen liabilities. The total charge is £283,000 and the directors do not believe that any such charges will arise in future years.

5 Staff numbers and costs

The aggregate payroll cost and average number of persons employed by the group was as follows:

	53 weeks ended 2 May 2004 £'000	52 weeks ended 27 April 2003 £'000
Staff costs including directors' remuneration		
Wages and salaries	**6,231**	5,989
Social security costs	**436**	391
Pensions costs	**75**	77
	6,742	6,457

	Number of Employees	
	2004	2003
Average number employed including executive directors		
Management and administration	**33**	32
Sales and marketing	**835**	773
	868	805

Notes

(forming part of the financial statements)

5 Staff numbers and costs *(continued)*

Directors' remuneration	**53 weeks ended 2 May 2004 £'000**	52 weeks ended 27 April 2003 £'000
Remuneration and fees	**261**	294
Pension costs	**26**	20
	287	314

The remuneration of the highest paid director, excluding pension contributions was as follows:

	53 weeks ended 2 May 2004 £'000	52 weeks ended 27 April 2003 £'000
Emoluments and fees	**94**	96
	94	96

Pensions cost

The group operates a defined contribution scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The pension cost charge represents contributions payable by the company to the fund and amounted to £75,000 *(2003: £77,000)*. There were no outstanding contributions payable at this period end or the previous period end.

Three of the directors qualified for benefits *(2003: three)*. Contributions paid amounted to £26,000 *(2003: £20,000)*, including £13,000 *(2003: £7,000)* in respect of the highest paid director.

6 Interest payable and similar charges

	53 weeks ended 2 May 2004 £'000	52 weeks ended 27 April 2003 £'000
Finance lease interest	**22**	27
On bank loans and overdrafts	**2,080**	2,809
Less: capitalised	**(25)**	(25)
	2,077	2,811
Exceptional interest costs (note 4)	**980**	-
	3,057	2,811

Notes

(forming part of the financial statements)

7 Taxation

	53 weeks ended 2 May 2004 £'000	52 weeks ended 27 April 2003 £'000
Current tax:		
UK corporation tax on profits of the period	**-**	-
Adjustments in respect of previous periods	**-**	174
Total current tax	**-**	174
Deferred tax:		
Origination and reversal of timing differences	**377**	468
Tax on profit on ordinary activities	**377**	642

The current tax charge is lower *(2003: lower)* than the standard rate of corporation tax in the UK (30%). The differences are explained below:

Factors affecting tax charge for the period	**53 weeks ended 2 May 2004 £'000**	52 weeks ended 27 April 2003 £'000
Profit on ordinary activities before tax	**291**	2,578
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% *(2003: 30%)*	**87**	773
Effects of:		
Expenses not deductible for tax purposes	**351**	253
Capital allowances in excess of depreciation	**(518)**	(675)
Profit on disposal of fixed assets	**(62)**	-
Impact of tax losses	**142**	(429)
Rollover relief on profit on disposal of property	**-**	82
Reversal of short term timing differences	**-**	(4)
Adjustment in respect of prior periods	**-**	174
Current tax charge for the period	**-**	174

Factors that may affect future tax charges

Based on current capital investment plans, the group expects to continue to be able to claim capital allowances in excess of depreciation in future years but at a slightly lower level than in the current year.

No provision has been made for deferred tax on gains on the sale of properties where the gain has not yet been rolled over on the basis that it is more likely than not that the taxable gain will be rolled over. Such tax would become payable only if it is not possible to claim rollover relief on the sale. It is not envisaged that any tax will become payable in the foreseeable future.

Notes

(forming part of the financial statements)

7 Taxation *(continued)*

The company needs to invest £9,820,000 before the year ended 30 April 2006 to be entitled to rollover relief on all gains. The total amount unprovided for is £1,282,000 *(2003: £1,282,000)*.

In addition, no provision has been made for deferred tax on gains which have already been rolled over into replacement assets which would only become payable if the property was sold. This amounted to £1,662,000 *(2003: £1,710,000)*. At present it is not envisaged that any tax will become payable in the foreseeable future.

