

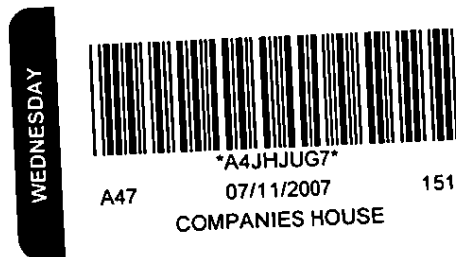
4636778

**Herald Inns and Bars Limited**

Report and Financial Statements

Year Ended

31 March 2007



**BDO Stoy Hayward**  
Chartered Accountants

# **HERALD INNS AND BARS LIMITED**

**Annual report and financial statements for the year ended 31 March 2007**

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## **Directors**

C J Hemmings  
M L Widders

## **Secretary and registered office**

M L Widders  
Levens House  
Ackhurst Business Park  
Chorley  
Lancashire PR7 1NY

## **Company number**

4636778

## **Auditors**

BDO Stoy Hayward LLP,  
Commercial Buildings,  
11-15 Cross Street,  
Manchester, M2 1WE

## **HERALD INNS AND BARS LIMITED**

### **Report of the directors for the year ended 31 March 2007**

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The directors present their report together with the audited financial statements for the year ended 31 March 2007

#### **Results and dividends**

The profit and loss account is set out on page 6 and shows the loss for the year

The directors do not recommend the payment of a dividend

#### **Principal activities**

The principal activity of the company is the operation of a chain of late night bars and public houses

#### **Business review**

Trading during the year has been challenging, mirroring the difficulties experienced by the industry generally

The focus for the forthcoming year is to continue to refurbish the estate, improve profitability and reduce costs

The principal uncertainty associated with the company's business is the level of admission to the company's trading units and their liquor spend. The directors believe that this can present either a risk or an opportunity to the business

The directors monitor performance through the production of a detailed annual budget, then comparing performance against this budget. This will be revisited throughout the year to identify deviations and enable remedial actions to be identified if necessary

Additionally the directors monitor key performance indicators to ensure they are within acceptable parameters, these include

- Admission numbers and liquor spend at each trading unit
- Gross profit percentage return on sales
- Operating profit return on sales
- Levels of spend on administration costs
- Cash generated from operating activities

The company is financed by bank loans and overdrafts and intercompany loans. In addition, the company enters into debtor and creditor arrangements with third parties, under normal commercial terms, as part of its operating activities. Please refer to the notes supporting the financial statements for further commentary on these financial instruments

## **HERALD INNS AND BARS LIMITED**

### **Report of the directors for the year ended 31 March 2007 (*Continued*)**

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#### **Directors**

The directors of the company during the year were

C J Hemmings

M L Widders

B M King (resigned 25 May 2007)

None of the directors who held office at the end of the financial period had any disclosable interest in the shares of the company or its immediate and ultimate parent undertaking

According to the register of directors' interest, no rights to subscribe for shares in or debentures of the company or its immediate and ultimate parent undertaking were granted to any of the directors or their immediate families, or exercised by them, during the financial year

#### **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 their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be comparable with that of other employees.

The company places considerable value on the involvement of its employees and has continued its previous practice of keeping them informed on matters affecting them as employees. 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.

#### **Political and charitable contributions**

The company made no political or charitable contributions during the year.

#### **Directors' responsibilities**

The directors are responsible for preparing the annual report and 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 period which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statement, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

**HERALD INNS AND BARS LIMITED**

**Report of the directors for the year ended 31 March 2007 *(Continued)***

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**Auditors**

All of the current directors have taken all the steps that they ought to have taken to make themselves aware of any information needed by the company's auditors for the purposes of their audit and to establish that the auditors are aware of that information. The directors are not aware of any relevant audit information of which the auditors are unaware.

BDO Stoy Hayward LLP have expressed their willingness to continue in office and a resolution to re-appoint them will be proposed at the annual general meeting.

**On behalf of the Board**



**M.L. Widders  
Director**

Date 14 September 2007

## **HERALD INNS AND BARS LIMITED**

### **Report of the independent auditors**

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#### **To the shareholders of Herald Inns and Bars Limited**

We have audited the financial statements of Herald Inns and Bars Limited for the year ended 31 March 2007 which comprise the profit and loss account, the balance sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

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

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985 and whether the information given in the Directors' Report is consistent with those 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 consider the implications for our report if we become aware of any apparent misstatements within it.

