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J D WETHERSPOON plc
Annual Report
for the year ended 31 July 1994

Registered no: 1709784



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Directors and Advisers

Directors

T R Martin (Chairman)
M R McQuater (Managing Director)
H C D McLellan (Legal Director)
J M Scott (Finance Director)
B R Jervis (Non-Executive)
A C Lowrie (Non-Executive)
R R Martin (Non-Executive)

Secretary and Registered Office

H C D McLellan
735 High Road
North Finchley
London N12 0BP

Registered Auditors

Coopers & Lybrand
1 Embankment Place
London WC2N 6NN

Solicitors

Titmuss Sainer Dechert
2 Serjeants' Inn
London EC4Y 1LT

Valuers

Business Mergers &
Acquisitions Limited
162 Regent Street
London W1R 5TB

Bankers

Bank of Scotland
Central Banking Services
2 Robertson Avenue
Edinburgh EH11 1PZ

The Royal Bank of Scotland plc
Edinburgh West End Office
142-144 Princes Street
Edinburgh EH2 4EQ

Barclays Bank plc
Cheapside Business Centre
Atlas House
1-7 King Street
London EC2V 8AU

Financial Adviser

Kleinwort Benson Limited
20 Fenchurch Street
London EC3P 3DB

Stockbroker

Kleinwort Benson Securities Limited
20 Fenchurch Street
London EC3P 3DB

Registrars

Barclays Registrars
Bourne House
34 Beckenham Road
Beckenham
Kent BR3 4TU

Chairman's Statement

Results and dividends

I am pleased to report that the Company made good progress in the financial year ended 31 July 1994. Turnover increased by 51% to £46 million and profits before tax increased by 55% to £6.5 million. Net gearing at the year end was 22% and interest was covered 3.5 times. Earnings per share increased by 29% to 18.2p.

The Board proposes, subject to shareholders' consent, to pay a final dividend of 4.4p on the Ordinary shares bringing the full year dividend to 6.6p (1993: 5.4p), an increase of 22%, which is covered 2.6 times by earnings.

Review

At the beginning of the year under review, there were 67 pubs in our estate, 66 of which were inside the M25. These outlets have performed well with the like for like sales increasing by 3% for the year as a whole, having increased by 7% in the second half.

In the year under review, the Company opened 20 pubs in line with its business plan. The new outlets have made a very promising start and have all traded profitably since opening after taking account of finance charges. Four are outside the M25 and these in particular have performed strongly, achieving significantly higher average sales than our London estate.

In March the Company raised £22.7 million through a successful one for four rights issue in which shareholders took up 95% of their entitlement.


Management changes

During the year, the Board decided to divide the roles of Chairman and Managing Director which I had combined since the Company's incorporation. I am therefore pleased to welcome Mark McQuater, as the new Managing Director. He qualified as a Chartered Accountant with Peat Marwick and has previous experience in the drinks industry with Scottish and Newcastle Breweries plc and in investment banking with NatWest Markets. He has overall responsibility for general management and systems development, enabling me to concentrate on medium to long term company strategy and the identification and development of new sites.

The operating structure has been further strengthened by the creation of a management committee headed by the Managing Director and also comprising the Finance Director and the principal senior managers within the retail department. The role of the Committee is to review and direct the day to day operational management of the Company.

7 Keith Lunn stood down as ^{the} Director after the year end and I would like to thank him for his contribution in the last four years and to wish him well in the future.

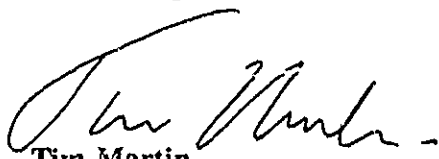
Prospects

As a result of the high average turnover of our pubs and the rate of new pub openings, I believe that the Company is in a strong position to negotiate advantageous terms from beer and catering suppliers, helped in the latter case by the successful introduction of a ~~third party~~ central distribution system in March 1994. 

Bar sales, as I indicated above, strengthened significantly in the second half and that trend has continued in the first two months of this financial year. Catering sales, which were particularly strong during the worst of the recession, continue to enjoy good growth and fruit machine income has also been buoyant. Sales in the current year will also benefit from a full year's contribution from the 20 pubs opened in the year under review and from a part years' contribution from a number of sites under development, three of which have already opened to the public.

X As I indicated in my statement at the last year end, the Company is continuing to acquire sites in London in areas in which we are not currently represented but is also acquiring town centre sites in other parts of the UK. The Company now has a total of 10 sites with the necessary planning and licensing permissions for conversion into pubs, and in addition we have a large number of promising sites under investigation. As a result of the high quality of our existing estate, the new developments in the pipeline and the strength of our management team, I remain confident of our future prospects.

Our success in the last year reflects a team effort by all our employees and I would like to thank them sincerely for their dedicated efforts in building a strong platform for future growth.



Tim Martin
Chairman

6 October 1994

Managing Director's Report

I am pleased to present my first report as Managing Director for a year which saw the Company make important progress in its main spheres of activity.

New licensed premises

The Company continued to develop the majority of its pubs from shops and other unlicensed premises. We opened a total of 20 new outlets in the year, which as well as being larger than the average of our previously opened sites, incorporated a number of improvements including substantially upgraded kitchens and ventilation systems. We also continued to expand beyond our historical trading area of Greater London and opened new pubs in Norwich, Leigh-On-Sea, Chesham and Reading and are extremely encouraged with their performance. In August and September we also opened large new developments in Bournemouth and Southend with excellent initial trading levels. In addition, a number of development sites for which the Company has obtained new pub licences are in the course of construction.

The 16 pubs opened within the M25 were largely located in South and East London where we are under represented. "The Moon On The Hill" in Sutton and "The Great Spoon Of Ilford" are good examples of large town centre developments in these areas which have immediately found strong customer support.

