

**Thresher Wines Holdings Limited
and subsidiary undertakings**

Annual report and financial statements
for the year ended 1 July 2006

Registered number: 3976076

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Directors' report

For the year ended 1 July 2006

The directors present their report on the affairs of the group, together with the audited financial statements and auditors' report, for the year ended 1 July 2006. Comparative figures are for the 70 week period ended 2 July 2005.

Business review and principal activities

The principal activity of the company is that of a holding company. The group's principal activity continues to be the distribution and sale of alcoholic drinks and related products through branded outlets in the United Kingdom and no change is expected in the next year.

During the year the business has made further progress on brand segmentation, product range, customer service and cost reduction, combined with the disposal of loss making stores. The retail sector continues to be highly competitive and the company uses a range of promotional mechanics (including price) to defend its position. Wine sales have increased with the business growing its market share in this category during the year.

Sales in the year were £781million. This compares to sales in 2005 for the comparable 52 week period of £774 million, an increase of 0.9%. This growth has been driven from improvement in the wine sector following improved customer focused promotions. Operating loss before exceptional items has reduced from £16.1 million to £7.5 million. Much of the improvement in performance has come from cost efficiency measures, a reduction in head office head count and streamlining of processes, resulting in an increase in sales per full time employee of 3.1% over last year. Profit before tax was £20.7 million (2005: loss £31.7 million) including profits received as a result of the sale and leaseback of a number of freehold properties.

A further area of focus has been working capital and the business was successful in reducing stock levels by £4.7 million compared to the prior period through improved accuracy in store replenishment processes.

On 20 September 2005 the company consolidated its existing 1,200,000 issued ordinary shares of £0.01 each into 12,000 shares of £1. The company then issued a further 45,000,000 ordinary shares of £1 each at a subscription price of £45,000,000. This consideration was set off against the redemption of loan notes (see note 18).

On 23 December 2005 the group acquired 200 stores from the former Unwins estate. These stores have been successfully integrated into the existing retail business including a rebranding of the stores.

On 28 February 2006 the group closed its defined benefit pension scheme to future accruals. This has had the impact of reducing the fund deficit by £1.3 million.

Cash flow and dividends

As shown in the group's balance sheet on page 9, the group had cash balances of £86.4 million at the year end. The directors do not recommend the payment of a dividend (2005 – £nil).

Directors' report (continued)

Principal risks and uncertainties

The group manages business and development risks to minimise their likelihood or impact. There are processes in place to control the levels of cash, stock and clearance programmes, and robust financial management processes are in operation.

The group's product purchases are made in a number of foreign currencies including Euro, US \$ and Australian \$ and it is therefore exposed to the movement in these currencies against the Pound. Forward exchange contracts are taken out to manage this risk. Details of the fair values of derivatives are given in Note 18 to the financial statements.

Strategy for the business

The strategy for the business continues to be to leverage its existing asset base and market position through new stores and channels to market.

Directors and their interests

The directors who served throughout the year were as follows:

C P T O'Haire

J K Williamson

No director held interests in the shares of the company or any other group undertaking at the current year or prior period end.

No director held any material interest in any contract or arrangement subsisting with the company or any other group undertaking during the year.

Supplier payment policy

The policy applied by the group is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment. Since the company does not trade, the company has no trade creditors.

Charitable and political contributions

During the year, the group made charitable contributions of £20,000 (2005 – £503) and no political contributions.

Directors' report (continued)

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee consultation

The group places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the group. This is achieved through formal and informal meetings. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Auditors

Deloitte & Touche LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

Information provided to the auditors

Each of the directors at the date of approval of this report confirms that:

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

This confirmation is given and should be interpreted in accordance with the provisions of s234ZA of the Companies Act 1985.

Carmelite
50 Victoria Embankment
Blackfriars
London
EC4Y 0DX

By order of the Board


J K Williamson

1 November 2006

Directors' report (continued)

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Directors' responsibilities

United Kingdom 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 as at the end of the financial period 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; 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 group and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for the system of internal control, 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.

Independent auditors' report

To the members of Thresher Wines Holdings Limited

We have audited the group and individual company financial statements (the "financial statements") of Thresher Wines Holdings Limited for the year ended 1 July 2006 which comprise the consolidated profit and loss account, the consolidated statement of total recognised gains and losses, the consolidated and individual company balance sheets, the consolidated cash flow statement, the statement of accounting policies and the related notes 1 to 32. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the 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 United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view, in accordance with the relevant financial reporting framework, and are properly prepared in accordance with the Companies Act 1985. We report to you whether in our opinion the information given in the directors' report is consistent with the financial statements. We also report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

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

Independent auditors' report

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 circumstances of the company and the group, 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 individual company's affairs as at 1 July 2006 and of the group's profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

London

7 November 2006

Consolidated profit and loss account

For the year ended 1 July 2006

| | Notes | Year to 1 July 2006 | | | 70 weeks to 2 July 2005 | | |
|--|-------|--------------------------------|----------------------------------|-----------|---|----------------------------------|----------------------------------|
| | | Before exceptional Items | Exceptional items (note 5) | Total | Before exceptional items As restated (note 9) | Exceptional items (note 5) | Total As restated (note 9) |
| | | £'000 | £'000 | £'000 | £'000 | £'000 | £'000 |
| Turnover | 1 | 781,480 | - | 781,480 | 1,039,822 | - | 1,039,822 |
| Cost of sales | | (666,632) | - | (666,632) | (872,118) | - | (872,118) |
| Gross profit | | 114,848 | - | 114,848 | 167,704 | - | 167,704 |
| Other operating expenses (net) | 2, 5 | (122,362) | (4,606) | (126,968) | (183,789) | (4,195) | (187,984) |
| Operating loss | | (7,514) | (4,606) | (12,120) | (16,085) | (4,195) | (20,280) |
| Profit on disposal of tangible fixed assets | 5 | - | 40,439 | 40,439 | - | 18,567 | 18,567 |
| Profit/(loss) on ordinary activities before finance charges | | (7,514) | 35,833 | 28,319 | (16,085) | 14,372 | (1,713) |
| Finance charges (net) | 3 | (7,602) | - | (7,602) | (29,978) | - | (29,978) |
| Profit/(loss) on ordinary activities before taxation | 4 | (15,116) | 35,833 | 20,717 | (46,063) | 14,372 | (31,691) |
| Tax on profit/(loss) on ordinary activities | 8 | | | - | | | - |
| Profit/(loss) on ordinary activities after taxation | | | | 20,717 | | | (31,691) |
| Minority interests | 23 | | | - | | | - |
| Retained profit/(loss) for the financial year/period | 21 | | | 20,717 | | | (31,691) |

All activities derive from continuing operations.

The accompanying notes are an integral part of this consolidated profit and loss account.

The profit for the current year and the loss for the prior period are reported under the historical cost convention.

