



Financial Statements Mercury Inns Group Limited

For the Year Ended 29 February 2008

THURSDAY



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18/06/2009
COMPANIES HOUSE

Company no 4362325

Company information

Company registration number	4362325
Registered office	20-24 The Whitehouse Off Halford Street Tamworth Staffordshire B79 7QS
Directors	K Thornton M L Butler A B Chapman
Secretary	K Thornton
Bankers	Barclays Bank plc Colmore Row Birmingham B3 2BH
Solicitors	HBJ Gateley Wareing LLP 111 Edmund Street Birmingham B3 2HJ
Auditors	Grant Thornton UK LLP Chartered Accountants Registered Auditors Enterprise House 115 Edmund Street Birmingham B3 2HJ

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Report of the directors

The directors present their first report and the financial statements of the group for the year ended 29 February 2008.

Principal activities

The principal activity of the group during the year was the operation and management of public houses and hotels.

The principal activity of the company was a holding company which does not trade.

Business review

The loss for the year amounted to £390,456 (2007: £1,297,096 profit as restated). The directors do not recommend the payment of a dividend.

The directors are satisfied with the performance during the year and expect to maintain the same level of performance in the year ahead. The directors are particularly pleased with the level of turnover despite the introduction of the smoking ban during the year.

Key performance indicators

The group monitors its performance by reviewing turnover and gross profit. Turnover has decreased by 0.5% and the gross profit percentage has increased by 1% during the year.

Principal risks and uncertainties

The management of the business and the nature of the company's strategy are subject to a number of risks. The directors have set out below the principal risks facing the business.

The directors are of the opinion that a thorough risk management process is adopted which involves the formal review of all the risks identified below. Where possible, processes are in place to monitor and mitigate such risks.

Economic downturn

The success of the business is reliant on consumer spending. An economic downturn, resulting in reduction of consumer spending power will have a direct impact on the income achieved by the group.

In response to this risk, senior management monitors the economic conditions. In cases of severe economic downturn, marketing and pricing strategies are modified to reflect the new market conditions.

Regulatory changes affecting the business

The industry in which the group operates is subject to regulation. Future changes in such regulation may impact the company's ability to generate income, either through decreased revenues, increased expenditure or a combination of both.

Management aim to mitigate such risks by ensuring that the both staff and customers are adequately informed of the impact of the new legislation.

Report of the directors

Principal risks and uncertainties (continued)

Competition

The market in which the group operates is highly competitive. As a result there is constant downwards pressure on margins and the additional risk of being unable to meet customer's expectations. Policies of constant price monitoring and ongoing market research are in place to mitigate such risks

People

The success of the group is largely dependant upon the recruitment and retention of our employees. There are training programmes and remuneration schemes in place to mitigate the risk of the absence of suitable staff resources.

Financial risk management objectives and policies

The group's principal financial instruments are cash at bank and bank borrowings. The company has various other financial instruments such as trade debtors and trade creditors which arise directly from its operations.

It is, and has been throughout the period under review, the company's policy that no trading in financial instruments should be undertaken. The main risks arising from the company's financial instruments are interest rate risk and liquidity risk.

Interest rate risk

The group does not hedge its exposure to the interest rate risk arising from the variable interest rates paid on bank borrowings.

Liquidity risk

The group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash safely and profitably.

Directors

The directors who held office during the year were as follows:

K Thornton
M L Butler
A B Chapman

Report of the directors

Directors' responsibilities

The directors are responsible for preparing the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice. Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and the group at the end of the year and of the profit or loss of the group for the year then ended.

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
- 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, for safeguarding the assets of the group and company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Donations

During the year, the group made the following contributions:

	2008	2007
	£	£
Charitable	=	<u>750</u>

Auditors

Grant Thornton UK LLP were appointed auditor to fill a casual vacancy in accordance with Section 388(1) of the Companies Act 1985.