During the year the Company invested capital of £24 million primarily in new developments but also in refurbishing some older pubs. This was funded through a combination of operational cashflow, enhanced debt facilities and latterly through the rights issue in March this year.

Food Catering

Our catering operation has been considerably upgraded over the year including the introduction of a system of central distribution which enhances buying power and enables us to offer the same menu nationwide. Food sales as a percentage of turnover increased by approximately one third during the year.

Financial controls

All our pubs have now been converted to a single Electronic Point of Sale (EPOS) system, whereas we operated two systems until recently, giving strong central control over stock, pricing and takings records. During the year we have also introduced on line personal computers into each pub, further enhancing the information and control environment in the Company.

Employee training

As well as our staff training centre in Finchley, we opened, as shareholders will be aware, a new catering training facility at Wanstead during the year and this has been

highly beneficial especially in the light of our pace of expansion. At both training centres we ran a total of 260 separate training courses during the year and this number will increase in the current year as a result of an improved training scheme for hourly paid staff.

During the year we continued to strengthen our Management Team both by internal promotions and by recruitment. We have recently reorganised our Retail Department to prepare for future expansion and our Area Managers currently run on average nine pubs each, substantially below the industry norm enabling the Company to focus on high standards of service and paving the way for future growth.

Prospects

As a result of our continuing efforts to improve our management systems and to strengthen our Management Team I believe the Company is very well positioned for future expansion.

Mark McQuater
Managing Director

6 October 1994

Financial Highlights

Results	1994 £'000	1993 £'000
Turnover (continuing operations)	46,600	30,800
Profit for the financial year before taxation	6,477	4,171
Dividends	2,234	1,546
Total recognised gains relating to the year	8,149	6,328
 Key ratios		
Operating margin (continuing operations)	18.8%	19.7%
Earnings per share	18.2p	14.1p
Dividends per share	6.6p	5.4p

Directors' Report

for the year ended 31 July 1994

The Directors present their report and the audited financial statements for the year ended 31 July 1994.

Principal activities

The principal activity of the Company is the management and development of public houses. Details of progress are given in the Chairman's Statement.

Results and dividends

The profit on ordinary activities for the year after taxation amounted to £5,914,000 (1993: £3,722,000). The Directors recommend that a final dividend of 4.4 pence per share be paid to all shareholders on the Register on 17 November 1994 bringing the total dividend for the year to 6.6 pence per share (1993: total dividend of 5.4 pence per share) leaving £3,680,000 (1993: £2,176,000) to be transferred to reserves. The final dividend will be paid on 16 December 1994.

Future developments

At 31 July 1994, the Company had acquired ¹²~~14~~ sites on which public houses are planned to be built and opened during the now current financial year. Included in expenditure on unopened properties (see note 11 to the financial statements) are costs of £2,391,000 in respect of three sites which have opened after the balance sheet date. In addition the Company intends to identify and acquire further sites for development.

Issues of share capital during the year

On 31 March 1994 the Company issued 7,207,666 Ordinary shares of 10p each at a price of £3.15 per share, raising £22,125,000 net of expenses (see note 17 to the financial statements). During the year options were exercised to subscribe for 326,384 further Ordinary shares.

Directors

Mr M R McQuater was appointed a Director on 23 May 1994. Otherwise, the Directors listed on page 2 served throughout the financial year. Mr K Lunn, who was a Director at the start of the financial year, resigned on 9 August 1994. Mr T R Martin and Mr M R McQuater retire by rotation after the year end and will seek reappointment at the forthcoming Annual General Meeting. They each hold a rolling one year service contract.

Directors' Report

continued

The Executive Directors are as follows:

Tim R Martin: Chairman. Tim Martin graduated with a degree in law and was called to the Bar in 1980. He formed the business in December 1979 and has been Chairman and Managing Director of the Company since 1 August 1983. In May of this year the role of Managing Director was separated allowing him to concentrate on the Company's strategy and new site development.

Mark R McQuater: Managing Director. Mark McQuater was appointed Managing Director on 23 May 1994. He is an Economics graduate of Edinburgh University and a Member of the Institute of Chartered Accountants in Scotland. He previously worked for Scottish and Newcastle Breweries in the Corporate Development team and joined the Company from the investment bank NatWest Markets where he was a Local Director in their Scottish office.

H Christina D McLellan: Legal Director and Company Secretary. After graduating from Oxford University, Christina McLellan began her career in local government housing and town planning. She was called to the Bar in 1979 and practised as a barrister for three years before leaving to take up a partnership in a firm of solicitors specialising in litigation and property law. She joined the Company in December 1987 as Legal Director and Company Secretary.

J Martin Scott: Finance Director. Martin Scott qualified as an Associate Member of the Chartered Institute of Management Accountants in 1984 and was employed for six years in a number of financial positions within Allied-Lyons plc, most recently as senior financial executive of Ind Coope Limited. He joined the Company in January 1990.

The Non-Executive Directors are as follows:

Brian R Jervis: Brian Jervis is a Chartered Secretary and was appointed a Non-Executive Director of the Company in August 1991. He is a former director of John Govett & Co. Limited and now has a consultancy agreement with that company which is the manager of Govett Strategic Investment Trust plc, a major shareholder as shown below.

Tony C Lowrie: Tony Lowrie was appointed a Non-Executive Director of the Company in June 1987. He is Chairman of H.G. Asia Securities Limited.

Ray R Martin: Ray Martin, who is Tim Martin's father, worked in the brewing industry for Guinness plc from 1961 to 1988 and his last post was as marketing director of Guinness Malaysia. He worked as an Executive Director of the Company for six years before retiring and becoming a Non-Executive Director during the year.

Directors' Report

continued

No Director has any material interest in any contractual agreement subsisting during or at the end of the year which is or may be significant to the Company.