Our report has been prepared pursuant to the requirements of the Companies Act 1985 and for no other purpose. No person is entitled to rely on this report unless such a person is a person entitled to rely upon this report by virtue of and for the purpose of the Companies Act 1985 or has been expressly authorised to do so by our prior written consent. Save as above, we do not accept responsibility for this report to any other person or for any other purpose and we hereby expressly disclaim any and all such liability.

#### **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 company's circumstances, consistently applied and adequately disclosed.

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

## HERALD INNS AND BARS LIMITED

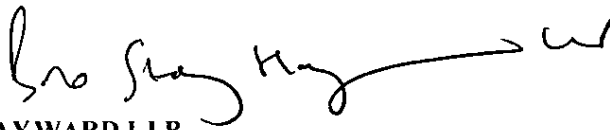
### Report of the independent auditors (*Continued*)

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#### 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 company's affairs as at 31 March 2007 and of its 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 Directors' Report is consistent with the financial statements



**BDO STOY HAYWARD LLP**  
*Chartered Accountants*  
*and Registered Auditors*  
Manchester

Date 18 September 2007

**HERALD INNS AND BARS LIMITED****Profit and loss account for the year ended 31 March 2007**

	Note	2007 £'000	2006 £'000
Turnover	2	37,453	39,416
Cost of sales		18,523	19,573
<b>Gross profit</b>		18,930	19,843
Administrative expenses (including exceptional fixed asset impairment charges of £5 89m)	3	30,275	23,904
<b>Operating loss</b>	3	(11,345)	(4,061)
Earnings before interest, tax and charges against fixed assets		(450)	265
Profit/(loss) on disposal of fixed assets		9	(378)
Interest payable and similar charges	6	(3,184)	(2,923)
<b>Loss on ordinary activities before taxation</b>		(14,520)	(7,362)
Taxation on losses from ordinary activities	7	1,992	-
<b>Loss for the financial year</b>		(12,528)	(7,362)

All amounts relate to continuing activities

All recognised gains and losses are included in the above statement

The notes on pages 8 to 16 form part of these financial statements



# **HERALD INNS AND BARS LIMITED**

## **Balance sheet at 31 March 2007**

	Note	2007 £'000	2007 £'000	2006 £'000	2006 £'000
<b>Fixed assets</b>					
Intangible assets	8		23,961		31,245
Tangible assets	9		31,616		34,381
Investments	10		2,397		2,397
			<u>57,974</u>		<u>68,023</u>
<b>Current assets</b>					
Stocks	11	342		486	
Debtors	12	5,186		4,946	
Cash at bank and in hand		142		225	
		<u>5,670</u>		<u>5,657</u>	
<b>Creditors: amounts falling due within one year</b>	13	<u>22,865</u>		<u>18,931</u>	
<b>Net current liabilities</b>			(17,195)		(13,274)
<b>Total assets less current liabilities</b>			<u>40,779</u>		<u>54,749</u>
<b>Creditors: amounts falling due after more than one year</b>	14		67,772		69,214
			<u>(26,993)</u>		<u>(14,465)</u>
<b>Capital and reserves</b>					
Called up share capital	15		-		-
Profit and loss account			(26,993)		(14,465)
<b>Shareholders' deficit</b>	16		<u>(26,993)</u>		<u>(14,465)</u>

The financial statements were approved by the Board and authorised for issue on 14 September 2007



**M.L. Widders**  
Director

The notes on pages 8 to 16 form part of these financial statements

## HERALD INNS AND BARS LIMITED

### Notes forming part of the financial statements for the year ended 31 March 2007

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#### 1 Accounting policies

The financial statements have been prepared under the historical cost convention, and are in accordance with applicable accounting standards. The following principal accounting policies have been applied.

##### *Consolidated financial statements*

The company is exempt under Section 228 of the Companies Act 1985 for the requirement to prepare consolidated financial statements as it and its subsidiary undertaking are included by full consolidation in the consolidated financial statements of its parent. These financial statements therefore present information about the company as an individual undertaking and not about its group.