A resolution to re-appoint Grant Thornton UK LLP as auditor for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

ON BEHALF OF THE BOARD

K Thornton
 Director

Date: 28 November 2008

Report of the independent auditors to the members of Mercury Inns Group Limited

We have audited the group and parent company financial statements (the "financial statements") of Mercury Inns Group Limited for the year ended 29 February 2008 which comprise the principal accounting policies, consolidated profit and loss account, consolidated statement of recognised gains and losses, the consolidated and company balance sheets, the consolidated cash flow statement and notes 1 to 29. 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 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' responsibilities for preparing the report of the directors and the financial statements in accordance with United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and 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 and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Report of the Directors is not consistent with the financial statements.

In addition, we report to you 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 Report of the Directors and consider the implications for our report if we become aware of any apparent misstatements within it.

Report of the independent auditors to the members of Mercury Inns Group Limited (continued)

Basis of 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 judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the group's and parent company's affairs as at 29 February 2008 and of the group's loss 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 Report of the Directors is consistent with the financial statements.



**GRANT THORNTON UK LLP
REGISTERED AUDITORS
CHARTERED ACCOUNTANTS
BIRMINGHAM**

11 December 2008

Principal accounting policies

Basis of accounting

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

Going concern

The directors have prepared profit and cash flow forecasts for the period ending 28 February 2010, which show small increases in income, assume no capital repayments of the bank loans in that period and an overdraft facility of £375,000.

On the basis of these key assumptions, the cash flow forecasts demonstrate that the group has sufficient finance facilities available to allow it to continue in business for a period of at least twelve months from the date of approval of these financial statements. Accordingly, the financial statements have been prepared on a going concern basis.

Basis of consolidation

The group financial statements consolidate those of the company and of its subsidiary undertakings (see note 11) drawn up to 29 February 2008. The acquisition method of accounting has been adopted. Under this method, the results of the subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Turnover

Turnover, which is stated net of value added tax and trade discounts, represents amounts sold to third parties. Revenue is recognised at the point at which the products or services are provided.

Goodwill

Goodwill is the difference between the fair value of consideration paid for an acquired entity and the aggregate of the fair value of that acquired entity's identifiable assets and liabilities.

Purchased goodwill has been capitalised and is amortised on a straight line basis over its expected useful economic life of twenty years. It is reviewed for impairment at the end of the first full financial year following its acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Negative goodwill is released to the profit and loss account in the periods in which the fair values of the non-monetary assets purchased are recovered.

Principal accounting policies (continued)

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Leasehold property and improvements -	straight line over the term of lease
Freehold property -	Land - Nil: Buildings - 2% on cost
Fixtures and fittings -	15 - 33% straight line
Motor vehicles -	25 - 33% straight line
Computer equipment -	20 - 33% straight line

Fixed asset investments

Fixed asset investments are stated at historical cost less provision for any diminution in value.

Stocks

Stocks are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving stocks. Net realisable value is based on selling price less anticipated costs to completion and selling costs.

Finance lease and hire purchase contracts

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have passed to the company, and hire purchase contracts, are capitalised in the balance sheet and are depreciated over their useful lives. The capital elements of future obligations under the leases and hire purchase contracts are included as liabilities in the balance sheet.

The interest elements of the rental obligations are charged in the profit and loss account over the periods of the finance leases and hire purchase contracts and represent a constant proportion of the balance of capital repayments outstanding.

Operating leases

Rentals payable under operating leases are charged in the profit and loss account on a straight line basis over the lease term.

Lease incentives are recognised on a straight line basis over the period of the lease.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax. Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

Principal accounting policies (continued)

Pensions

The company operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

Financial instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains or losses relating to financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity

Mercury Inns Group Limited
Financial statements for the year ended 29 February 2008

Consolidated profit and loss account

	Note	2008 £	2007 <i>Restated</i> £
Turnover	1		
Continuing operations		5,857,715	4,668,216
Acquisitions		-	1,219,573
		<u>5,857,715</u>	<u>5,887,789</u>
Cost of sales	2	(1,768,233)	(1,810,764)
Gross profit		<u>4,089,482</u>	<u>4,077,025</u>
Administrative expenses including operating exceptional costs of £66,000 (2007 : £529,221 credit)	2	(4,045,609)	(3,271,557)
Operating profit			
Continuing operations		43,873	830,978
Acquisitions		-	(25,510)
	3	<u>43,873</u>	<u>805,468</u>
Share of operating profit in associate		-	528,816
Profit on sale of fixed assets		-	392,528
Interest payable and similar charges	6	(434,329)	(382,716)
(Loss)/profit on ordinary activities before taxation		<u>(390,456)</u>	<u>1,344,096</u>
Tax on (loss)/profit on ordinary activities	7	-	(47,000)
(Loss)/profit for the financial year	20	<u>(390,456)</u>	<u>1,297,096</u>

All the activities of the group are classed as continuing.