Consolidated profit and loss account

For the year ended 1 July 2006

| | Notes | Year to 1 July 2006 | | | 70 weeks to 2 July 2005 | | |
|--|-------|---|---|----------------|--|---|---|
| | | Before exceptional Items £'000 | Exceptional Items (note 5) £'000 | Total £'000 | Before exceptional items As restated (note 9) £'000 | Exceptional items (note 5) £'000 | Total As restated (note 9) £'000 |
| Turnover | 1 | 781,480 | - | 781,480 | 1,039,822 | - | 1,039,822 |
| Cost of sales | | (666,632) | - | (666,632) | (872,118) | - | (872,118) |
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Consolidated Statement of Total Recognised Gains and Losses

For the year ended 1 July 2006

| | Notes | Year to 1 July 2006 £'000 | 70 weeks to 2 July 2005 £'000 |
|---|-------|------------------------------------|--|
| Profit/(loss) for the year/period | | 20,717 | (31,691) |
| Actuarial gains relating to pensions | 29 | <u>2,101</u> | <u>453</u> |
| Total recognised gains/(losses) for the year/period | | 22,818 | (31,238) |
| <hr/> | | | |
| Prior period adjustment – change due to FRS 25 | 9 | (21) | |
| Total recognised gains/(losses) since last financial statements | | <u>22,797</u> | |

Consolidated balance sheet

1 July 2006

| | Notes | 1 July 2006 £'000 | 2 July 2005 £'000 As restated (notes 9 & 18) |
|--|-------|----------------------|---|
| Fixed assets | | | |
| Intangible assets – Negative goodwill | 11 | (2,993) | (3,221) |
| Tangible assets | 12 | 82,849 | 130,746 |
| | | <u>79,856</u> | <u>127,525</u> |
| Current assets | | | |
| Stocks | 14 | 87,484 | 92,157 |
| Debtors | | | |
| - amounts falling due within one year | 15 | 34,113 | 31,050 |
| Cash at bank and in hand | | 86,420 | 12,444 |
| | | <u>208,017</u> | <u>135,651</u> |
| Creditors: Amounts falling due within one year | 17 | <u>(125,554)</u> | <u>(127,666)</u> |
| Net current assets | | <u>82,463</u> | <u>7,985</u> |
| Total assets less current liabilities | | <u>162,319</u> | <u>135,510</u> |
| Creditors: Amounts falling due after more than one year | 18 | (117,152) | (150,408) |
| Provisions for liabilities | 19 | (9,875) | (13,211) |
| Net assets/ (liabilities) excluding pension liabilities | | <u>35,292</u> | <u>(28,109)</u> |
| Pension liabilities | 29 | (21,874) | (26,291) |
| Net assets/ (liabilities) | | <u>13,418</u> | <u>(54,400)</u> |
| Capital and reserves | | | |
| Called up share capital | 20 | 45,012 | 12 |
| Share premium | 21 | 99,990 | 99,990 |
| Profit and loss account | 21 | (131,584) | (154,402) |
| Shareholders' funds/ (deficit) | | <u>13,418</u> | <u>(54,400)</u> |
| Minority interests | 23 | - | - |
| Total capital employed | 22 | <u>13,418</u> | <u>(54,400)</u> |

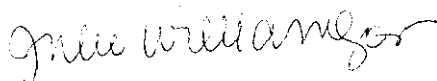
The accompanying notes are an integral part of this consolidated balance sheet.

Company balance sheet

1 July 2006

| | Notes | 1 July 2006 £'000 | 2 July 2005 £'000 As restated notes 9 & 18 |
|--|-------|-------------------------|--|
| Fixed assets | | | |
| Investments | 13 | - | - |
| Current assets | | | |
| Debtors: Amounts falling due after more than one year | 16 | 98,798 | 47,552 |
| Cash at bank and in hand | | 36 | 53 |
| | | 98,834 | 47,605 |
| Creditors: Amounts falling due within one year | 17 | (27) | (21) |
| Net current assets | | 98,807 | 47,584 |
| Total assets less current liabilities | | 98,807 | 47,584 |
| Creditors: Amounts falling due after more than one year | 18 | (101,279) | (98,164) |
| Net liabilities | | (2,472) | (50,580) |
| Capital and reserves | | | |
| Called up share capital | 20 | 45,012 | 12 |
| Share premium | 21 | 99,990 | 99,990 |
| Profit and loss account | 21 | (147,474) | (150,582) |
| Shareholders' deficit | | (2,472) | (50,580) |

The financial statements on pages 7 to 34 were approved by the board of directors and signed on its behalf by:



J K Williamson

Director

1 November 2006

The accompanying notes are an integral part of this balance sheet.

Consolidated cash flow statement

For the year ended 1 July 2006

| | Notes | Year to 1 July 2006 £'000 | 70 weeks 2 July 2006 £'000 |
|---|-------|---------------------------------|----------------------------------|
| Net cash outflow from operating activities | 24 | (615) | (22,728) |
| Returns on investments and servicing of finance | 25 | (933) | (5,206) |
| Capital expenditure and financial investment | 25 | 96,177 | 25,407 |
| Net cash inflow/(outflow) before financing | | 94,629 | (2,527) |
| Financing | 25 | (9,200) | (1,400) |
| Increase/(decrease) in cash in the year/period | 26 | 85,429 | (3,927) |

The accompanying notes are an integral part of this consolidated cash flow statement.

Consolidated cash flow statement

For the year ended 1 July 2006

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| Increase/(decrease) in cash in the year/period | 26 | 85,429 | (3,927) |

The accompanying notes are an integral part of this consolidated cash flow statement.

Statement of accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the current year and preceding period.

Basis of accounting

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

Basis of consolidation

The group financial statements consolidate the financial statements of Thresher Wines Holdings Limited and its subsidiary undertakings, for the year to 1 July 2006. The results of subsidiaries acquired or sold are consolidated for the periods from or to the date on which control passed. Acquisitions are accounted for under the acquisition method.

Goodwill

Goodwill arising on the acquisition of businesses, representing any excess of the fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight-line basis over its useful economic life, estimated to be twenty years. Provision is made for any impairment. Goodwill arising on acquisitions prior to 1 September 1998, was written off to reserves in accordance with the accounting standard then in force. Goodwill previously eliminated against reserves has not been reinstated on implementation of FRS 10. On disposal or closure of a previously acquired business, the attributable amount of goodwill previously written off to reserves is included in determining the profit or loss on disposal.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the identifiable assets and liabilities acquired over the fair of the consideration, is capitalised and is credited to the profit and loss account in the periods in which the acquired non-monetary assets are recovered through depreciation or sale. Negative goodwill in excess of the fair values of the non-monetary assets acquired is credited to the profit and loss account in the periods expected to benefit.