Directors' interests in shares of the Company

The interests of the Directors of the Company who served during the year and their immediate families at 31 July 1994, which were the same at 30 September 1994, together with their interests at 31 July 1993 or date of appointment if later, in the shares of the Company, according to the register required to be kept by Section 325 of the Companies Act 1985, were as follows:

	Ordinary shares of 10p each	
	31 July 1994 Number	31 July 1993 Number
T R Martin	6,547,175	6,820,842
M R McQuater	1,800	-
H C D McLellan	35,120	34,461
J M Scott	58,244	57,500
B R Jervis	6,250	5,000
A C Lowrie - beneficial	1,397,392	1,117,914
- non-beneficial	32,182	25,746
R R Martin	188,364	180,348
K Lunn (resigned 9 August 1994)	25,586	43,286

In addition to the interests shown above for A C Lowrie, 724,242 (1993: 847,394) Ordinary shares are held in a trust, the beneficiaries of which are A C Lowrie, his wife and his adult children.

Other than as shown above, all of the Directors' interests are held beneficially.

Options granted to Directors

At 31 July 1994 the following Directors held share options over Ordinary shares:

	31 July 1993 Number	Number granted	Number exercised	31 July 1994 Number
H C D McLellan	14,961	4,000	-	18,961
J M Scott	82,030	4,000	-	86,030
R R Martin	174,300	-	(174,300)	-
K Lunn	91,331	4,000	-	95,331

With the exception of K Lunn, for whom 6,889 options lapsed upon resignation, the options held by Directors at 30 September 1994 were as disclosed above.

Directors' Report

continued

The 31 July 1993 comparative figures above have been adjusted to reflect the rights issue described in note 17 to the financial statements.

Options are granted to Executive Directors as part of their remuneration package as advised by the Remuneration Committee. The rights granted are to be met by the allotment of new shares, following which there is no restriction on the ability of the allottees to dispose of or otherwise transfer the shares. The exercise price of the options granted to Directors ranges from 68.6 pence to 347 pence based on the market value at the time of grant of options and may be exercised at dates up to April 2004.

Subject to the rules of the Executive share option scheme, M R McQuater is to be granted options under the terms of his service agreement over 56,250 Ordinary shares following the announcement of the results of the Company for the year ended 31 July 1994 and over 12,500 Ordinary shares in each of the three calendar years to 1997. The exercise price will be established by reference to the market value of the Ordinary shares at the date at which the options are granted.

It is the intention of the Directors to grant options to Executive Directors and employees under the Company's Executive share option scheme over a maximum of 250,000 Ordinary shares within the 42 day period following publication of this annual report.

Further details of share options granted by the Company are given in note 18 to the financial statements.

Substantial shareholdings

The Company has been notified of the following substantial holdings of the Ordinary share capital of the Company at 30 September 1994 in addition to the Directors' shareholdings above.

	Number of Ordinary shares	Percentage of Ordinary share capital
Capital Guardian Trust Company and Capital Research and Management Company	2,859,000	7.90%
Govett Strategic Investment Trust plc	2,050,000	5.67%
Janus Investment Fund	1,961,551	5.42%
Standard Life Group	1,239,180	3.42%
T K Lim and Magnum Enterprises	1,130,000	3.12%

Directors' Report

continued

Corporate governance

The Board supports the Code of Best Practice issued by the Cadbury Committee and complied with it throughout the year other than in respect of the matters referred to below.

The Audit Committee comprises two Non-Executive Directors rather than the three recommended by the Cadbury Committee.

The Audit Committee has had one formal meeting, attended by the external auditors, during the year ended 31 July 1994. The Code requires a minimum of two meetings, one of which must be attended by the external auditors.

The Company adopted a schedule of matters reserved to the Board and formalised procedures for the Directors to take independent professional advice, if necessary, at the Company's expense and adopted formal terms of appointment for Non-Executive Directors at a Board meeting on 30 September 1993.

In addition, as the Code makes clear, companies will not be able to comply with the provisions relating to reporting on internal control and going concern, until the guidance recommended in the Cadbury Committee's report has been developed.

Apart from the matters referred to above compliance with the Code has been effective throughout the year.

Our auditors, Coopers & Lybrand, have reviewed the above statement insofar as it relates to those paragraphs of the Code which the London Stock Exchange has specified for their review and in accordance with Auditing Practices Board guidance. They have reported to us that our statement appropriately reflects the Company's compliance with the specified paragraphs of the Code.

Changes in tangible fixed assets

The movements in tangible fixed assets during the year are set out in note 11 to the financial statements.

Political and charitable contributions

Contributions made by the Company during the year for charitable purposes were £4,320 (1993: £1,654). No political contributions were made.

Directors' Report

continued

Employment of disabled persons

The Company policy is one of equal opportunity in the recruitment, training and promotion of staff, subject to practical considerations.

Employee involvement

The Company endeavours to keep its employees informed about all aspects of the business. Internal communication includes a regular newsletter and employee meetings where questions and constructive suggestions are welcomed. In addition, the continuing involvement of key staff is encouraged by participation in share option schemes.

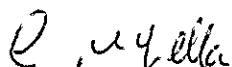
Close company provisions

The Company is not a close company as defined by the provisions of the Income and Corporation Taxes Act 1988, as amended by the Finance Act 1989. There has been no change in this respect since the end of the financial year.

Auditors

A resolution to reappoint the auditors, Coopers & Lybrand, will be proposed at the Annual General Meeting.

By order of the Board



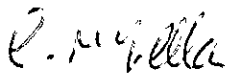
H C D McLellan
Company Secretary

6 October 1994

Directors' Responsibilities

The Directors are required by UK company law to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for that period. In preparing the financial statements, the Directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made. They also confirm that applicable accounting standards have been followed and the financial statements have been prepared on the going concern basis. The Directors are responsible for maintaining adequate accounting records, for taking reasonable steps to safeguard the assets of the Company, and for preventing and detecting fraud and other irregularities.