8 Dividends

	53 weeks ended 2 May 2004 £'000	52 weeks ended 27 April 2003 £'000
Dividends on equity shares		
- proposed 2.3p per share *(2003: 2.2p per share)*	**722**	652
- paid 0.95p per share *(2003: 0.9p per share)*	**298**	286
	1,020	938

9 Earnings per share

Earnings per share figures are calculated as follows:

	2 May 2004		27 April 2003	
	Earnings after tax £'000	**Earnings per share (pence)**	Earnings after tax £'000	Earnings per share (pence)
Profit/(loss)attributable to ordinary shareholders:	**(86)**	**(0.3)**	1,936	6.6
Add:				
Amortisation of goodwill	**432**	**1.4**	432	1.5
Exceptional items (net of tax)	**1,019**	**3.4**	610	2.1
Profit on disposal of fixed assets	**(186)**	**(0.6)**	(1,858)	(6.4)
	1,265	**4.2**	816	(2.8)
Adjusted earnings	**1,179**	**3.9**	1,120	3.8

	2 May 2004 Number of shares '000s	27 April 2003 Number of shares '000s
Weighted average number of shares in issue		
Basic	**30,374**	29,413
Effect of potential ordinary shares	**12**	12
Diluted	**30,386**	29,425

Notes

(forming part of the financial statements)

9 Earnings per share *(continued)*

The adjusted earnings per share is based on the profit before exceptional items, amortisation of goodwill and profit on disposal of fixed assets. This measure has been included as management believe it provides a better understanding of the underlying performance of the group.

10 Intangible assets

Group:

	Goodwill £'000
Cost	
At 27 April 2003 and 2 May 2004	8,657
Amortisation	
At 27 April 2003	1,557
Charged in the period	432
At 2 May 2004	1,989
Net book value	
At 2 May 2004	**6,668**
At 27 April 2003	7,100

Company:

	Goodwill £'000
Cost	
At 27 April 2003 and 2 May 2004	4,705
Amortisation	
At 27 April 2003	1,127
Charged in the period	235
At 2 May 2004	1,362
Net book value	
At 2 May 2004	**3,343**
At 27 April 2003	3,578

Notes

(forming part of the financial statements)

11 Tangible fixed assets

Group:

	Freehold and leasehold land and buildings £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost				
As at 27 April 2003	42,200	5,791	85	48,076
Additions	1,506	962	-	2,468
Disposals	(628)	(120)	(63)	(811)
Transfer	1,545	(1,545)	-	-
As at 2 May 2004	44,623	5,088	22	49,733
Depreciation				
As at 27 April 2003	2,454	845	28	3,327
Charge for the period	509	348	4	861
Disposals	(92)	(45)	(32)	(169)
Transfer	652	(652)	-	-
As at 2 May 2004	3,523	496	-	4,019
Net Book Value				
As at 2 May 2004	**41,100**	**4,592**	**22**	**45,714**
As at 27 April 2003	39,746	4,946	57	44,749

Land and buildings at net book value comprise:

	2004 £'000
Freeholds	32,516
Short leaseholds	8,584
	41,100

Included within the cost of freehold and leasehold land and buildings is £320,000 *(2003: £295,000)* in respect of capitalised interest costs.

Notes

(forming part of the financial statements)

11 Tangible fixed assets *(continued)*

Company:

	Freehold and leasehold land and buildings £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost				
As at 27 April 2003	26,684	3,365	38	30,087
Additions	1,162	691	-	1,853
Disposals	(120)	-	(32)	(152)
Transfer	779	(779)	-	-
As at 2 May 2004	28,505	3,277	6	31,788
Depreciation				
As at 27 April 2003	2,078	597	26	2,701
Charge for the period	441	227	3	671
Disposals	-	-	(29)	(29)
Transfer	231	(231)	-	-
As at 2 May 2004	2,750	593	-	3,343
Net Book Value				
As at 2 May 2004	**25,755**	**2,684**	**6**	**28,445**
As at 27 April 2003	24,606	2,768	12	27,386

The directors reviewed the analysis of fixtures and fittings during the year and concluded that certain fixed items were more appropriately classified as buildings expenditure. Accordingly a transfer has been made between fixtures and fittings and land and buildings to reclassify these amounts in the group and company figures.