##### *Cash flow statement*

The company has taken advantage of the exemption conferred by Financial Reporting Standard 1 '(Cash Flow Statement [Revised 1996])' not to prepare a cash flow statement on the grounds that at least 90% of the voting rights in the company are controlled within the group headed by Herald Houses Limited and the company is included in the consolidated financial statements.

##### *Turnover*

Turnover represents sales to outside customers at invoiced amounts less value added tax.

##### *Depreciation*

Depreciation is provided to write off the cost or valuation, less estimated residual values, of all fixed assets, except freehold land, evenly over their expected useful economic lives. It is calculated at the following rates:

Freehold property	- 2% per annum
Leasehold property	- over the term of the lease
Fixtures and fittings	- straight line over 4-10 years

##### *Goodwill*

Goodwill arising on an acquisition of a business is the difference between the fair value of the consideration paid and the fair value of the assets and liabilities acquired. It is capitalised and amortised through the profit and loss account over the directors' estimate of its useful economic life. Impairment tests on the carrying value of goodwill are undertaken:

- at the end of the first full financial year following acquisition,
- in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

##### *Valuation of investments*

Investments held as fixed assets are stated at cost less provision for any impairment in value.

##### *Stocks*

Stocks are valued at the lower of cost and net realisable value. Cost is based on the cost of purchase on a first in, first out basis. Net realisable value is based on estimated selling price less additional costs to completion and disposal.

## HERALD INNS AND BARS LIMITED

Notes forming part of the financial statements for the year ended 31 March 2007 (*Continued*)

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### 1 Accounting policies (*continued*)

#### *Deferred taxation*

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date except that the recognition of deferred tax assets is limited to the extent that the company anticipates to make sufficient taxable profit in the future to absorb the reversal of the underlying timing differences

Deferred tax balances are not discounted

#### *Pension costs*

Contributions to the company's defined contribution pension scheme are charged to the profit and loss account in the year they become payable. The assets of the scheme are held separately in an independently administered fund

#### *Leased assets*

Where assets are financed by leasing agreements that give rights approximating to ownership ('finance leases'), the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding leasing commitments are shown as amounts payable to the lessor. Depreciation on the relevant assets is charged to the profit and loss account

Lease payments are analysed between capital and interest components so that the interest element of the payment is charged to the profit and loss account over the period of the lease and represents a constant proportion of the balance of capital repayments outstanding. The capital part reduces the amounts payable to the lessor

All other leases are treated as operating leases. Their annual rentals are charged to the profit and loss account on a straight-line basis over the term of the lease

Reverse premiums and similar incentives to enter into operating lease agreements are initially recorded as deferred income and released to the profit and loss account over the period to the date on which the rent is first expected to be adjusted to the prevailing market rate

#### *Basis of preparation*

The balance sheet shows net liabilities of £26,993k (2006 £14,465k). The company meets its day to day working capital requirements through funds made available by the company's bankers. The bank have indicated its present intention to provide the support necessary for the company to continue in operational existence and this support covers a period of at least 12 months from the date of approval of the financial statements. Furthermore, the directors anticipate that the ongoing capital expenditure programme will improve the trading results and cashflows of the company in future years. For these reasons, the directors continue to prepare the financial statements on the going concern basis

### 2 Turnover

Turnover is wholly attributable to the principal activity of the company and arises solely within the United Kingdom

## HERALD INNS AND BARS LIMITED

Notes forming part of the financial statements for the year ended 31 March 2007 (Continued)

### 3 Operating loss

	2007 £'000	2006 £'000
This has been arrived at after charging		
Auditors' remuneration		
- audit services	38	38
- non audit services	-	17
Depreciation written off		
owned tangible fixed assets	3,196	2,815
Exceptional impairment charge		
- intangible assets (note 8)	5,475	-
- tangible assets (note 9)	415	-
Amortisation of goodwill	1,809	1,889
Operating leases - land and buildings	4,031	3,505

### 4 Staff numbers and costs

The average monthly number of employees, including directors, was 1,123 (2006 – 1,227)

The aggregate payroll costs of these persons were as follows

	2007 £'000	2006 £'000
Wages and salaries	8,425	9,265
Social security costs	556	633
Other pension costs	18	27
	8,999	9,925