By order of the Board



H C D McLellan
Company Secretary

6 October 1994

Report of the Auditors to the members of J D Wetherspoon plc

We have audited the financial statements on pages 16 to 36.

Respective responsibilities of Directors and Auditors

X As described on page ^{14 C+L} ~~45~~ the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company at 31 July 1994 and of the profit, total recognised gains and cash flows for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers & Lybrand

Coopers & Lybrand

*Chartered Accountants and Registered Auditors
London*

6 October 1994

Profit and Loss Account

for the year ended 31 July 1994

	Notes	1994 £'000	1993 £'000
Turnover (continuing operations)	2	46,600	30,800
Net operating expenses excluding depreciation	3	36,435	23,816
Depreciation		1,422	908
		<u>37,857</u>	<u>24,724</u>
Operating profit (continuing operations)		8,743	6,076
Rent receivable		44	39
Interest receivable		86	299
Interest payable	6	(2,396)	(2,243)
Profit on ordinary activities before taxation	7	6,477	4,171
Taxation on profit on ordinary activities	8	(563)	(449)
Profit on ordinary activities after taxation		5,914	3,722
Dividends	9	(2,234)	(1,546)
Retained profit for the year	19	<u>3,680</u>	<u>2,176</u>
Earnings per share (net basis)	10		
Basic		18.2p	14.1p
Fully diluted		18.1p	13.8p

There is no difference between the profit on ordinary activities before taxation, the retained profit for the year and the basic and fully diluted earnings per share (net basis) stated above, and their historical cost equivalents.

J D Wetherapoon plc

Statement of Total Recognised Gains and Losses
for the year ended 31 July 1994

	1994 £'000	1993 £'000
Profit for the financial year after taxation	5,914	3,722
Unrealised surplus on revaluation of properties	2,235	2,606
Total recognised gains relating to the year	8,149	6,328

Reconciliation of Movements in Shareholders' Funds
for the year ended 31 July 1994

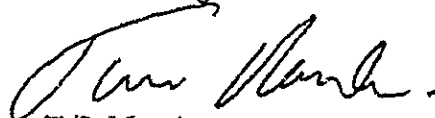
	1994 £'000	1993 £'000
Total recognised gains relating to the year	8,149	6,328
Dividends	(2,234)	(1,546)
New share capital issued (net of expenses)	22,345	19,018
Net addition to shareholders' funds	28,260	23,800
Opening shareholders' funds	44,112	20,312
Closing shareholders' funds	72,372	44,112

Balance Sheet

at 31 July 1994

	Notes	1994		1993	
		£'000	£'000	£'000	£'000
Fixed assets					
Tangible assets	11		96,547		71,736
Current assets					
Stocks	12	604		485	
Debtors	13	1,546		1,276	
Cash at bank and in hand		15,838		2,519	
		<u>17,988</u>		<u>4,280</u>	
Creditors: amounts falling due within one year	14	<u>(13,921)</u>		<u>(9,079)</u>	
Net current assets/(liabilities)			<u>4,067</u>		<u>(4,799)</u>
Total assets less current liabilities			<u>100,614</u>		<u>66,937</u>
Creditors: amounts falling due after more than one year:					
Loans	15		28,242		22,825
Capital and reserves					
Called up share capital	17	3,618		2,865	
Share premium account	19	42,543		20,951	
Revaluation reserve	19	15,202		12,967	
Profit and loss account	19	11,009		7,329	
Equity shareholders' funds			<u>72,372</u>		<u>44,112</u>
			<u>100,614</u>		<u>66,937</u>

The financial statements on pages 16 to 36 were approved by the Board on 6 October 1994 and signed on its behalf by:



T R Martin
Chairman



J M Scott
Finance Director

Cash Flow Statement

for the year ended 31 July 1994

	Notes	1994 £'000	1993 £'000
Net cash inflow from operating activities	22	<u>11,028</u>	<u>7,713</u>
Returns on investments and servicing of finance			
Interest received		86	299
Interest paid		(2,370)	(2,667)
Dividends paid		(1,673)	(865)
Net cash outflow from returns on investment and servicing of financing		<u>(3,957)</u>	<u>(3,233)</u>
Taxation			
Advance corporation tax paid		(460)	(266)
Investing activities			
Payments for purchase of tangible fixed assets		(23,217)	(16,364)
Proceeds of sale of tangible fixed assets		22	197
Net cash outflow from investing activities		<u>(23,195)</u>	<u>(16,167)</u>
Net cash outflow before financing		<u>(16,584)</u>	<u>(11,953)</u>
Financing			
Issue of Ordinary shares		22,924	18,996
Advancements under secured bank loans		11,000	3,000
Repayments of secured bank loans		(5,541)	(6,310)
Repayment of unsecured loan		-	(500)
Expenses paid in connection with share issue		(579)	(699)
Principal payment under hire purchase agreements		(10)	(22)
Net cash inflow from financing	23	<u>27,794</u>	<u>14,465</u>
Increase in cash and cash equivalents	24	<u>11,210</u>	<u>2,512</u>

Notes to the Financial Statements

for the year ended 31 July 1994

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of freehold and leasehold property.

Tangible fixed assets

Tangible fixed assets are stated at cost or valuation less accumulated depreciation.

Depreciation is calculated so as to write off the value of a fixed asset on a straight line basis over its estimated useful life, using the following rates:

Freehold land and buildings, including initial renovations and rebuilding	- Nil
Leasehold land and buildings, including initial renovations and rebuilding (leases with more than 20 years to run)	- Nil
Leasehold land and buildings, including initial renovations and rebuilding (leases with less than 20 years to run)	- Life of lease
Subsequent renovations of trading properties	- 33 $\frac{1}{3}$ % per annum
Fixtures and fittings	- 10% per annum
Motor vehicles	- 25% per annum

No depreciation is charged on freehold land and buildings nor on leasehold land and buildings where the lease has more than 20 years to run because the Directors consider that the money expended on refurbishment and maintenance keeps the residual value, based on prevailing market prices, at a level higher than carrying value and therefore any depreciation charge would not be significant. Depreciation on fixtures and fittings commences when the relevant public house commences trading.