Land and buildings at net book value comprise:

	2004 £'000
Freeholds	18,009
Short leaseholds	7,746
	25,755

Included within the cost of freehold and leasehold land and buildings is £318,000 *(2003: £293,000)* in respect of capitalised interest costs.

Notes

(forming part of the financial statements)

12 Investments

	Shares in subsidiary companies £'000
Company	
Cost and net book value	
At 27 April 2003 and 2 May 2004	14,864

The following companies are the principal subsidiaries and are consolidated in the group financial statements.

	Country of registration	Proportion of issued ordinary share capital held By the company	By a subsidiary	Principal activity
The Devonshire Pub Company Limited	England	-	100%	Acquisition, development, management and operation of licensed premises
The Devonshire Leisure Group Limited	England	-	100%	Holding Company
DPC Holdings Limited	England	91%	9%	Holding Company
Boostwin Plc	England	100%	-	Dormant
Anchovy Limited	Isle of Man	100%	-	Holding Company

13 Stocks

	Group 2004 £'000	Group 2003 £'000	**Company 2004 £'000**	Company 2003 £'000
Goods for resale	**914**	941	**627**	647

Notes

(forming part of the financial statements)

14 Debtors

	Group 2004 £'000	Group 2003 £'000	**Company 2004 £'000**	Company 2003 £'000
Amounts falling due within one year:				
Trade debtors	**522**	241	**522**	241
Other debtors	**1,001**	540	**299**	294
Prepayments and accrued income	**819**	529	**670**	460
	2,342	1,310	**1,491**	995
Due after more than one year:				
Amounts due from subsidiary	**-**	-	**12,836**	11,571
	2,342	1,310	**14,327**	12,566

15 Creditors: amounts falling due within one year

	Group 2004 £'000	Group 2003 £'000	**Company 2004 £'000**	Company 2003 £'000
Bank loans, other loans and overdrafts	**1,968**	4,528	**2,053**	4,528
Amounts owed under finance leases	**143**	143	**143**	143
Trade creditors	**2,190**	1,801	**2,554**	1,801
Other taxation and social security	**787**	1,320	**127**	754
Other creditors	**88**	73	**124**	72
Accruals and deferred income	**702**	884	**519**	709
Proposed dividends	**722**	652	**722**	652
	6,600	9,401	**6,242**	8,659

Notes

(forming part of the financial statements)

16 Creditors: amounts falling due after more than one year

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
Bank loans and other loans	**31,138**	27,912	**31,138**	27,912
Amounts owed under finance leases	**76**	138	**76**	111
Amount due to subsidiary company	**-**	-	**4,428**	4,428
	31,214	28,050	**35,642**	32,451

The bank loans and overdrafts are secured by legal mortgages over the group's properties and a mortgage debenture over the group's assets. Amounts owed under finance leases are secured on the assets to which they relate.

There is a cross guarantee and right of offset between all the group companies.

Maturity of debt – bank loans, overdrafts and other loans

	Group 2004 £'000	Group 2003 £'000	Company 2004 £'000	Company 2003 £'000
In one year or less	**1,968**	4,528	**2,053**	4,528
Between one year and two years	**31,138**	2,629	**31,138**	2,629
Between two and five years	**-**	16,230	**-**	16,230
Over five years	**-**	9,053	**-**	9,053
	33,106	32,440	**33,191**	32,440

Bank loans are stated net of prepaid finance costs of £102,000 *(2003: £447,000)*, which are being charged to the profit and loss account over the period of the loans.