The accompanying principal accounting policies and notes form part of these financial statements.

Consolidated statement of recognised gains and losses

	Note	2008 £	2007 £
(Loss)/profit for the financial year and total recognised gains and losses for the year		(390,456)	<u>1,297,006</u>
Prior period adjustments (note 29)		<u>1,259,041</u>	
Total recognised gains and losses since the last financial statements		<u>868,585</u>	

Mercury Inns Group Limited
Financial statements for the year ended 29 February 2008

Consolidated balance sheet

	Note	2008 £	2007 <i>Restated</i> £
Fixed assets			
Intangible assets	9	127,570	137,446
Tangible assets	10	5,697,210	5,798,335
		<u>5,824,780</u>	<u>5,935,781</u>
Current assets			
Stocks	12	97,365	115,467
Debtors	13	693,767	354,808
Cash at bank and in hand		12,648	334,084
		<u>803,780</u>	<u>804,359</u>
Creditors: amounts falling due within one year	14	(1,576,798)	(1,671,447)
Net current liabilities		<u>(773,018)</u>	<u>(867,088)</u>
Total assets less current liabilities		<u>5,051,762</u>	<u>5,068,693</u>
Creditors: amounts falling due after more than one year	15	(5,613,550)	(5,240,025)
Net liabilities		<u>(561,788)</u>	<u>(171,332)</u>
Capital and reserves			
Called-up equity share capital	19	158,708	158,708
Share premium account	20	677,740	677,740
Profit and loss account	20	(1,398,236)	(1,007,780)
Shareholders' deficit	21	<u>(561,788)</u>	<u>(171,332)</u>

These financial statements were approved by the directors on 28 November 2008 and are signed on their behalf by:


K Thornton
Director

The accompanying principal accounting policies and notes form part of these financial statements.

Mercury Inns Group Limited
Financial statements for the year ended 29 February 2008

Balance sheet

	Note	2008 £	2007 £
Fixed assets			
Investments	11	<u>3,569,331</u>	<u>3,569,331</u>
Debtors	13	<u>3,624,947</u>	<u>2,986,965</u>
Creditors: amounts falling due within one year	14	<u>(696,830)</u>	<u>(432,373)</u>
Net current assets		<u>2,928,117</u>	<u>2,554,592</u>
Total assets less current liabilities		<u>6,497,448</u>	<u>6,123,923</u>
Creditors: amounts falling after more than one year	15	<u>(5,613,550)</u>	<u>(5,240,025)</u>
		<u>883,898</u>	<u>883,898</u>
Capital and reserves			
Called up share capital	19	<u>158,708</u>	<u>158,708</u>
Share premium	20	<u>677,740</u>	<u>677,740</u>
Profit and loss account	20	<u>47,450</u>	<u>47,450</u>
		<u>883,898</u>	<u>883,898</u>

These financial statements were approved by the directors on 28 November 2008 and are signed on their behalf by:



K. Thornton
 Director

The accompanying principal accounting policies and notes form part of these financial statements.

Consolidated cash flow statement

	Note	2008 £	2007 <i>Restated</i> £
Cash (outflow)/inflow from operating activities	22	<u>(81,980)</u>	<u>356,541</u>
Returns on investments and servicing of finance			
Interest paid		(434,329)	(382,275)
Interest element of finance lease rental payments		-	(441)
		<u>(434,329)</u>	<u>(382,716)</u>
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(72,460)	(577,048)
Receipts from sales of tangible fixed assets		-	854,295
Investment in associate		-	9,677
		<u>(72,460)</u>	<u>286,924</u>
Taxation		<u>-</u>	<u>-</u>
Net cash (outflow)/inflow before financing		<u>(588,769)</u>	<u>260,749</u>
Financing			
Increase in loans and borrowings		585,000	5,279,000
Repayment of loans and borrowings		(12,500)	(4,266,307)
Issue of equity shares		-	(1,327,619)
Capital element of hire purchase payments		-	(814)
		<u>572,500</u>	<u>(315,740)</u>
Decrease in cash	23	<u>(16,269)</u>	<u>(54,991)</u>

The accompanying principal accounting policies and notes form part of these financial statements.