### 5 Remuneration of directors

None of the directors received any remuneration from the company during the year or in the previous period

### 6 Interest payable and similar charges

	2007 £'000	2006 £'000
On bank loans and overdrafts	3,184	2,923
	3,184	2,923

## HERALD INNS AND BARS LIMITED

Notes forming part of the financial statements for the year ended 31 March 2007 (Continued)

### 7 Taxation

	2007 £'000	2006 £'000
UK Corporation tax		
Current tax on loss for the period	(1,992)	-
The tax assessed for the year is different from the standard rate of corporation tax in the UK. The differences are explained below		
	2007 £'000	2006 £'000
Loss on ordinary activities before tax	(14,520)	(7,362)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 30%	(4,356)	(2,209)
Effect of		
Expenses not deductible for tax purposes – fixed assets	635	651
Expenses not deductible for tax purposes	1	17
Group relief surrender	3,985	-
Amount receivable for group relief surrender	(1,992)	
Depreciation in excess of capital allowances	(418)	431
Unrelieved tax losses & other deductions	151	1,082
Other short term timing differences	2	28
Current tax (credit)/charge for the year	(1,992)	-

The company has capital losses carried forward of £532k (2006 £532k)

At 31 March 2007 the company has a deferred tax asset of £3,073k (2006 £3,337k) which has not been recognised in the accounts. The asset will be recoverable against future trading taxable profits of the company.

## HERALD INNS AND BARS LIMITED

Notes forming part of the financial statements for the year ended 31 March 2007 (*Continued*)

### 8 Intangible assets

	Purchased goodwill £'000
<i>Cost</i>	
At 1 April 2006	36,256
Additions	-
At 31 March 2007	<u>36,256</u>
<i>Amortisation</i>	
At 1 April 2006	5,011
Charge for year	1,809
Impairment charge	5,475
At 31 March 2007	<u>12,295</u>
<i>Net book value</i>	
At 31 March 2007	<u>23,961</u>
At 31 March 2006	<u>31,245</u>

All goodwill is being amortised over 20 years as the directors believe the company will continue to derive economic benefit from the brand names and trade acquired in the acquisitions over that period

# **HERALD INNS AND BARS LIMITED**

Notes forming part of the financial statements for the year ended 31 March 2007 (*Continued*)

## **9 Tangible assets**

	Freehold land and buildings £'000	Leasehold land and buildings £'000	Fixtures and fittings £'000	Total £'000
<i>Cost</i>				
At 1 April 2006	6,951	19,518	15,469	41,938
Additions	-	-	892	892
Disposals	-	(23)	(40)	(63)
At 31 March 2007	6,951	19,495	16,321	42,767
<i>Depreciation</i>				
At 1 April 2006	276	3,529	3,752	7,557
Charge for the year	139	1,186	1,871	3,196
Impairment charge		98	317	415
Disposals	-	(11)	(6)	(17)
At 31 March 2007	415	4,802	5,934	11,151
<i>Net book value</i>				
At 31 March 2007	6,536	14,693	10,387	31,616
At 31 March 2006	6,675	15,989	11,717	34,381

## **10 Investments**

	Subsidiary undertakings £'000
<i>Cost</i>	
At 1 April 2006 and 31 March 2007	2,397
<i>Net book value</i>	
At 1 April 2006 and 31 March 2007	2,397

The investment relates to the company's investment in its 100% owned dormant subsidiary, Bakersfield Entertainment Limited, a company incorporated in the United Kingdom

## **11 Stocks**

	2007 £'000	2006 £'000
Goods for resale	342	486

There is no material difference between the replacement cost of stocks and the amount stated above

# **HERALD INNS AND BARS LIMITED**

Notes forming part of the financial statements for the year ended 31 March 2007 *(Continued)*

## **12 Debtors**

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Trade debtors	301	369
Other debtors	1,614	3,294
Amounts due from related parties	1,992	-
Prepayments and accrued income	1,279	1,283
	<u>5,186</u>	<u>4,946</u>

All debtors fall due within one year

## **13 Creditors: amounts falling due within one year**

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Bank loans and overdrafts (secured)	13,060	9,987
Trade creditors	2,338	2,113
Taxation and social security	600	189
Other creditors	995	1,893
Amounts owed to group undertakings	2,603	2,777
Accruals and deferred income	2,444	1,972
Provision for liabilities and charges	825	-
	<u>22,865</u>	<u>18,931</u>