17 *Commitments under finance lease agreements*

The maturity of debts under finance lease agreements are as follows:

	2004 £'000	2003 £'000
Amounts payable within 1 year	**143**	143
Amounts payable between 1-2 years	**57**	99
Amounts payable between 2-5 years	**19**	39
	219	281

Notes
(forming part of the financial statements)

18 Provision for liabilities and charges

Group:	2004 £'000	2003 £'000
Corporation tax deferred by:		
Capital allowances	**4,154**	3,636
Trading losses available	**(1,492)**	(1,350)
	2,662	2,286

Company:	2004 £'000	2003 £'000
Corporation tax deferred by:		
Capital allowances	**2,248**	1,981
Tax losses available	**(254)**	(28)
	1,994	1,953

Deferred taxation:	Group £'000	Company £'000
Provision at beginning of period	**2,286**	1,953
Charge for the period	**376**	41
Provision at end of period	**2,662**	1,994

19 Financial instruments

Policies

The group's borrowing and interest rate policies are targeted to provide suitable, flexible funding arrangements to satisfy the group's requirements. In addition, interest rate risks and liquidity risks are managed at board level. The company is not exposed to any foreign currency risks. As permitted by FRS13 short term debtors and creditors have been excluded from these disclosures.

Interest rate risk

Financial assets

The group's financial assets as at 2 May 2004 comprised cash at bank of £992,000 *(2003: £1,834,000)*. There is an interest offset between the cash balance and overdraft. Interest is paid on any cash in excess of the overdraft at floating rates in line with prevailing market rates.

Notes

(forming part of the financial statements)

19 Financial instruments *(continued)*

Financial liabilities

The group's financial liabilities as at 2 May 2004 comprised bank overdrafts of £241,000 *(2003: £1,899,000)*, floating rate bank loans of £32,311,000 *(2003: £30,113,000)*, floating rate other loans of £554,000 *(2003: £428,000)* and amounts owed on finance leases of £219,000 *(2003: £281,000)*. All the group's financial liabilities are denominated in sterling.

The interest rate profile of the group's floating rate liabilities as at 2 May 2004 is based on LIBOR and is as follows:

	Floating rate
Sterling amount	£32,865,000
Weighted average interest rate	5.90%

On 3 June 2004, the group took out an interest rate cap at 6% on £20m of the companys' borrowings covering the period 1 July 2004 to 28 April 2006.

Liquidity risk

The current loan facilities are due to mature in April 2006 and relate to a facility of £33,000,000. Short term flexibility is achieved through undrawn borrowing and overdraft facilities. As at 2 May 2004, the group had unutilised loan facilities of £587,000 *(2003: £nil)*.

Fair value of financial assets and liabilities

	2004		2003	
	Carrying amount £'000	**Estimated fair value £'000**	Carrying Amount £'000	Estimated fair value £'000
Primary financial instruments held for use in the group's operations				
Cash at bank and in hand	**992**	**992**	1,834	1,834
Short term debt and current portion of long term debt	**(2,111)**	**(2,111)**	(2,810)	(2,810)
Long term debt	**(31,214)**	**(31,214)**	(28,497)	(28,497)
Total debt	**(33,325)**	**(33,325)**	(31,307)	(31,307)
Interest rate swaptions	**-**	**-**	-	(964)
Total financial instruments	**(32,333)**	**(32,333)**	(29,473)	(30,437)

The assumptions used to estimate current fair values of debt and other financial instruments are summarised below:

Notes

(forming part of the financial statements)

19 Financial instruments *(continued)*

i) For cash and short term borrowings the book value approximates to fair value because of their short maturities.

ii) The fair values of the sterling interest rate swaptions have been estimated by calculating the present value of estimated cash flows.

iii) Long term debt is at floating rates and therefore the book value currently approximates to fair value.

20 Reconciliation of shareholders' funds

Group:

	2004 £'000	2003 £'000
(Loss)/profit for the financial period	**(86)**	1,936
Dividends	**(1,020)**	(938)
	(1,106)	998
New share capital subscribed	**1,063**	568
Net addition to shareholders' funds	**(43)**	1,566
Opening shareholders' funds	**16,197**	14,631
Closing shareholders' funds	**16,154**	16,197

Company:

	2004 £'000	2003 £'000
Profit for the financial period	**1,915**	1,650
Dividends	**(1,020)**	(938)
	895	712
New share capital subscribed	**1,063**	568
Net addition to shareholders' funds	**1,958**	1,280
Opening shareholders' funds	**16,440**	15,160
Closing shareholders' funds	**18,398**	16,440