Notes to the financial statements

Continued

Valuation of properties

Trading properties are revalued professionally by independent valuers on a rolling basis with a minimum of one third of the estate being valued every year and ensuring that no valuation is more than three years old. Any temporary difference thus arising is adjusted through the revaluation reserve. Where a diminution in value is regarded as permanent, the provision is charged to the profit and loss account.

Interest and pre-opening costs

All costs incurred in the preparation of the properties for use in the business, including interest on borrowings, are capitalised. Capitalisation of such costs ceases when the relevant public house commences business.

Stocks

Stocks are stated at the lower of invoiced cost and net realisable value.

Turnover

Turnover, which excludes value added tax, represents cash received from bar sales and machine and telephone takings.

Deferred taxation

Deferred taxation is the taxation attributable to timing differences between profits computed for taxation purposes and profits as stated in the financial statements.

Provision is made for deferred taxation to the extent that there is a reasonable probability of the tax falling due for payment in the foreseeable future. Taxation not provided is disclosed as a contingent liability.

Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Pension costs

The Company contributes to defined contribution pension schemes on behalf of certain employees. Contributions are recognised as they fall due. The Company provides no other post retirement benefits to its employees.

Notes to the financial statements

Continued

2 Segmental analysis

The Company undertakes one activity only, namely the management and development of public houses. All of its operations are based in the United Kingdom and all of its sales, by both destination and origin, are in the United Kingdom.

3 Net operating expenses excluding depreciation

Net operating expenses excluding depreciation are made up as follows:

	1994 £'000	1993 £'000
Change in stocks	(119)	(183)
Raw materials and consumables	16,954	10,967
Staff costs (see note 5)	8,372	5,791
Other operating charges	11,228	7,241
	<hr/>	<hr/>
Net operating expenses excluding depreciation	36,435	23,816
	<hr/>	<hr/>

4 Directors' emoluments

	1994 £'000	1993 £'000
Fees	30	20
Compensation for loss of office	30	-
Pension costs	17	17
Other emoluments (including benefits in kind)	329	330
	<hr/>	<hr/>
	406	367
	<hr/>	<hr/>

The compensation for loss of office relates to the resignation of K Lunn, after the balance sheet date. In addition, options to acquire 22,838 Ordinary shares held by K Lunn, which would normally lapse on resignation, have been retained by him.

Directors' emoluments, excluding pension contributions, are as follows:

	1994 £'000	1993 £'000
Emoluments of the Chairman who is also the highest paid Director	113	128
	<hr/>	<hr/>

Notes to the financial statements

Continued

The number of Directors (including the Chairman) who received emoluments (excluding pension contributions) in the following ranges was:

	1994	1993
£0 to £5,000	-	1
£5,001 to £10,000	2	2
£20,001 to £25,000	2	-
£35,001 to £40,000	-	1
£50,001 to £55,000	-	2
£55,001 to £60,000	2	1
£90,001 to £95,000	1	-
£110,001 to £115,000	1	-
£125,001 to £130,000	-	1
	—	—

H C D McLellan is a Non-Executive Partner of McLellans, a firm of solicitors which is one of a number the Company employs as legal advisers. H C D McLellan's husband is one of two other partners in the firm. Fees paid to McLellans in the year were £112,000 (1993: £69,000).

No Director waived rights to emoluments during the year or the previous year.

Directors are granted options for Ordinary shares in the Company as part of both the Executive share option scheme and the SAYE scheme in accordance with the recommendations of the remuneration committee. The number of options granted to Directors in the year is shown in the Directors' report.

5 Employee information

The average weekly number of persons employed by the Company during the year, including Executive Directors, is analysed below:

	1994 Number	1993 Number
Managerial/administration	387	293
Hourly paid staff	714	473
	—	—
	1,101	766
	—	—

Notes to the financial statements

Continued

Employment costs of all employees including Executive Directors:

	1994 £'000	1993 £'000
Wages and salaries	7,987	5,557
Social security costs	595	451
Other pension costs	21	23
	<hr/>	<hr/>
Total direct costs of employment	8,603	6,031
Less: wages and salaries capitalised into properties	(231)	(240)
	<hr/>	<hr/>
Charge to profit and loss account	8,372	5,791
	<hr/>	<hr/>

6 Interest payable

Interest payable on amounts:

	1994 £'000	1993 £'000
Repayable within 5 years, not by instalments	1	5
Repayable wholly or partly in more than 5 years	2,565	2,458
Other interest	13	14
	<hr/>	<hr/>
Total interest payable	2,579	2,477
Less: interest capitalised into properties	(183)	(234)
	<hr/>	<hr/>
Charge to profit and loss account	2,396	2,243
	<hr/>	<hr/>

Tax relief is available on the capitalised interest in addition to that charged to the profit and loss account.

Notes to the financial statements

Continued

7 Profit on ordinary activities before taxation

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

	1994 £'000	1993 £'000
Depreciation of tangible fixed assets	1,422	908
Auditors' remuneration	26	25
Hire of plant and machinery	18	12
Hire of motor vehicles	109	74
Profit on disposal of motor vehicles	(13)	(10)
Rent receivable (net of outgoings)	(44)	(39)
Rent payable	3,196	2,095
	<u> </u>	<u> </u>

Remuneration of the Company's auditors for provision of non audit services to the Company during the year amounted to £72,000(1993: £67,000) for services including acting as reporting accountants to the rights issue, taxation compliance and advisory work, and other accounting and consultancy services.