Tangible fixed assets

Tangible fixed assets are stated at cost, net of depreciation and any provision for impairment. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

| | |
|---------------------------|------------------------------------|
| Freehold buildings | 50 years |
| Long leasehold buildings | shorter of lease term and 50 years |
| Short leasehold buildings | 20 years |
| Fixtures and fittings | 3 to 20 years |

Statement of accounting policies (continued)

Tangible fixed assets (continued)

Residual value is calculated on prices prevailing at the date of acquisition. The carrying values of tangible fixed assets are reviewed for impairment in periods where events or changes in circumstances indicate that the carrying value may not be recoverable. Any impairment in the value of fixed assets below depreciated historical cost is charged to the profit and loss account within operating profit. A reversal of an impairment loss is recognised in the profit and loss account to the extent that the original loss was recognised.

Investments

Fixed asset investments are shown at cost less provision for impairment.

Stocks

Stocks are stated at the lower of cost and net realisable value. Cost includes all costs incurred in bringing each product to its present location and condition. Net realisable value is based on estimated selling price, less further costs expected to be incurred to completion and disposal. Provision is made for obsolete, slow-moving or defective items where appropriate.

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Taxation

UK corporation tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements.

Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Leases

Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis. Benefits received and receivable as an incentive to sign an operating lease are similarly spread on a straight-line basis over the lease term, except where the period to the review date on which the rent is first expected to be adjusted to the prevailing market rate is shorter than the full lease term, in which case the shorter period is used.

Statement of accounting policies (continued)

Accounting for share capital classified as non-equity

In accordance with FRS 25 - Financial Instruments: Disclosure and Presentation, the company has changed the classification of its preference shares. Previously preference shares were recognised as non-equity shares in accordance with FRS 4 – Capital Instruments. Under FRS 25, the preference shares are now classified as liabilities and included in creditors amounts falling due after more than one year. The effect of this change in policy has been to reduce both the group's and the company's net assets in both the current year and restated prior period by £50,000.

Prior to the adoption of FRS 25, the finance cost of the preference shares was recognised in the group's profit and loss account as an appropriation of profit and a corresponding other reserve was created. Under FRS 25, the finance cost has been reclassified as creditors amounts falling due within one year. The effect of this change has been to reduce the year ended 2 July 2005 finance cost of non-equity shares by £7,000 to £nil, with a corresponding increase in finance charges. The net assets at 2 July 2005 have been reduced by £21,000, reflecting the restatement of the other reserve as creditors – amounts falling due within one year.

Pension costs and other post retirement benefits

The group currently operates a stakeholder pension scheme and the amount charged to the profit and loss account in respect of pension costs represents the contributions payable in the period. Differences between contributions payable in the period and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

The group previously operated a defined benefit scheme for its employees. This scheme was closed to future accrual as at 28 February 2006 and all active members became deferred members at that date. The defined benefit pension scheme is accounted for under FRS 17 – Retirement Benefits. The historic costs of providing benefits have been recognised in the period in which they were earned. Ongoing finance costs and changes in the fair value of assets and liabilities are reflected in the financial statements on a continuing basis.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction or, if hedged, at the forward contract rate. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date or, if appropriate, at the forward contract rate. All foreign exchange differences are charged to the profit and loss account.

Finance costs

Finance costs of debt are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount.

Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

Notes to financial statements

1 July 2006

1 Segment information

The directors consider that the group has only one continuing ordinary activity, the distribution and sale of alcoholic drinks and related products through branded outlets. This activity is considered to arise from continuing operations wholly conducted within the United Kingdom.

2 Other operating expenses (net)

| | Year to 1 July 2006 £'000 | 70 weeks to 2 July 2005 £'000 |
|--|---------------------------------|-------------------------------------|
| Distribution costs | 20,493 | 29,344 |
| Administrative expenses | 110,638 | 166,769 |
| Other operating income | (8,769) | (12,324) |
| Other operating expenses (net) before exceptional items | 122,362 | 183,789 |
| Exceptional items (note 5) | 4,606 | 4,195 |
| Other operating expenses (net) | 126,968 | 187,984 |

3 Finance charges (net)

| | Year to 1 July 2006 £'000 | 70 weeks to 2 July 2005 £'000 As restated (see note 9) |
|--|---------------------------------|--|
| <i>Interest receivable and similar income</i> | | |
| Bank interest receivable | 953 | 97 |
| | <u>953</u> | <u>97</u> |
| <i>Interest payable and similar charges</i> | | |
| Bank loan interest | (834) | (2,658) |
| Zero coupon bonds | (3,307) | (23,157) |
| Unwinding of discount on provisions | (845) | (1,668) |
| Net finance charges in respect of pensions (note 29) | (795) | (957) |
| Onerous interest rate swap | (344) | 45 |
| Amortisation of issue costs | (1,716) | (1,091) |
| Finance cost of non-equity shares | (6) | (7) |
| Other interest charges | (708) | (582) |
| | <u>(8,555)</u> | <u>(30,075)</u> |
| Net finance charges | (7,602) | (29,978) |

Notes to financial statements (continued)

4 Profit/(loss) on ordinary activities before taxation

Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):

| | Year to 1 July 2006 £'000 | 70 weeks to 2 July 2005 £'000 |
|--|---------------------------------|-------------------------------------|
| Depreciation – owned assets | 10,840 | 15,258 |
| Non exceptional impairment | 2,873 | 1,236 |
| Amortisation of negative goodwill | (228) | (284) |
| Foreign exchange loss/(gain) on settled transactions | 306 | (149) |
| Operating lease rentals | | |
| - plant and machinery | 685 | 2,588 |
| - other | 24,792 | 24,016 |
| Auditors' remuneration for audit services | 410 | 260 |
| Exceptional items (note 5) | <u>(35,833)</u> | <u>(14,372)</u> |

Amounts payable to Deloitte & Touche LLP and their associates by the company and its subsidiaries in respect of non-audit services were £56,404 (2005 – £105,107).

5 Exceptional items

Exceptional items charged/(credited) to Profit/(loss) on ordinary activities before taxation are as follows:

| | Year to 1 July 2006 £'000 | 70 weeks to 2 July 2005 £'000 |
|---|---------------------------------|-------------------------------------|
| Operating | | |
| Operational remodelling | 2,310 | 6,058 |
| Onerous contracts (see note 19) | 264 | 2,332 |
| Head-office restructuring | 2,174 | 4,219 |
| Abortive project costs | 52 | 1,745 |
| Licensing costs | 426 | 817 |
| Pension credit in respect of changes to past service benefits (note 29) | (1,302) | (10,838) |
| Termination of distribution agreement | 265 | (347) |
| Unwins' integration | 417 | - |
| Dilapidations provision charge (see note 19) | - | 209 |
| | <u>4,606</u> | <u>4,195</u> |
| Non-operating | | |
| Profit on disposal of tangible fixed assets | <u>(40,439)</u> | <u>(18,567)</u> |
| | <u>(35,833)</u> | <u>(14,372)</u> |

Operational remodelling consists of cash costs incurred in connection with the company's strategic review of operational structure, branding and estate segmentation. This includes the costs of branch closures and implementing the franchising program.