Mercury Inns Group Limited
Financial statements for the year ended 29 February 2008

Notes to the financial statements

1 Turnover

The turnover and (loss)/profit before tax are attributable to the one principal activity of the group.

An analysis of turnover is given below:

	2008 £	2007 £
United Kingdom	<u>5,857,715</u>	<u>5,887,789</u>

2 Analysis of costs of sales and administrative expenses

	Continuing operations £	Acquisitions £	Total £
Year ended 29 February 2008			
Turnover	5,857,715	-	5,857,715
Cost of sales	<u>1,768,233</u>	<u>-</u>	<u>1,768,233</u>
Administrative expenses	<u>4,045,609</u>	<u>-</u>	<u>4,045,609</u>
Year ended 28 February 2007			
Turnover	4,668,216	1,219,573	5,887,789
Cost of sales	<u>1,518,701</u>	<u>292,063</u>	<u>1,810,764</u>
Administrative expenses	<u>2,318,537</u>	<u>953,020</u>	<u>3,271,557</u>

	2008 £	2007 £
Administrative expenses		
Administrative expenses	3,979,609	3,800,778
Exceptional legal and professional costs	-	337,579
Exceptional lease incentive costs	66,000	63,000
Negative goodwill release	-	(882,350)
Surplus on settlement of loan notes	-	(47,450)
	<u>4,045,609</u>	<u>3,271,557</u>

Mercury Inns Group Limited
Financial statements for the year ended 29 February 2008

Notes to the financial statements (continued)

3 Operating profit

Operating profit is stated after charging:

	2008	2007
	£	£
Amortisation of goodwill	9,876	9,876
Depreciation - tangible fixed assets, owned	172,804	151,290
Depreciation - tangible fixed assets, held under finance leases and hire purchase contracts	781	2,532
Hire of plant and machinery	58,969	69,423
Other operating lease rentals:		
Land and buildings	195,615	110,607
Auditors' remuneration:		
Audit fees	13,500	13,500
Non audit fees	4,000	17,500

The parent company audit fees are borne by a subsidiary company.

4 Directors and employees

The average number of staff employed by the group during the financial year amounted to 199 (2007: 220).

The aggregate payroll costs of the above were:

	2008	2007
	£	£
Wages and salaries	2,081,776	2,050,549
Social security costs	125,618	123,789
Other pension costs	65,703	44,078
	<u>2,273,097</u>	<u>2,218,416</u>

5 Directors

Remuneration in respect of directors was as follows:

	2008	2007
	£	£
Emoluments receivable	247,465	259,516
Value of company pension contributions to money purchase schemes	29,324	23,199
	<u>276,789</u>	<u>282,715</u>

Emoluments of highest paid director:

	2008	2007
	£	£
Total emoluments (excluding pension contributions)	91,322	96,532
Value of company pension contributions to money purchase schemes	9,975	8,120
	<u>101,297</u>	<u>104,652</u>

Three (2007: three) directors are accruing benefits under company money purchase pension schemes.

Notes to the financial statements (continued)

6 Interest payable

	2008 £	2007 £
Interest payable on bank borrowings	434,329	382,275
Finance lease and hire purchase interest	-	441
	<u>434,329</u>	<u>382,716</u>

7 Tax on (loss)/profit on ordinary activities

a) Taxation

	2008 £	2007 £
Current tax:		
UK Corporation tax based on the results for the year at 30% (2007: 30%)	-	-
Total current tax	-	-
Deferred tax:		
Reduction in deferred tax asset	-	47,000
Tax on profit on ordinary activities	-	47,000

b) Factors affecting current tax charge

The tax assessed on the (loss) / profit on ordinary activities for the year is different to the standard rate of corporation tax in the UK of 30% (2007: 19%). The differences are explained as follows:

	2008 £	2007 £
(Loss)/profit on ordinary activities before taxation	<u>(390,456)</u>	<u>1,344,096</u>
(Loss)/profit on ordinary activities multiplied by the standard rate of tax	(117,137)	403,229
Expenses not deductible for tax purposes	10,964	2,401
Depreciation for the period in excess of capital allowances	41,373	(44,577)
Income not taxable	-	(423,350)
Tax losses utilised	-	(106,718)
Tax losses carried forward	64,800	169,015
Total current tax	-	-

The group has unrelieved tax losses carried forward of £1,854,000 (2007: £1,638,000) available to offset against future taxable trading profits.