8 Taxation on profit on ordinary activities

	1994 £'000	1993 £'000
Corporation tax at 25%	32	-
Irrecoverable advance corporation tax	531	449
	<u> </u>	<u> </u>
	563	449
	<u> </u>	<u> </u>

The charge to corporation tax on the profits of the Company for this year and for last year is reduced by reference to the availability of unused capital allowances brought forward. The charge arising in the year to 31 July 1994 reflects income which cannot benefit from such allowances. As at 31 July 1994 the unused capital allowances available for carry forward against future trading profits were approximately £8,000,000 (1993: £8,000,000) subject to approval of the Inland Revenue.

To date the Company has written off £1,280,000 advance corporation tax which will be available to offset against future mainstream corporation tax liabilities.

Notes to the financial statements

Continued

9 Dividends

	1994 £'000	1993 £'000
Balance of dividend paid re previous year in relation to employees share options exercised	6	-
Interim dividend paid of 2.2p per share (1993: 1.8p per share)	636	515
Proposed final dividend (see below)	1,592	1,031
	<u>2,234</u>	<u>1,546</u>

The Directors propose that all Ordinary shares in issue on 31 July 1994 will receive a final dividend of 4.4p per share. For the year ended 31 July 1993 the final dividend was 3.6 per share.

10 Earnings per share

The calculation of basic earnings per share (net basis) is based on profit on ordinary activities after taxation for the year of £5,914,000 (1993: £3,722,000) and on 32,441,540 (1993: 26,379,537 as adjusted for the rights issue in the year) Ordinary shares being the weighted average number of Ordinary shares in issue and ranking for dividend during the year (as adjusted for the rights issue).

The calculation of fully diluted earnings per share is based on an adjusted profit on ordinary activities after taxation of £6,028,000 (1993: £3,841,000) and on 32,441,540 (1993: 26,379,537 as adjusted for the rights issue in the year) Ordinary shares being the weighted average number of Ordinary shares adjusted for the rights issue and a weighted average of 936,374 (1993: 939,833 as adjusted for the rights issue in the year) share options. The comparative for 1993 also reflects the conversion of convertible loans and loan stock in that year.

On the historical cost basis the calculations of earnings per share are the same as above for the two years for both basic (net basis) and fully diluted.

Notes to the financial statements

Continued

11 Tangible fixed assets

	Freehold land and buildings £'000	Short leasehold land and buildings £'000	Motor vehicles £'000	Expenditure on unopened properties £'000	Total £'000
Cost or valuation					
At 1 August 1993	39,305	32,418	157	1,701	73,581
Additions	6,870	13,116	-	4,021	24,007
Surplus on revaluation	124	2,111	-	-	2,235
Disposals	-	-	(55)	-	(55)
Reclassification	737	85	-	(822)	-
At 31 July 1994	47,036	47,730	102	4,900	99,768
Depreciation					
At 1 August 1993	837	897	111	-	1,845
Charge for the year	547	850	25	-	1,422
Disposals	-	-	(46)	-	(46)
Reclassification	6	(6)	-	-	-
At 31 July 1994	1,390	1,741	90	-	3,221
Net book value					
At 31 July 1994	45,646	45,989	12	4,900	96,547
At 31 July 1993	38,468	31,521	46	1,701	71,736

Included in the freehold land and buildings figure is capitalised interest of £1,929,000 (1993: £1,879,000), in short leasehold land and buildings £400,000 (1993: £321,000) and in unopened properties £382,000 (1993: £328,000)

Notes to the financial statements

Continued

Fixtures and fittings at cost are included in the above categories as follows:-

	Freehold £'000	Short leasehold £'000	Expenditure on unopened properties £'000	Total £'000
Cost				
At 1 August 1993	2,808	4,086	6	6,900
Additions	638	2,491	33	3,162
Reclassification	-	6	(6)	-
At 31 July 1994	3,446	6,583	33	10,062
Depreciation				
At 1 August 1993	601	582	-	1,183
Charge for the year	324	513	-	837
Reclassification	6	(6)	-	-
At 31 July 1994	931	1,089	-	2,020
Net book value				
At 31 July 1994	2,515	5,494	33	8,042
At 31 July 1993	2,207	3,504	6	5,717

The Company's freehold and leasehold properties have been valued on the basis of open market value for existing use by Business Mergers & Acquisitions Limited, specialist licensed property valuers, who acquired the trade of Business Sales Limited, the Company's previous valuers. The amounts included above at valuation together with the net book values on the historical cost basis at which the revalued properties would have been included if they had not been revalued are as follows:

	Freehold land and buildings £'000	Short leasehold land and buildings £'000	Total £'000
Historical cost basis net book value of revalued properties	39,373	36,160	75,533
Revaluation reserve	6,079	9,123	15,202
Properties included at valuation	45,452	45,283	90,735
Properties included at cost	194	706	900
	45,646	45,989	91,635

Notes to the financial statements

Continued

The accumulated depreciation included in the historical cost basis net book values is the same as that included in the revalued amounts.

The valuations were performed as at the following dates:

	Freehold land and buildings £'000	Short leasehold land and buildings £'000	Total £'000
31 July 1992	26,185	14,905	41,090
31 July 1993	4,930	13,735	18,665
31 July 1994	13,675	16,530	30,205
	<hr/>	<hr/>	<hr/>
	44,790	45,170	89,960
Subsequent additions at cost	1,425	1,031	2,456
Subsequent disposals at cost	(186)	-	(186)
Less depreciation since valuation	(577)	(918)	(1,495)
	<hr/>	<hr/>	<hr/>
Properties included at valuation	45,452	45,283	90,735
	<hr/>	<hr/>	<hr/>

All the Company's trading properties which were open at 31 July 1992 were included in the valuation at that date. The 24 new trading properties which opened during the year ended 31 July 1993, which then constituted more than one third of the estate, were all valued at 31 July 1993. The 20 properties which opened during the year ended 31 July 1994 and an additional nine properties which opened in previous years were valued in the year then ended. This constituted one third of the estate.