Notes to financial statements (continued)

5 Exceptional items (continued)

The onerous contracts charge during the period relates to the increase in the provision for the net present value of the directors' best estimate of the lease costs (net of earnings) payable on vacant shops, shops sublet at a loss and on loss making shops until disposal, where the directors do not foresee the possibility of the trading properties generating profits in the future.

Restructuring costs relate to a reduction of head office and field staff headcount and primarily relate to the redundancy packages paid to individuals.

Abortive project costs represent the costs of professional advice and consultancy costs on acquisition and restructuring projects that were not completed, together with contract termination payments following the company's decision to terminate the gourmet food business.

Exceptional licensing costs represent a continuation of implementing the new alcoholic beverages licensing regime.

The pension credit in the year to 1 July 2006 has been generated as a result of the closure of the defined benefit section of the scheme to future accrual. As a result of this change there has been a reduction in the fund liabilities (see note 29 for further details).

Unwins integration costs incurred during the period relate to costs incurred in integrating the 200 Unwins stores purchased on 23 December 2005.

Profit on disposal of tangible fixed assets relates to the sale of freehold properties to third parties and is stated net of provisions created to cover future rental payments in excess of the market level at the completion dates.

6 Staff costs

The average monthly number of employees (including executive directors) was:

| | Year to 1 July 2006 Number | 70 weeks to 2 July 2005 Number |
|---|----------------------------------|--------------------------------------|
| Administration | 313 | 463 |
| Selling and distribution | 11,067 | 11,217 |
| | <u>11,380</u> | <u>11,680</u> |
| | | |
| Their aggregate remuneration comprised: | £'000 | £'000 |
| Wages and salaries | 88,250 | 125,665 |
| Social security costs | 6,030 | 8,464 |
| Other pension costs | 1,347 | 3,173 |
| | <u>95,627</u> | <u>137,302</u> |

Notes to financial statements (continued)

7 Directors' remuneration

No amounts were paid to the directors during the period in respect of their services to the company or group (2005 – £nil). No director accrued any benefits under the group's defined benefit scheme.

8 Tax on profit/(loss) on ordinary activities

| | Year to 1 July 2006 | 70 weeks to 2 July 2005 |
|--|------------------------|----------------------------|
| | £'000 | £'000 |
| Current Taxation | | |
| UK corporation tax charge for the year/period | - | - |
| Total tax on profit/(loss) on ordinary activities | - | - |

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

| | Year to 1 July 2006 | 70 weeks to 2 July 2005 |
|---|------------------------|----------------------------|
| | £'000 | £'000 As restated |
| Profit/(loss) on ordinary activities before tax | 20,717 | (31,691) |
| Tax on group profit/(loss) on ordinary activities at standard UK corporation tax rate of 30% (2005 : 30%) | 6,215 | (9,507) |
| Effects of: | | |
| Expenses not deductible for tax purposes | 3,585 | 3,103 |
| Depreciation in excess of capital allowances | 120 | 447 |
| Effect of indexation | - | - |
| Short term timing differences | 5,943 | - |
| Difference between accounting and taxable profit on disposal of non-qualifying assets | (9,592) | 1,267 |
| Tax losses (utilised)/not utilised | (5,576) | 8,899 |
| Adjustment for pension deficit under FRS 17 | (695) | (4,209) |
| Current tax for the year/period | - | - |

The group earns its profits primarily in the UK, therefore the tax rate used for tax on the loss on ordinary activities is the standard rate for UK corporation tax, currently 30%. The tax charge in future years may be affected by changes in the corporation tax rate.

Notes to financial statements (continued)

8 Tax on profit/(loss) on ordinary activities (continued)

A deferred tax asset, in respect of timing differences relating to losses carried forward of £34,624,000 (2005 : £35,093,000), sale and leaseback deferred proceeds of £5,943,000 (2005 : £nil) and the pension deficit of £6,562,000 (2005: £7,887,000) has not been recognised, as there is insufficient evidence that there will be suitable taxable gains available in the foreseeable future against which to offset the losses. The asset would be recovered if the company made suitable profits or gains in future accounting periods.

The amount of Thresher Wines Holdings Limited company only deferred tax asset not recognised in respect of losses is £1,438,000 (2004 : £2,372,000). The asset would be recovered if the company made non-trading profits in future accounting periods. The losses are currently the subject of an enquiry by H.M. Revenue and Customs.

9 Finance cost of preference shares

In accordance with FRS 25 - Financial Instruments: Disclosure and Presentation, the company has changed the classification of its preference shares. Prior to the adoption of FRS 25, the finance cost of the preference shares was recognised in the group's profit and loss account as an appropriation of profit and a corresponding other reserve was created. Under FRS 25 the finance cost has been reclassified as creditors – amounts falling due within one year. The effect of this change has been to reduce the year ended 2 July 2005 finance cost of non-equity shares by £7,000 to £nil, with a corresponding increase in finance charges. The net assets at 2 July 2005 have been reduced by £21,000, reflecting the restatement of the other reserve as creditors – amounts falling due within one year (see also notes 18 and 20).

10 Result attributable to Thresher Wines Holdings Limited

The profit for the financial period dealt with in the financial statements of the company, Thresher Wines Holdings Limited was £3,108,000 (70 weeks ended 2 July 2005 – loss of £107,903,000). As permitted by Section 230 of the Companies Act 1985, no separate profit and loss account is presented in respect of the company.

11 Intangible assets - Goodwill

Negative
Goodwill
£'000

Cost

At 3 July 2005 and 1 July 2006

(4,218)

Amortisation

At 3 July 2005

(997)

Credit for the period

(228)

At 1 July 2006

(1,225)

Net book value

At 3 July 2005

(3,221)

At 1 July 2006

(2,993)

Notes to financial statements (continued)

12 Tangible fixed assets

| Group | Land and buildings | | Fixtures and Fittings £'000 | Assets under construction £'000 | Total £'000 |
|------------------------------|--------------------|----------------------------------|-----------------------------------|---------------------------------------|----------------|
| | Freehold £'000 | Long/short leasehold £'000 | | | |
| Cost | | | | | |
| At 3 July 2005 | 76,398 | 8,907 | 60,155 | 744 | 146,204 |
| Prior year adjustment | - | 9,766 | 37,571 | - | 47,337 |
| At 3 July 2005 (as restated) | 76,398 | 18,673 | 97,726 | 744 | 193,541 |
| Transfers | - | - | 744 | (744) | - |
| Additions | 60 | 2,353 | 9,161 | - | 11,574 |
| Disposals | (43,957) | (2,764) | (5,296) | - | (52,017) |
| At 1 July 2006 | 32,501 | 18,262 | 102,335 | - | 153,098 |
| Depreciation | | | | | |
| At 3 July 2005 | 2,535 | 409 | 12,514 | - | 15,458 |
| Prior year adjustment | - | 9,766 | 37,571 | - | 47,337 |
| At 3 July 2005 (as restated) | 2,535 | 10,175 | 50,085 | - | 62,795 |
| Charge for the period | 421 | 468 | 9,951 | - | 10,840 |
| Impairment charge | 704 | 489 | 1,680 | - | 2,873 |
| Disposals | (1,500) | (2,479) | (2,280) | - | (6,259) |
| At 1 July 2006 | 2,160 | 8,653 | 59,436 | - | 70,249 |
| Net book value | | | | | |
| At 1 July 2006 | 30,341 | 9,609 | 42,899 | - | 82,849 |
| At 3 July 2005 | 73,863 | 8,498 | 47,641 | 744 | 130,746 |

Freehold land, amounting to £7,161,578 (2005 – £16,647,719) has not been depreciated.