8 Profit for the financial year

The parent company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The parent company's profit for the year was £nil (2007: £47,450).

Mercury Inns Group Limited
Financial statements for the year ended 29 February 2008

Notes to the financial statements (continued)

9 Intangible fixed assets

The group

	Goodwill £	Negative goodwill £	Total £
Cost			
At 1 March 2007 as previously stated	199,621	(1,322,041)	(1,122,420)
Prior period adjustment (note 29)	-	439,691	439,691
At 1 March 2007 as restated and 29 February 2008	<u>199,621</u>	<u>(882,350)</u>	<u>(682,729)</u>
Amortisation			
At 1 March 2007 as previously stated	62,175	-	62,175
Prior period adjustment (note 29)	-	(822,350)	(882,350)
At 1 March 2007 as restated	<u>62,175</u>	<u>(882,350)</u>	<u>(820,175)</u>
Charge for the year	9,876	-	9,876
At 29 February 2008	<u>72,051</u>	<u>(882,350)</u>	<u>(810,299)</u>
Net book value			
At 29 February 2008	<u>127,570</u>	<u>-</u>	<u>127,570</u>
At 28 February 2007	<u>137,446</u>	<u>-</u>	<u>137,446</u>

10 Tangible fixed assets

The group	Leasehold improvements £	Land and buildings £	Fixtures and fittings £	Computer equipment £	Total £
Cost					
At 1 March 2007	-	5,178,979	1,055,669	86,226	6,320,874
Additions	-	-	72,460	-	72,460
Re-classification	311,583	(64,996)	(246,587)	-	-
At 29 February 2008	<u>311,583</u>	<u>5,113,983</u>	<u>881,542</u>	<u>86,226</u>	<u>6,393,334</u>
Depreciation					
At 1 March 2007	-	48,143	388,951	85,445	522,539
Charge for the year	14,219	13,138	145,447	781	173,585
Re-classification	-	3,434	(3,434)	-	-
At 29 February 2008	<u>14,219</u>	<u>64,715</u>	<u>530,964</u>	<u>86,226</u>	<u>696,124</u>
Net book value					
At 29 February 2008	<u>297,364</u>	<u>5,049,268</u>	<u>350,578</u>	<u>-</u>	<u>5,697,210</u>
At 28 February 2007	<u>-</u>	<u>5,130,836</u>	<u>666,718</u>	<u>781</u>	<u>5,798,335</u>

Mercury Inns Group Limited
Financial statements for the year ended 29 February 2008

Notes to the financial statements (continued)

10 Tangible fixed assets (continued)

Land and buildings

The net book value of land and buildings includes:

	2008 £	2007 £
Freehold	4,959,313	5,040,043
Short leasehold	89,955	90,793
	<u>5,049,268</u>	<u>5,130,836</u>

Included in the cost of land and buildings is freehold land of £1,204,453 (2007: £1,204,453) which is not depreciated.

Finance leases and hire purchase agreements

Included within the net book value of £5,697,210 is £nil (2007: £781) relating to assets held under finance leases and hire purchase agreements. The depreciation charged to the accounts in the year in respect of such assets amounted to £781 (2007: £2,532).