At 31 July 1994 the Company had acquired 10 properties for which licensing and planning permission was in place. These properties have not been revalued but, in the opinion of the Directors, their market value is in excess of cost included in these financial statements.

No provision has been made in the deferred taxation account for the estimated corporation tax which would be payable on disposal of the revalued properties at the revalued amounts because, in the opinion of the Directors, these properties are unlikely to be disposed of in the foreseeable future (see note 16 to the financial statements).

Notes to the Financial Statements

Continued

12 Stocks

	1994 £'000	1993 £'000
Goods for resale	604	485
	<u> </u>	<u> </u>

In the opinion of the Directors the replacement cost of goods for resale does not differ materially from the cost shown above.

13 Debtors

	1994 £'000	1993 £'000
Amounts falling due within one year:		
Other debtors	158	195
Prepayments	1,368	1,065
	<u> </u>	<u> </u>
	1,526	1,260
Amount falling due after more than one year:		
Prepayments	20	16
	<u> </u>	<u> </u>
	1,546	1,276
	<u> </u>	<u> </u>

14 Creditors: amounts falling due within one year

	1994 £'000	1993 £'000
Current instalments due on bank loans (see note 15)	1,581	1,539
Bank overdraft	2,109	-
Trade creditors	4,670	4,209
Corporation tax	4	-
Advance corporation tax	398	299
Other taxation and social security costs payable	759	551
Other creditors	261	143
Dividends payable	1,592	1,031
Accruals and deferred income	2,547	1,307
	<u> </u>	<u> </u>
	13,921	9,079
	<u> </u>	<u> </u>

Included in other creditors are hire purchase commitments of £2,000 (1993: £12,000).

Notes to the Financial Statements

Continued

15 Creditors: amounts falling due after more than one year

	1994 £'000	1993 £'000
Banks loans:		
Due between 1 and 2 years	1,409	1,580
Due between 2 and 5 years	4,519	1,875
Due after 5 years	22,314	19,370
	<u>28,242</u>	<u>22,825</u>

The bank loans are secured by debentures over the Company's assets, incorporating legal charges over the freehold and leasehold properties.

The bank loans are repayable by monthly instalments. Loans amounting to £990,000 are due to be repaid by March 1996. Interest is charged on these loans at between 1.25% and 1.35% above base rate. Loans amounting to £20,000,000 are due to be repaid by March 2013. Interest on the first tranche of £10,000,000 is charged at 11.95% until March 1997 and thereafter at 1.5% above base rate. Interest on the second tranche of £10,000,000 is charged at 8.5% until March 1998 and thereafter at 1.35% above base rate. Loans amounting to £8,833,000 are due to be repaid by May 2003. Interest is fixed at 8.61% on this loan.

16 Deferred taxation

Analysis of potential liability:

	Full potential liability	
	1994 £'000	1993 £'000
Potential taxation at 33% arising on:		
Gains on sales of properties reinvested (see note (a) below)	700	700
Other gains on sale of trading properties at their revalued amounts (see note (b) below)	5,295	4,000
	<u>5,995</u>	<u>5,300</u>
Excess of tax allowances over depreciation (see note (c) below)	4,033	2,573
Less unused capital allowances and surplus advance corporation tax	(3,650)	(2,573)
	<u>6,378</u>	<u>5,300</u>

In accordance with the accounting policy, no provision has been made for deferred taxation.

Notes to the Financial Statements

Continued

The potential deferred tax liability arises from the following circumstances:

- (a) The capital gains that have been realised on the sale of certain properties. The proceeds from those disposals have been reinvested into the other trading properties, therefore the gain realised did not crystallise for tax purposes. The potential tax liabilities are not provided for as the Company considers these gains will not crystallise in the foreseeable future.
- (b) The potential capital gain that would arise if the Company sold its properties. This liability is not provided for as the current policy of the Company is to reinvest any proceeds from a disposal.
- (c) The excess of tax allowances over the depreciation charge on assets qualifying for capital allowances which has been provided for but has been offset against the unused capital allowances, together with surplus advance corporation tax, as restricted (see note 8 to the financial statements). The Company considers that the potential liability will not crystallise in the foreseeable future.

17 Called up share capital

	1994 £'000	1993 £'000
Authorised:		
40,000,000 Ordinary shares of 10p each (1993: 40,000,000)	4,000	4,000
Allotted, called up and fully paid:		
36,181,017 Ordinary shares of 10p each (1993: 28,646,967)	3,618	2,865

On 31 March 1994 the Company issued 7,207,666 Ordinary shares of 10p each at a price of £3.15 per share under a 1 for 4 rights issue.

The purpose of the rights issue was to finance the continuing growth of the Company.

In addition, options were exercised to subscribe for 326,384 further Ordinary shares at an average price of £0.67 per share.

Notes to the Financial Statements

Continued

18 Share options

Options which have been granted to employees for Ordinary shares which existed at 31 July 1994 were as follows:

(a) Executive share option scheme

Date of grant	Number of shares	Period of exercise	Price per share
July 1989	16,401	26 July 1992 to 26 July 1999	54.8p
March 1990	67,122	27 March 1993 to 27 March 2000	68.6p
September 1990	37,897	26 September 1993 to 26 September 2000	68.6p
February 1991	45,203	14 February 1994 to 14 February 2001	68.6p
February 1992	114,369	10 February 1995 to 10 February 2002	114.3p
June 1992	13,121	30 June 1995 to 30 June 2002	107.6p
April 1993	225,494	30 April 1996 to 30 April 2003	247.8p
May 1993	9,011	4 May 1996 to 4 May 2003	256.4p
April 1994	183,000	19 April 1997 to 19 April 2004	347.0p
	<u>711,618</u>		