The prior year adjustment relates to the incomplete transfer of fully written down asset records when the company changed its accounting systems in 2004. There was no impact on the net book value of assets but historic cost and accumulated depreciation were understated by an equal amount.

Notes to financial statements (continued)

13 Fixed asset investments - company

Subsidiary undertaking

| | Shares in subsidiary £'000 | Capital contribution to indirect subsidiary £'000 | Company Total £'000 |
|--------------------------------|----------------------------------|---|---------------------------|
| Cost | | | |
| At 3 July 2005 and 1 July 2006 | 35,160 | 100,000 | 135,160 |
| Impairment | | | |
| At 3 July 2005 and 1 July 2006 | (35,160) | (100,000) | (135,160) |
| Net book value | | | |
| At 3 July 2005 and 1 July 2006 | - | - | - |

Principal group investments

| | Country of incorporation | Principal Activity | Holding | % |
|-------------------------------------|-----------------------------|-----------------------|---------------------------|--------|
| Thresher Wines Group Limited* | Great Britain | Holding company | Ordinary share capital | 92.757 |
| Thresher Wines Acquisitions Limited | Great Britain | Holding company | Ordinary share capital | 92.757 |
| First Quench Retailing Limited | Great Britain | Drinks retailing | Ordinary share capital | 92.757 |
| Thresher Leasing Limited | Great Britain | Equipment Leasing | Ordinary share capital | 92.757 |

* held directly by Thresher Wines Holdings Limited

Notes to financial statements (continued)

14 Stocks

| | Group | |
|--|----------------------|----------------------|
| | 1 July 2006 £'000 | 2 July 2005 £'000 |
| Finished goods and goods held for resale | 87,484 | 92,157 |

There is no material difference between the balance sheet value of stocks and their replacement cost.

15 Debtors: Amounts falling due within one year

| | Group | |
|--------------------------------|----------------------|----------------------|
| | 1 July 2006 £'000 | 2 July 2005 £'000 |
| Trade debtors | 17,258 | 16,932 |
| Other debtors | 1,327 | 1,571 |
| Prepayments and accrued income | 15,528 | 12,547 |
| | 34,113 | 31,050 |

16 Debtors: Amounts falling due after more than one year

| | Group | | Company | |
|------------------------------------|----------------------|----------------------|----------------------|----------------------|
| | 1 July 2006 £'000 | 2 July 2005 £'000 | 1 July 2006 £'000 | 2 July 2005 £'000 |
| Amounts owed by group undertakings | - | - | 98,798 | 47,552 |

On 20 September 2005 a £32,735,000 mezzanine zero coupon note with a carrying value at that date of £45,845,184 was transferred to the company from Terra Firma Investments (GP) Ltd. This loan note was due from Thresher Wines Acquisitions Ltd and was forgiven on the same day. It was replaced with a £45,845,184 zero coupon loan note due from the same company and repayable on 5 August 2012.

17 Creditors: Amounts falling due within one year

| | Group | | Company | |
|--|----------------------|---|----------------------|---|
| | 1 July 2006 £'000 | 2 July 2005 £'000 As restated (note 9) | 1 July 2006 £'000 | 2 July 2005 £'000 As restated (note 9) |
| Bank overdraft | - | 11,452 | - | - |
| Trade creditors | 44,303 | 49,825 | - | - |
| Other taxation and social security | 15,689 | 9,111 | - | - |
| Other creditors | 11,273 | 14,767 | - | - |
| Finance cost of non-equity share capital | 27 | 21 | 27 | 21 |
| Accruals and deferred income | 54,262 | 42,490 | - | - |
| | 125,554 | 127,666 | 27 | 21 |

Notes to financial statements (continued)

18 Creditors: Amounts falling due after more than one year

| | Group | | Company | |
|------------------------------|----------------------|-------------------------------------|----------------------|-------------------------------------|
| | 1 July 2006 £'000 | 2 July 2005 £'000 As restated | 1 July 2006 £'000 | 2 July 2005 £'000 As restated |
| Bank loans | - | 7,693 | - | - |
| Related party bonds | 101,229 | 142,665 | 101,229 | 98,114 |
| Accruals and deferred income | 15,873 | - | - | - |
| Non-equity share capital | 50 | 50 | 50 | 50 |
| | <u>117,152</u> | <u>150,408</u> | <u>101,279</u> | <u>98,164</u> |

Accruals and deferred income falling due after more than one year represent proceeds relating to the sale of freehold properties. These properties were subsequently leased back by a subsidiary company under operating lease agreements with third parties and the deferred proceeds will be offset against future lease payments.

A further £3.9m is included within accruals and deferred income falling due within one year

Further details of the non-equity share capital are shown within note 20. In accordance with FRS 25, the company's preference shares have been reclassified as creditors falling due in more than one year.

The terms of repayment and interest rates of the group's facilities at 1 July 2006 were as follows:

| Facility | Counterparty | Interest Rate | Date of maturity |
|-------------------------------|--------------------------------------|-----------------|------------------|
| £101,228,568 zero coupon bond | Terra Firma Investments (GP) Limited | nil | 5 August 2012 |
| £55,000,000 revolving loan | Barclays Bank plc | LIBOR +1.75% | 22 August 2007 |

The carrying value of the company's £60,000,000 zero coupon related party bonds with Terra Firma Investments (GP) Ltd on 20 September 2005 (including all accrued finance costs) was £100,383,383.

On that day these bonds were cancelled. On the same day the company assumed from Terra Firma Investments (GP) Limited loan notes due from Thresher Wines Acquisitions Limited with a value of £45,845,184 (see note 16). Consideration was in the form of the issue of £45,000,000 of ordinary share capital and £101,228,568 subordinated zero coupon notes (maturity 5 August 2012), both to Terra Firma Investments (GP) Ltd.

Terra Firma Investments (GP) Limited acts as general partner to Terra Firma Capital Partners I (note 32) and the £101,228,568 subordinated zero coupon notes at 1 July 2006 are shown as payable after five years. They represent the nominal value increased by finance costs for the period and are net of issue costs. The debt is unsecured.