11 Investments

Company

	2008 £	2007 £
Investments in subsidiary companies	2,141,712	2,141,712
Group loans	1,427,619	1,427,619
	<u>3,569,331</u>	<u>3,569,331</u>

Additional information is as follows:

	Subsidiary undertakings £
The company	
Cost and net book value at 1 March 2007 and 29 February 2008	<u>2,141,712</u>

Details of the investments which comprise the group and all of which are registered in England and Wales are as follows:

Subsidiary undertakings	Class of share capital held	Proportion held	Nature of business
Mercury Inns	Ordinary £1 shares	100%	Operation of public houses
Mercury Management (UK) Limited	Ordinary £1 shares	100%	Management of public houses and hotels
GW1016 Limited	Ordinary £0.01 shares	100%	Operation and management of a hotel

Notes to the financial statements (continued)

12 Stocks

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Goods for resale	<u>97,365</u>	<u>115,467</u>	<u>-</u>	<u>-</u>

13 Debtors

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Trade debtors	118,654	210,152	-	-
Amounts owed by group undertakings	-	-	3,624,947	2,986,965
Amounts owed by related undertakings (note 28)	407,807	-	-	-
Prepayments and accrued income	167,065	134,384	-	-
Other debtors	241	10,272	-	-
	<u>693,767</u>	<u>354,808</u>	<u>3,624,947</u>	<u>2,986,965</u>

Included in the above figures are the following amounts which are due after more than one year.

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Amounts owed by group undertakings	-	-	3,624,947	1,802,407
Amounts owed by related undertakings	407,807	-	-	-
	<u>407,807</u>	<u>-</u>	<u>3,624,947</u>	<u>1,802,407</u>

14 Creditors: amounts falling due within one year

	Group		Company	
	2008	2007	2008	2007
	£	<i>Restated</i> £	£	£
Bank loans and overdraft	596,718	702,910	665,758	415,242
Trade creditors	310,037	399,627	-	-
Other taxation and social security	253,378	129,266	25,719	16,950
Other creditors	125,640	108,529	5,353	181
Accruals and deferred income	291,025	331,115	-	-
	<u>1,576,798</u>	<u>1,671,447</u>	<u>696,830</u>	<u>432,373</u>

The bank loans and overdraft are secured by a fixed and floating charge over all the assets of the group.

Notes to the financial statements (continued)

15 Creditors: amounts falling due after more than one year

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
Preference shares (note 19)	10,000	10,000	10,000	10,000
Bank loans	5,503,550	5,130,025	5,503,550	5,130,025
Loan notes	100,000	100,000	100,000	100,000
	<u>5,613,550</u>	<u>5,240,025</u>	<u>5,613,550</u>	<u>5,240,025</u>

£5,514,000 of the bank loans is repayable by sixty equal quarterly instalments of £74,488 commencing eighteen months from the date of drawdown, and a final instalment of £1,489,750 on the fifteenth anniversary of the date of drawdown. These repayments have been suspended and are due to resume during the coming year. Interest on the bank loan is charged at a margin of 2% plus LIBOR plus a percentage per annum determined by the bank to represent the supervisory and regulatory costs incurred attributable to the facility.

The remaining £337,500 loan is repayable in equal quarterly instalments of £12,500. Interest is charged on this loan at a margin of 1.75% plus base rate. The margin reduces to 1.5% plus base rate from 1 April 2008.

The loan notes are repayable at the option of the company unless the company or any of its subsidiary companies is placed in administration or receivership. If this occurs, the loan notes immediately become fully repayable. They are unsecured and do not attract interest.

Maturity of borrowings

Bank loans and overdrafts

	Group		Company	
	2008	2007	2008	2007
	£	£	£	£
In one year or less on demand	596,718	702,910	665,758	415,242
Between one and two years	347,950	297,950	347,950	297,950
Between two and five years	1,043,850	893,850	1,043,850	893,850
After more than five years by instalments	4,111,750	3,938,225	4,111,750	3,938,225
	<u>6,100,268</u>	<u>5,832,935</u>	<u>6,169,308</u>	<u>5,545,267</u>

Loan notes

After more than five years not by instalments	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>	<u>100,000</u>
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Preference shares

After more than five years not by instalments	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>	<u>10,000</u>
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Mercury Inns Group Limited
Financial statements for the year ended 29 February 2008

Notes to the financial statements (continued)

16 Borrowing

The group	2008 £	2007 £
Within one year		
Bank loans and overdraft	596,718	702,910
After one and within two years		
Bank loans	347,950	297,950
In more than two years but not more than five years		
Bank loans	1,043,850	893,850
In more than five years		
Bank loans	4,111,750	3,938,225
Loan notes	100,000	100,000
Preference shares	10,000	10,000
	<u>6,210,268</u>	<u>5,942,935</u>

17 Deferred taxation

Deferred taxation provided for in the financial statements is set out below:

	Group		Company	
	2008 £	2007 £	2008 £	2007 £
Accelerated capital allowances	-	-	-	-
Tax losses carried forward	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

A deferred tax asset has not been recognised on the trading losses carried forward at 29 February 2008. The potential asset not recognised at 29 February 2008 is £501,000 (2007: £592,500).