Notes

(forming part of the financial statements)

21 Called up share capital

	2004	2003
	£'000	£'000
Authorised:		
35,000,000 ordinary shares of 1p each	**350**	350

	Number of Shares		Nominal Value	
	2004	*2003*	***2004***	*2003*
			£'000	£'000
Allotted, called up and fully paid ordinary shares of 1p each				
At 27 April 2003	**29,644,369**	28,738,308	**296**	287
Allotted in the period	**1,750,000**	906,061	**18**	9
At 2 May 2004	**31,394,369**	29,644,369	**314**	296

Under the company's Share Option Schemes, directors and employees held options at 2 May 2004 for 1,275,214 unissued ordinary shares *(2003: 1,138,414)* as follows:

Number of ordinary shares at 27 April 2003	Granted/ (Expired)	Number of ordinary shares at 2 May 2004	Exercise price (pence)	Expiry Date
10,000	(10,000)	-		
17,000	-	17,000	105.0	31 January 2010
37,000	-	37,000	63.0	31 January 2010
37,767	-	37,767	77.0	1 May 2011
75,000	-	75,000	54.5	1 May 2011
89,000	-	89,000	105.0	7 March 2010
100,732	-	100,732	54.6	4 November 2008
109,868	-	109,868	54.6	3 November 2008
112,500	-	112,500	63.0	1 May 2011
-	146,800	146,800	68.5	2 April 2014
247,351	-	247,351	54.6	1 May 2011
302,196	-	302,196	59.6	4 November 2008
1,138,414	136,800	1,275,214		

22 Share premium account

	£'000
At 27 April 2003	16,074
Arising in the period	1,045
At 2 May 2004	17,119

£1,137,000 was received for the shares allotted in the period. £75,000 of issue costs have been netted off the share premium arising of £1,120,000.

Notes
(forming part of the financial statements)

23 Profit and loss account

	Group £'000	Company £'000
At beginning of period	(173)	70
(Loss)/profit for period	(1,106)	895
At 2 May 2004	(1,279)	965

24 Cash flow statement

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

	2004 £'000	2003 £'000
Operating profit	**3,162**	3,531
Amortisation of goodwill	**432**	432
Depreciation charges	**861**	1,113
Decrease/(increase) in stocks	**27**	(100)
(Increase)/decrease in debtors	**(332)**	441
Decrease in creditors	**(312)**	(679)
Net cash inflow from operating activities	**3,838**	4,738

b) Reconciliation of net cash flow to movement in net debt

	2004 £'000	2003 £'000
Increase in cash in the period	**816**	1,291
Cash inflow from increase in debt and leasing finance	**(1,815)**	12,112
Change in net debt resulting from cash flows	**(999)**	13,403
Non-cash changes	**(447)**	(206)
Movement in net debt	**(1,446)**	13,197
Net debt at 27 April 2003	**(30,887)**	(44,084)
Net debt at 2 May 2004	**(32,333)**	(30,887)

Notice of Annual General Meeting

Notice is hereby given that the 2004 Annual General Meeting of the Company will be held at The Swan Hotel, 50 High Street, Tarporley, Cheshire CW6 0AG at 11.00am on Tuesday 14 September 2004 for the following purposes:

Ordinary Business

1 *To receive and adopt the audited financial statements, together with the reports of the directors and of the auditors, for the financial year ended 2 May 2004.*

2 *To appoint KPMG Audit Plc as auditors and to authorise the directors to fix their remuneration*

3 *To re-appoint G B Wardman as a Director*

4 *To re-appoint S Wood as a Director*

5 *To re-appoint A C Anderson as a Director*

Special Business

To consider and, if thought fit, to pass the following resolutions, of which resolution 6 shall be proposed as an ordinary resolution and resolution 7 shall be proposed as a special resolution:

6 *That the directors of the Company be and are hereby generally and unconditionally authorised to exercise all powers of the Company to allot relevant securities (within the meaning of section 80(2) of the Companies Act 1985) up to an aggregate nominal amount of £125,000. This authority shall be in substitution for any existing authorities conferred on the directors pursuant to section 80(2) of the Companies Act 1985 and shall (unless previously revoked or varied by the Company in general meeting) expire 15 months from the date on which this resolution is passed or at the commencement of the next Annual General Meeting of the Company, save that the Company may make an offer or agreement before the expiry of this authority which would or might require relevant securities to be allotted after such expiry granted and the directors may allow relevant securities in pursuance of such an offer or agreement as if the authority hereby had not expired.*

7 *That subject to the passing of resolution 6, in substitution for any existing authority, the directors of the Company be and are hereby empowered pursuant to section 95 of the Companies Act 1985 to allot equity securities (within the meaning of section 94(2) of the said Act) for cash pursuant to the authority conferred by the previous resolution, as if section 89(1) of the said Act did not apply to any such allotment provided that this power shall be limited to the allotment of equity securities:*

a) *in connection with an issue in favour of shareholders where the equity securities respectively attributable to the interests of all such shareholders are proportionate (as nearly as may be) to the respective numbers of ordinary shares held by them on the record date for such allotment, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements or legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory, and*

b) *otherwise than pursuant to sub-paragraph (a) above, up to an aggregate nominal value of £17,500 as if Section 89(1) of the Companies Act 1985 did not apply to such allotment and shall (unless previously revoked or varied by the Company in general meeting) expire 15 months from the date on which the resolution is passed on or at the commencement of the next Annual General Meeting of the Company, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted otherwise than in accordance with section 89 of the said Act after such expiry and the directors may allot securities in pursuance of such offer or agreement as if the power conferred hereby had not expired.*

Note:

Any member entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend, and on a poll, vote instead of him or her. A proxy form is enclosed with this Notice.

By order of the Board
A P A Snape
Secretary
11 August 2004

Registered Office:
Derby House
Lytham Road
Fulwood
Preston PR2 8JE

HONEYCOMBE LEISURE PLC

Form of proxy for use at the 2004 Annual General Meeting

TO BE HELD at 11.00am on Tuesday 14 September 2004.

I/We (name(s) in full: ______________________________

Of (address): ______________________________

being (a) member(s) of the above name Company hereby appoint the Chairman of the meeting or failing him:

____

as my/our proxy at the Annual General Meeting to be held on Tuesday 14 September 2004 and at any adjournment thereof and to vote on my/our behalf as indicated below in respect of the resolutions set out in the notice of the meeting.

		For	**Against**
Resolution 1:	Receive and adopt accounts for period ended 2 May 2004	☐	☐
Resolution 2:	Appoint KPMG Audit PLC as auditors	☐	☐
Resolution 3:	Re-appoint G B Wardman as director	☐	☐
Resolution 4:	Re-appoint S Wood as director	☐	☐
Resolution 5:	Re-appoint A C Anderson as director	☐	☐
Resolution 6:	Grant authority to allot shares	☐	☐
Resolution 7:	Grant authority to disapply pre-emption rights	☐	☐

Date: ______/______/________ *Signatures:* ______________________________

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Please tick here if you propose to attend the meeting. ☐

Notes:

1 *Any member entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend and on a poll, vote instead of him/her.*

2 *Please insert an X in either the 'For' or 'Against' Columns above. If the Proxy is received signed but without specific instruction, the proxy shall vote or abstain on the Resolutions at his/her discretion.*

3 *A proxy need not be a member of the Company.*

4 *All joint holders must sign. If more than one holder attends the meeting, whether in person or by proxy, the joint holders whose name stands first on the Register of Members in respect of any shares shall alone be entitled to vote.*

5 *Completion and return of this form by proxy will not prevent you from attending and voting in person.*

6 *A corporation must execute this form under its seal, or signed by two directors or a director and the company secretary or under the hand of a duly authorised officer or attorney.*

7 *To be valid this proxy, together with any power of attorney under which it is executed, must be lodged with the Company secretary at the registered office of the Company no later than 10.00am on 12 September 2004.*