Notes to financial statements (continued)

18 Creditors: Amounts falling due after more than one year (continued)

The group has a revolving loan facility and a bank guarantee facility, with Barclays Bank plc. The facility is available to two of the company's subsidiaries, Thresher Wines Acquisitions Limited and First Quench Retailing Limited. The group had £nil drawn down under the revolving credit facility at 1 July 2006 (2005 - £9,200,000). Interest is payable at LIBOR plus 1.75%. The loan is secured against the freehold and leasehold properties, stock and other assets of the group.

At 1 July 2006, the fair value of the interest rate swap derivative entered into by the group was a liability of £683,000 (2005 - £1,614,000 liability), while the fair value of forward foreign exchange contracts entered into was a liability of £70,000 (2005 - £175,000 liability).

Borrowings are repayable as follows:

| | Group | | Company | |
|----------------------------|---------------|---------------|---------------|---------------|
| | 2006 £'000 | 2005 £'000 | 2006 £'000 | 2005 £'000 |
| Bank loans | | | | |
| Between two and five years | - | 7,693 | - | - |
| Related party bonds | | | | |
| Over five years | 101,299 | 142,664 | 101,299 | 98,114 |

19 Provisions for liabilities - group

| | Onerous contracts £'000 | Dilapidations £'000 | Total £'000 |
|--------------------------------------|-------------------------------|------------------------|----------------|
| At 3 July 2005 | 7,489 | 5,722 | 13,211 |
| Charged to the profit and loss (net) | 1,015 | 625 | 1,640 |
| Utilised in the period | (4,734) | (1,632) | (6,366) |
| Additions | 545 | - | 545 |
| Unwinding of discount | 285 | 560 | 845 |
| At 1 July 2006 | 4,600 | 5,275 | 9,875 |

Notes to financial statements (continued)

19 Provisions for liabilities – group (continued)

Deferred tax

Deferred tax is provided as follows:

| | Group | |
|--------------------------------|----------|----------|
| | 2006 | 2005 |
| | £'000 | £'000 |
| Accelerated capital allowances | 1,528 | 1,104 |
| Tax losses available | (1,528) | (1,104) |
| | <u>-</u> | <u>-</u> |

Onerous contracts

Onerous contracts include onerous leases, onerous interest rate swap contracts and other onerous contracts.

Provision for onerous lease contracts is made for the net present value the directors' best estimate of the lease costs (net of earnings) payable on vacant shops, shops sublet at a loss and on loss making shops until disposal, where the directors do not foresee the possibility of the trading properties generating profits in the future.

Provision for onerous interest rate swap contracts is made for the net present value of interest swap payments due for the portion of any swap that is not an effective hedge.

Dilapidations

Provision is made for the directors' best estimate of the cost of repairing dilapidations on leasehold properties where, in the opinion of the directors, the costs are likely to be incurred.

Discounting

Provisions for onerous leases and dilapidations are discounted at the directors' estimate of weighted average cost of capital. Provisions for onerous interest rate swap contracts are discounted at a market valuation based on the risks inherent to the instrument.

Notes to financial statements (continued)

20 Called up share capital

| | 1 July 2006 £'000 | 2 July 2005 £'000 |
|--|--------------------------|--------------------------|
| Equity Shares | | |
| <i>Authorised</i> | | |
| 2006: 45,012,000 (2005 : 1,200,000) ordinary shares of £1 (2005: £0.01) each | <u>45,012</u> | <u>12</u> |
| <i>Allotted, called up and fully-paid</i> | | |
| 2006: 45,012,000 (2005 : 1,200,000) ordinary shares of £1 (2005: £0.01) each | <u>45,012</u> | <u>12</u> |
| Non-Equity Shares | 1 July 2006 £'000 | 2 July 2005 £'000 |
| <i>Authorised</i> | | |
| 50,000 cumulative redeemable preference shares of £1 each | <u>50</u> | <u>50</u> |
| <i>Allotted, called up and fully-paid</i> | | |
| 50,000 cumulative redeemable preference shares of £1 each | <u>50</u> | <u>50</u> |

In accordance with FRS 25, the company's preference shares have been reclassified as creditors – amounts falling due in more than one year (see note 18).

The non-equity shares carry an entitlement to a fixed cumulative cash dividend at the rate of 11p per £1 of fully paid up share capital per annum.

The preference shares may be redeemed at the option of the company for £1, together with a sum equal to all arrears and accruals of dividend on the share, at any time, provided not less than 14 days written notice is given to the holders of the preference shares. No preference share may be redeemed unless it is fully paid. At 1 July 2006 the amount accrued in respect of the finance costs of the preference shares was £27,000 (2005 – £21,000) and is included in creditors: amounts falling due within one year.

Holders of the preference shares have the right to receive notice of and to attend and speak at all general meetings of the company, but have no right to vote.

Holders of the preference shares have the right on a winding-up to receive, in priority to any other classes of shares, the sum of £1 per share together with any arrears of dividend.

On 20 September 2005 the company consolidated its existing 1,200,000 issued ordinary shares of £0.01 each into 12,000 shares of £1. The company then issued and Terra Firma Capital Partners I acting through its general partner Terra Firma Investments (GP) Limited subscribed for a further 45,000,000 ordinary shares of £1 each at a subscription price of £45,000,000. This consideration was set off against the redemption of loan notes (see note 18).

Notes to financial statements (continued)

20 Called up share capital (continued)

Post balance sheet event

On 30 October 2006, the rights of the preference shares were amended to remove a fixed entitlement to a Preference Dividend on 30 June and 31 December in every year, but the priority between the Preference Shares and the Ordinary Shares in the capital of the company has been preserved. The preferred participation (including amounts unpaid from previous years) is payable at the discretion of the directors of the company or upon the liquidating the company. All other rights remain unchanged.

The impact of this change is that under FRS 25 these preference shares become classified as equity, rather than as creditors – amounts falling due after more than one year. Similarly, due to the changed terms, finance costs in respect of these preference shares no longer need to be accrued. Amount previously accrued are to be credited to the profit and loss account as a capital contribution. Had these changes been in place at 1 July 2006, the effect would have been as follows:

| Group | Current presentation £'000 | Adjustment to Share rights £'000 | Revised Presentation £'000 |
|--|-------------------------------|--|----------------------------------|
| Creditors – Amounts falling due within one year | 125,554 | (27) | 125,527 |
| Creditors – Amounts falling due after more than one year | 117,152 | (50) | 117,102 |
| Called up share capital | 45,012 | 50 | 45,062 |
| Share premium | 99,990 | - | 99,990 |
| Profit and loss account | (131,584) | 27 | (131,557) |
| Shareholders' funds | 13,418 | 77 | 13,495 |

| Company | Current presentation £'000 | Adjustment to Share rights £'000 | Revised Presentation £'000 |
|--|-------------------------------|--|----------------------------------|
| Creditors – Amounts falling due within one year | 27 | (27) | - |
| Creditors – Amounts falling due after more than one year | 101,279 | (50) | 101,229 |
| Called up share capital | 45,012 | 50 | 45,062 |
| Share premium | 99,990 | - | 99,990 |
| Profit and loss account | (147,474) | 27 | (147,447) |
| Shareholders' (deficit) | (2,472) | 77 | (2,395) |

Notes to financial statements (continued)

21 Reserves

| | Share premium | | Profit and loss account | |
|---|----------------|------------------|-------------------------|------------------|
| | Group £'000 | Company £'000 | Group £'000 | Company £'000 |
| At 3 July 2005 | 99,990 | 99,990 | (154,402) | (150,582) |
| Retained profit for the period | - | - | 20,717 | 3,108 |
| Other recognised gains for the year (note 29) | - | - | 2,101 | - |
| At 1 July 2006 | <u>99,990</u> | <u>99,990</u> | <u>(131,584)</u> | <u>(147,474)</u> |

Included in the profit and loss account reserve is a pension deficit of £21,874,000.