18 Commitments under operating leases

At 29 February 2008 the group had annual commitments under non-cancellable operating leases as set out below.

	2008 Land and buildings £	2007 Land and buildings £
Operating leases which expire:		
Within 1 year	9,750	9,750
Within 2 to 5 years	279,500	146,000
	<u>289,250</u>	<u>155,750</u>

Mercury Inns Group Limited
Financial statements for the year ended 29 February 2008

Notes to the financial statements (continued)

19 Share capital

Authorised share capital	2008	2007
	£	£
Equity		
141,672 ordinary shares of £1 each	141,672	141,672
41,980 'A' ordinary shares of 1p each	420	420
166,155 'B' ordinary shares of 10p each	16,616	16,616
	<u>158,708</u>	<u>158,708</u>
Non-equity		
10,000 preference shares of £1 each	10,000	10,000
	<u>10,000</u>	<u>10,000</u>
Allotted, called up and fully paid	2008	2007
	£	£
Equity		
141,672 ordinary shares of £1 each	141,672	141,672
41,980 'A' ordinary shares of 1p each	420	420
166,155 'B' ordinary shares of 10p each	16,616	16,616
	<u>158,708</u>	<u>158,708</u>
Non-equity		
10,000 Preference shares of £1 each	10,000	10,000
	<u>10,000</u>	<u>10,000</u>

The ordinary, 'A' ordinary and 'B' ordinary share have equal voting rights. The preference shares hold no voting rights but entitle the shareholder to a cumulative net cash dividend of 14.5p per share per annum, in priority to the holder of any other class of shares. Due to this contractual obligation on the company, the preference shares have been treated as debt. The arrears in dividends at 29 February 2008 was £8,684 (2007: £7,234).

20 Reserves

The group	Share Premium account £	Profit and loss account <i>Restated</i> £
At 1 March 2007 as previously stated	677,740	(2,266,821)
Prior period adjustment (note 29)	-	(1,259,041)
At 1 March 2007 as restated	677,740	(1,007,780)
Loss for the financial year	-	(390,456)
At 29 February 2008	<u>677,740</u>	<u>(1,398,236)</u>
 The company	 Share Premium account £	 Profit and Loss account £
At 1 March 2007 and 29 February 2008	<u>677,740</u>	<u>47,450</u>

Notes to the financial statements (continued)

21 Reconciliation of movements in shareholders' funds

The group	2008	2007
	£	<i>Restated</i> £
(Loss)/profit for the financial year	(390,456)	1,297,096
Reduction in share capital	-	(10,000)
Net (reduction)/addition to shareholder's funds	(390,456)	1,287,096
Opening shareholders' funds as previously stated	(1,430,373)	(1,458,428)
Prior period adjustment (note 29)	1,259,041	-
Closing shareholders' funds	(561,788)	(171,332)

22 Reconciliation of operating profit to net cash (outflow)/inflow from operating activities

	2008	2007
	£	<i>Restated</i> £
Operating profit	109,873	(61,332)
Depreciation and amortisation charges	183,461	163,698
Release of negative goodwill	-	(882,350)
Surplus on settlement of loan notes	-	(47,450)
Decrease/(increase) in stocks	18,102	(29,382)
(Increase)/decrease in debtors	(338,959)	227,559
(Decrease)/increase in creditors	(11,543)	118,998
Net cash (outflow)/inflow from operating activities	(81,980)	356,541