(b) SAYE scheme

Date of grant	Number of shares	Period of exercise	Price per share
February 1993	150,561	2 February 1998 to 2 August 1998	175.7p
February 1993	15,427	2 February 2000 to 2 August 2000	175.7p
	<u>165,988</u>		

Notes to the Financial Statements

Continued

19 Share premium account and reserves

	Share premium account £'000	Revaluation reserve £'000	Profit and loss account £'000
At 1 August 1993	20,951	12,967	7,329
Premium on allotments during the year	22,171	-	-
Surplus arising on revaluation of land and buildings	-	2,235	-
Retained profit for the year	-	-	3,680
Share issue expenses	(579)	-	-
	<hr/>	<hr/>	<hr/>
At 31 July 1994	42,543	15,202	11,009
	<hr/>	<hr/>	<hr/>

No provision has been made for the additional United Kingdom taxation which would accrue if the freehold and short leasehold land and buildings were disposed of at their revalued amounts. The potential liability to such taxation is disclosed in note 16 to the financial statements.

20 Financial commitments

	1994 £'000	1993 £'000
Capital expenditure		
Expenditure contracted for but not provided for	2,338	104
Expenditure authorised but not contracted for	-	-
	<hr/>	<hr/>
	2,338	104
	<hr/>	<hr/>

21 Lease commitments

The Company operates a number of leasehold public houses, and occupies leasehold office accommodation. The total annual rental of these leases, all of which have more than 5 years to run, is as follows.

	1994 £'000	1993 £'000
	4,237	2,954
	<hr/>	<hr/>

Notes to the Financial Statements

Continued

In addition the Company has financial commitments in respect of non-cancellable operating leases of motor vehicles. The annual rental of these leases is as follows:

	1994 £'000	1993 £'000
Expiring between 1 and 2 years	59	-
Expiring between 2 and 5 years	62	89
	<u>121</u>	<u>89</u>

22 Net cash inflow from operating activities

	1994 £'000	1993 £'000
Operating profit	8,743	6,076
Rent received	44	39
Depreciation of tangible fixed assets	1,422	908
Gain on sale of tangible fixed assets	(13)	(10)
Increase in stocks	(119)	(183)
Decrease/(increase) in other debtors	37	(155)
(Increase) in prepayments	(307)	(306)
Decrease in other taxation receivable	-	6
Increase in trade creditors	461	887
Increase in other creditors	128	97
Increase in other taxation and social security	208	109
Increase in accruals and deferred income	424	245
	<u>11,028</u>	<u>7,713</u>

23 Analysis of changes in finances during the year

	Share capital (including premium) £'000	Loans and hire purchase commitments £'000	Total £'000
Balance at 1 August 1993	23,816	24,376	48,192
Cash inflows from financing during the year	22,345	5,449	27,794
	<u>46,161</u>	<u>29,825</u>	<u>75,986</u>

Notes to the Financial Statements

Continued

24 Analysis of the balances of cash and cash equivalents as shown in the balance sheet

	1994 £'000	1993 £'000	Change in year £'000
Cash at bank and in hand	15,838	2,519	13,319
Bank overdrafts	(2,109)	-	(2,109)
	<u>13,729</u>	<u>2,519</u>	<u>11,210</u>

Notes to the Financial Statements

Continued

Summary of Accounts for the Five Years ended 31 July 1994

	1990	1991	1992	1993	1994
	£'000	£'000	£'000	£'000	£'000
Sales and results					
Turnover (continuing operations)	7,047	13,192	21,380	30,800	46,600
Operating profit (continuing operations)	1,504	3,399	5,094	6,076	8,743
Disposal of properties	-	-	(1,094)	-	-
Rent receivable	27	46	33	39	44
Interest receivable	3	4	17	299	86
Interest payable	(931)	(2,351)	(3,124)	(2,243)	(2,396)
Profit on ordinary activities before taxation	603	1,098	926	4,171	6,477
Taxation	(67)	(88)	(117)	(449)	(563)
Profit on ordinary activities after taxation	536	1,010	809	3,722	5,914
Dividends	(200)	(265)	(350)	(1,546)	(2,234)
Retained profit for the year	336	745	459	2,176	3,680
Recognised gains and losses					
Profit for the financial year after taxation	536	1,010	809	3,722	5,914
Unrealised surplus on revaluation of properties	1,631	4,042	668	2,606	2,235
	2,167	5,052	1,477	6,328	8,149
Net assets employed					
Fixed assets	28,629	45,031	53,094	71,736	96,547
Net current assets/(liabilities)	(3,073)	(3,858)	(4,872)	(4,799)	4,067
	25,556	41,173	48,222	66,937	100,614
Non current liabilities	13,849	23,183	27,000	22,825	28,242
Shareholders' funds	11,707	17,990	20,312	44,112	72,372
	25,556	41,173	48,222	66,937	100,614
Ratios					
Operating margin	21.3%	25.8%	23.8%	19.7%	18.8%
Earnings per share	3.9p	7.4p	5.3p	14.1p	18.2p
Historical cost earnings per share	3.9p	7.4p	12.8p	14.1p	18.2p
Dividends per share	0.76p	1.90p	2.38p	5.40p	6.69p

Notes to the Financial Statements

Continued

Summary of Accounts for the Five Years ended 31 July 1994

Continued

Notes to the five year summary

- (a) The summary of accounts has been extracted from the annual audited financial statements of the Company for the five years shown.
- (b) The earnings per share and dividend per share figures have been adjusted as appropriate to account for:
 - (i) the 20 for 1 capitalisation issue on 5 October 1992;
 - (ii) the 1 for 4 rights issue on 31 March 1994;
- (c) The figures have been adjusted to reflect the adoption of FRS 3. This involves:
 - (i) the restatement of the disposal of properties in the year ended 31 July 1992;
 - (ii) the appropriate adjustments to earnings per share to account for the above. Historical cost earnings per share calculated on the basis in operation before the introduction of FRS 3 are also shown.