22 Reconciliation of movements in group shareholders' surplus/(deficit)

| | Year to 1 July 2006 £'000 | 70 2 £'000 As restated |
|--|---------------------------------|---------------------------------|
| Opening shareholders' deficit | (54,400) | (123,098) |
| Profit / (loss) for the financial period / year | 20,717 | (31,691) |
| Other recognised gains relating to the financial year / period | 2,101 | 453 |
| Issue of equity shares | 45,000 | 100,000 |
| Closing shareholders' funds/(deficit) | <u>13,418</u> | <u>(54,336)</u> |
| Prior year adjustment | - | (64) |
| Closing shareholders' funds/(deficit) as restated | <u>13,418</u> | <u>(54,400)</u> |

23 Minority interests

| | £'000 |
|---|----------|
| At 3 July 2005 | - |
| Share of profit on ordinary activities after taxation | 1,275 |
| Release of provision against minority interest | (1,275) |
| At 1 July 2006 | <u>-</u> |

Notes to financial statements (continued)

24 Reconciliation of operating loss to operating cash flows

| | Group | |
|--|---------------------------------|-------------------------------------|
| | Year to 1 July 2006 £'000 | 70 weeks to 2 July 2005 £'000 |
| Operating loss | (12,120) | (20,280) |
| Depreciation and impairment of tangible fixed assets | 13,713 | 16,494 |
| Write-off/amortisation of net goodwill | (228) | 37 |
| Decrease/(increase) in stocks | 4,673 | (10,327) |
| Increase in debtors | (3,063) | (12,576) |
| Increase in creditors | 3,730 | 17,344 |
| Decrease in provisions | (4,210) | (1,904) |
| Decrease in pension liabilities | (3,110) | (11,516) |
| Net cash outflow from operating activities | (615) | (22,728) |

25 Analysis of cash flows

| | Group | |
|--|---------------------------------|-------------------------------------|
| | Year to 1 July 2006 £'000 | 70 weeks to 2 July 2005 £'000 |
| <i>Returns on investments and servicing of finance</i> | | |
| Interest received | 953 | 97 |
| Interest paid | (1,886) | (3,221) |
| Finance costs incurred in acquiring new loan | - | (2,082) |
| Net cash outflow | (933) | (5,206) |
| <i>Capital expenditure and financial investment</i> | | |
| Purchase of tangible fixed assets | (11,029) | (16,998) |
| Sale of tangible fixed assets | 107,206 | 42,405 |
| Net cash inflow | 96,177 | 25,407 |
| <i>Financing</i> | | |
| Repayment of bank loan | (9,200) | (10,600) |
| New loans | - | 9,200 |
| Net cash outflow | (9,200) | (1,400) |

Notes to financial statements (continued)

26 Analysis of net debt

| | 2 July 2005 £'000 As restated | Cash flow £'000 | Other non- cash changes £'000 | 1 July 2006 £'000 |
|--------------------------|--|--------------------|-------------------------------------|-------------------------|
| Cash at bank and in hand | 12,444 | 73,977 | - | 86,421 |
| Overdraft | (11,452) | 11,452 | - | - |
| | 992 | 85,429 | - | 86,421 |
| Debt due after 1 year | (150,358) | 9,200 | 39,929 | (101,229) |
| Non-equity share capital | (50) | - | - | (50) |
| Net debt | (149,416) | 94,629 | 39,929 | (14,838) |

The non-cash movement is primarily as a result of the debt redeemed during the year in consideration of the issue of shares and accrued interest on the zero coupon bonds (see note 18).

27 Reconciliation of net cash flow to movement in net debt

| | Year to 1 July 2006 £'000 | 70 weeks to 2 July 2005 £'000 |
|--|---------------------------------|-------------------------------------|
| Increase/(decrease) in cash in the period | 85,429 | (3,927) |
| Cash outflow from reduction in debt financing | 9,200 | 3,482 |
| Change in net debt resulting from cash flows | 94,629 | (445) |
| Other non-cash movements | 39,949 | 75,755 |
| Movement in net debt in the year/period | 134,578 | 75,310 |
| Opening net debt | (149,416) | (224,676) |
| Closing net debt | (14,838) | (149,366) |
| Prior period adjustment – non-equity share capital | - | (50) |
| Closing net debt as restated | (14,838) | (149,416) |

Notes to financial statements (continued)

28 Financial commitments

Capital commitments are as follows:

| | Group | | Company | |
|-------------------------------------|-------|-------|---------|-------|
| | 2006 | 2005 | 2006 | 2005 |
| | £'000 | £'000 | £'000 | £'000 |
| Contracted for but not provided for | 275 | 404 | - | - |

Annual commitments under non-cancellable operating leases are as follows:

| | 1 July 2006 | | 2 July 2005 | |
|------------------------------|-----------------------------|----------------|-----------------------------|----------------|
| | Land and buildings £'000 | Other £'000 | Land and buildings £'000 | Other £'000 |
| Group | | | | |
| Expiry date | 2,213 | 376 | 3,204 | 557 |
| - within one year | 8,036 | 1,085 | 8,142 | 1,415 |
| - between two and five years | 17,719 | 14 | 12,204 | 383 |
| - after five years | | | | |
| | 27,968 | 1,475 | 23,550 | 2,355 |

29 Pension arrangements

The company currently operates a stakeholder pension scheme for its employees.

The company has previously operated a defined benefit pension scheme through the First Quench Pension Fund ("the Fund"). Future accrual in the Fund ceased from 28 February 2006 and all active members became deferred members at that date. The last triennial valuation of the Fund was carried out as at 1 July 2003 by an independent qualified actuary, using the projected unit method. The next triennial valuation will be performed at 1 July 2006.

According to the Schedule of Contributions for the period 1 November 2004 to 22 September 2014, the group is continuing to make fixed payments of £153,846 every four weeks.