23 Reconciliation of net debt

	2008	2007
	£	£
Decrease in cash in year	(16,269)	(54,991)
Cash (inflow)/outflow from debt and lease financing	(572,500)	315,740
Change in net debt resulting from cash flows	(588,769)	260,749
Reclassification of preference share capital as debt	-	(10,000)
Acquisition of loan in associate	-	(1,327,619)
New loan notes issued	-	(100,000)
Surplus on settlement of loan notes	-	47,450
Movement in net debt in the year	(588,769)	(1,129,420)
Net debt at 28 February 2007	(5,608,851)	(4,479,431)
Net debt at 29 February 2008	(6,197,620)	(5,608,851)

Notes to the financial statements (continued)

24 Analysis of net debt

	At 1 March 2007	Cash flow	Non cash movements	At 29 February 2008
	£	£	£	£
Cash at bank and in hand	334,084	(321,436)	-	12,648
Overdraft	(553,935)	305,167	-	(248,768)
	(219,851)	(16,269)	-	(236,120)
Bank loans due within one year	(148,975)	-	148,975	-
Bank loans due after one year	(5,240,025)	(572,500)	(148,975)	(5,961,500)
Change in debt	(5,389,000)	(572,500)	-	(5,961,500)
Net debt	(5,608,851)	(588,769)	-	(6,197,620)

25 Contingent liabilities

The company has given an unlimited guarantee against the bank borrowings of other group companies. The borrowings of these companies at 29 February 2008 are included in the consolidated borrowings detailed in note 16. The company has also given a second legal charge against the liabilities of The Meynall Pub Company Limited to a supplier.

26 Capital commitments

There were no capital commitments as at 29 February 2008 or 28 February 2007.

27 Pension schemes

Defined contribution pension scheme

The group operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the group to the scheme and amounted to £65,703 (2007: £44,078).

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

28 Related party transactions

Controlling entity

The company was controlled throughout the current and previous period by the directors by virtue of them holding the entire issued ordinary share capital of the company.

Related party transactions

The group advanced funds to The Meynall Pub Company Limited during the year. Both companies are controlled by K Thornton, M L Butler and A B Chapman. The amount due from the Meynall Pub Company Limited at 29 February 2008 was £407,807 (2007: £nil).

Notes to the financial statements (continued)

29 Prior period adjustment

Summary

An adjustment has been made in respect of the prior year to correct accounting errors in relation to the recognition of lease incentives and the treatment of the acquisition of loans and the remaining 60% of the share capital in GW1016 Limited previously treated as an associate.

The prior period adjustment can be analysed as follows:

	£
Lease incentives	63,000
Share of operating profits in associate	(528,816)
Negative goodwill release	(882,350)
Adjustment on acquisition of subsidiary posted to reserves	89,125
	<u>1,259,041</u>

As a consequence of these revisions, the comparative figures have been restated. The impact of these changes is to reduce administration expenses by £819,350 and to increase the share of profits in associates by £528,816.

The impact on the balance sheet is to reduce negative goodwill by £1,322,041 and to increase accruals by £63,000

Lease incentives

Lease incentives on one property had not been properly accounted for in accordance with UITF28 and, therefore, an adjustment to spread the incentives over the life of the lease has been made.

Notes to the financial statements (continued)

Acquisition of GW1016 Limited

On 7 April 2006 the company was assigned the loan stock in GW1016 Limited for £1,427,619 and the company then acquired the remaining 60% of the share capital of GW1016 Limited for £1. The group's share of the write down in GW1016 Limited of the loan stock to £1,427,619 had not been recognised by the group, which amounted to £528,816. Once this loan stock had been written down to its fair value it created net assets, after deducting the joint venture profits previously recognised, in GW1016 Limited of £882,351 which were acquired for £1. The negative goodwill arising has been immediately released to the profit and loss account on the grounds that it relates primarily to the remaining 60% of the write down in the loan stock, which became an inter-group debt.

	Book value £	Adjustment £	Fair value to the group £
Fixed assets	3,734,468	-	3,734,468
Stock	20,234	-	20,234
Debtors	137,297	-	137,297
Cash	9,678	-	9,678
Creditors	(97,331)	-	(97,331)
Loan stock	(2,827,501)	1,322,041	(1,505,460)
	(23,155)	1,322,041	1,298,886
Less share of losses accounted for in prior years	23,156	(439,691)	(416,535)
Fair value of net assets acquired as restated	1	882,350	882,351
Consideration	1		1
Negative goodwill arising	-		882,350