## **14 Creditors: amounts falling due after more than one year**

	<b>2007</b>	<b>2006</b>
	<b>£'000</b>	<b>£'000</b>
Loan notes	10,000	10,000
Bank loans (secured)	45,772	47,214
Amounts owed to group undertakings	12,000	12,000
	<u>67,772</u>	<u>69,214</u>

	<b>Loan notes</b>	<b>Bank loans and overdrafts</b>	<b>Amounts owed to group undertaking</b>
	<b>2007</b>	<b>2007</b>	<b>2007</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Maturity of debt			
Due within one year	-	13,060	2,603
Due between one and two years	-	-	12,000
Due between two and five years	-	45,772	-
Due in more than 5 years	10,000	-	-
	<u>10,000</u>	<u>58,832</u>	<u>14,603</u>



# **HERALD INNS AND BARS LIMITED**

Notes forming part of the financial statements for the year ended 31 March 2007 *(Continued)*

## **14 Creditors, amounts falling due after more than one year *(continued)***

	Loan notes	Bank loans	Amounts owed to group undertaking
	2006	2006	2006
	£'000	£'000	£'000
Due within one year	-	9,987	2,777
Due between one and two years	-	5,624	12,000
Due between two and five years	-	41,590	-
Due in more than 5 years	10,000	-	-
	<u>10,000</u>	<u>57,201</u>	<u>14,777</u>

The loan notes attract an interest rate of LIBOR + 1% from 1 April 2007. The LIBOR element of the interest is payable quarterly in arrears and the margin element of the interest is accrued and payable on the redemption of the loan notes. The loan notes may be redeemed by the company at any time prior to the redemption date in tranches of 500,000 notes. The holders of the loan notes may redeem the notes at any time after the redemption date in tranches of 500,000 notes. The redemption date is 31 March 2011.

The bank loan is repayable in variable quarterly amounts over the next 5 years and was due to commence on 30 June 2006. However, the bank have since notified the company that it will not seek any repayments prior to 31 March 2008. Interest is payable in arrears on a monthly, bi-monthly, quarterly or semi-annual basis at either a rate tied to LIBOR or the Bank of Scotland base rate.

The loans and overdrafts of the company are secured by way of a legal charge over the assets of the company.

## **15 Share capital**

	Authorised	Allotted, called up and fully paid	Authorised	Allotted, called up and fully paid
	2007	2007	2006	2006
	£	£	£	£
Ordinary shares of £1 each	1,000	1	1,000	1

## **16 Reconciliation of movements in shareholders' funds**

	2007 £'000	2006 £'000
Opening shareholders' deficit	(14,465)	(7,103)
Loss for the financial period	(12,528)	(7,362)
Closing shareholders' deficit	<u>(26,993)</u>	<u>(14,465)</u>

## HERALD INNS AND BARS LIMITED

Notes forming part of the financial statements for the year ended 31 March 2007 (*Continued*)

### 17 Commitments

There were no capital commitments at the end of the financial year

### 18 Commitments under operating leases

The company had annual commitments under non-cancellable operating leases as set out below

	31 March 2007 Land and buildings £'000	31 March 2007 Other £'000	31 March 2006 Land and buildings £'000	31 March 2006 Other £'000
Operating leases which expire				
Within one year	12	-	-	-
In two to five years	48	41	159	44
In more than five years	3,698	-	3,523	-
	<u>3,758</u>	<u>41</u>	<u>3,682</u>	<u>44</u>

### 19 Related party disclosures

Included within debtors is an amount from Trust Inns Ltd of £1,992k relating to payment due for tax losses surrendered by the company. The ultimate parent company of Trust Inns Ltd is Dollagh Ltd, being the same as that of the company.

### 20 Ultimate parent company and parent undertaking of larger group of which the company is a member

The ultimate parent company of Herald Inns and Bars Limited is Dollagh Limited, a company incorporated in the Isle of Man. Dollagh Limited is controlled by the family interests of Mr T J Hemmings.

The largest and smallest group in which the results of the company are consolidated is that headed by Herald Houses Limited, a company incorporated in the United Kingdom.