The group's contributions to defined contribution arrangements amounted to £219,737 for the year ended 1 July 2006 (£380,307 for the period ending 2 July 2005) and were fully charged to the profit and loss account. At 1 July 2006, there were no outstanding contributions due (2005 : £nil).

The following figures relate to the defined benefit Fund only.

The actuarial valuation described above has been updated to 1 July 2006 by an independent qualified actuary using revised assumptions for the purposes of reporting under FRS17.

Notes to financial statements (continued)

29 Pension arrangements (continued)

The major assumptions used were:

| | 1 July 2006 | 2 July 2005 | 28 Feb 2004 |
|---|----------------|----------------|----------------|
| Discount rate | 5.45% | 5.25% | 5.50% |
| Rate of increase in salaries | n/a% | 3.00% | 3.15% |
| Rate of increase of pensions in payment | 2.90% | 2.70% | 2.70% |
| Inflation assumption | 2.95% | 2.75% | 2.90% |

The net pension liability included in the Company's balance sheet is made up as follows:

| | 1 July 2006 | 2 July 2005 | 28 Feb 2004 |
|--|-----------------|-----------------|-----------------|
| | £'000 | £'000 | £'000 |
| Pension asset (fair value) | 58,162 | 51,111 | 41,757 |
| Pension liability (discounted present value) | (80,036) | (77,402) | (79,060) |
| Net pension liability | <u>(21,874)</u> | <u>(26,291)</u> | <u>(37,303)</u> |

The assets in the Fund and the expected rates of return were:

| | Long-term rate of return expected | | Long-term rate of return expected | | Long-term rate of return expected | |
|---------------------------------|---|-----------------|---|-----------------|---|-----------------|
| | 1 July 2006 | 1 July 2006 | 2 July 2005 | 2 July 2005 | 28 Feb 2004 | 28 Feb 2004 |
| | | £'000 | | £'000 | | £'000 |
| Fixed Interest Bonds | 4.65% | 22,415 | 4.20% | 15,617 | n/a | - |
| Equities | 9.25% | 35,579 | 8.80% | 35,365 | 8.80% | 41,155 |
| Cash | 4.60% | 168 | 4.70% | 129 | 4.00% | 602 |
| Total market value of assets | | 58,162 | | 51,111 | | 41,757 |
| Present value of plan liability | | <u>(80,036)</u> | | <u>(77,402)</u> | | <u>(79,060)</u> |
| Net pension liability | | <u>(21,874)</u> | | <u>(26,291)</u> | | <u>(37,303)</u> |

Notes to financial statements (continued)

29 Pension arrangements (continued)

The group has not recorded any deferred tax asset against the pension liability due to uncertainty over the availability of future taxable profits.

| | Year to 1 July 2006 | 70 weeks to 2 July 2005 |
|--|------------------------|----------------------------|
| | £'000 | £'000 |
| Analysis of the amount charged to operating profit | | |
| Employer's current service cost | 1,136 | 2,793 |
| Past service cost recognition | - | (10,838) |
| Curtailment credit | (1,302) | - |
| Total operating credit | <u>(166)</u> | <u>(8,045)</u> |

The curtailment credit in 2006 relates to the closure of the scheme to future accrual as at 28 February 2006 and has been measured using market conditions at that date.

| | Year to 1 July 2006 | 70 weeks to 2 July 2005 |
|---|------------------------|----------------------------|
| | £'000 | £'000 |
| Analysis of the amount credited to other finance income | | |
| Expected return on pension plan assets | 3,259 | 5,045 |
| Interest on pension liabilities | (4,054) | (6,002) |
| Net return | <u>(795)</u> | <u>(957)</u> |

Analysis of the amount recognised in statement of total recognised gains and losses:

| | 2006 | 2005 | 2004 |
|---|--------------|------------|----------------|
| | £'000 | £'000 | £'000 |
| Actual return less expected return on plan assets | 2,372 | 2,359 | 6,708 |
| Experience (losses) / gains arising on the plan's liabilities | (39) | 1,305 | (6,953) |
| Changes in assumptions underlying the plan liabilities | (232) | (3,211) | (6,026) |
| Actuarial gain / (loss) recognised in STRGL | <u>2,101</u> | <u>453</u> | <u>(6,271)</u> |

Movement in deficit during the year/period

| | 2006 | 2005 | 2004 |
|---|-----------------|-----------------|-----------------|
| | £'000 | £'000 | £'000 |
| Deficit in plan at beginning of the year | (26,291) | (37,303) | (29,175) |
| Movement in year/period: | | | |
| Employer's current service cost | (1,136) | (2,793) | (2,431) |
| Employer's contributions | 2,945 | 3,471 | 1,622 |
| Cost of past service benefits | - | 10,838 | - |
| Other finance income | (795) | (957) | (1,048) |
| Settlements and curtailments | 1,302 | - | - |
| Actuarial gain / (loss) | <u>2,101</u> | <u>453</u> | <u>(6,271)</u> |
| Deficit in plan at end of the year/period | <u>(21,874)</u> | <u>(26,291)</u> | <u>(37,303)</u> |

Notes to financial statements (continued)

29 Pension arrangements (continued)

| History of experience gains and losses | 2006 £'000 | 2005 £'000 | 2004 £'000 | 2003 £'000 |
|---|---------------|---------------|---------------|---------------|
| Actual return less expected return on plan assets: | | | | |
| Amount | 2,372 | 2,359 | 6,708 | (14,220) |
| percentage of plan assets | 4% | 5% | 16% | (42%) |
| Experience (losses) / gains on plan liabilities: | | | | |
| Amount | (39) | 1,305 | (6,953) | 1,135 |
| percentage of the present value of the plan liabilities | (0%) | 2% | (9%) | 2% |
| Total gain / (loss) recognised in statement of total recognised gains and losses: | | | | |
| Amount | 2,101 | 453 | (6,271) | (10,701) |
| percentage of the present value of the plan liabilities | 3% | 1% | (8%) | (17%) |

30 Contingent liabilities

In the ordinary course of business the principal subsidiary of the group, First Quench Retailing Limited, has assigned a number of leases and remains contingently liable in the event that the assigned lessees default on these leases.

31 Ultimate controlling party

The immediate parent of the company is Terra Firma Investments (GP) Limited, a company incorporated in Guernsey, acting as General Partner of Terra Firma Capital Partners I.

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

Thresher Wines Holdings Limited is the parent company of the largest and smallest group of which the company is a member and for which group financial statements are drawn up. Copies of the financial statements are available from Carmelite, 50 Victoria Embankment, Blackfriars, London, EC4Y 0DX.

32 Related party transactions

In accordance with FRS 8 "Related party disclosures", the company and group are not required to disclose transactions with other member of the Thresher Wines Holdings Limited group.

The Group has certain borrowings with Terra Firma Investments (GP) Limited, acting as General Partner of Terra Firma Capital Partners I, as described in note 18 and has paid fees of £nil (2005: £470,000) in respect of directors and consultancy costs.