

**Company Registration No. 05915350 (England and Wales)**

**BRITISH COUNTRY INNS 2 PLC**  
**DIRECTORS' REPORT AND FINANCIAL STATEMENTS**  
**FOR THE PERIOD ENDED 29 JANUARY 2011**

**BRITISH COUNTRY INNS 2 PLC**

**COMPANY INFORMATION**

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**Directors**

P J Mathews  
A J Miller  
M W Sherwood  
D T Udell

**Secretary**

Athenaeum Secretaries Limited

**Company number**

05915350

**Registered office**

Ampney House  
Falcon Close  
Quedgeley  
Gloucestershire  
GL2 4BR

**Independent Auditors**

Saffery Champness  
Lion House  
Red Lion Street  
London  
WC1R 4GB

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# BRITISH COUNTRY INNS 2 PLC

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**CHAIRMAN'S STATEMENT**

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I am pleased to enclose the Report and Accounts for your Company for the period ended 29th January 2011 and to invite you to attend the Company's Annual General Meeting to be held at the offices of Smith & Williamson, 25 Moorgate, London EC2R 6AY at 11.30 on 30th June 2011.

**Performance**

Whilst the new Coalition Government has now been in power for a year, there still remain major concerns over the state of the UK economy. The pub market continues to be depressed with little transactional activity outside London. Such market evidence as there is appears to be operators offloading parts of their portfolio at depressed prices in order to pay down debt. It is clear that many operators are being faced with both falling sales volumes and a shortage of quality managers or tenants willing to take pubs on.

Despite this depressed background and the abnormally severe weather conditions experienced last winter your Company has continued to turn in an improved performance with turnover marginally down but house trading profit has shown a significant 23% improvement.

The Lime Kiln has produced good results again this year. The performances of the Ponda Rosa, Beambridge and Pelican are much improved. Management changes have taken place at the George and Huntspill and business continues to improve. The Woodfalls has been a disappointment as the business is taking longer to pick up following recent improvements. A recent management change is helping to improve matters. I am pleased to report that the Old Barn Owl is now making a positive contribution following a management change to lease.

During the year your Board has made further substantial cuts to the operational cost base, including a further cut in Director's salaries and for the current year is projecting both an operating profit at house level and a profit after central overheads. The Board has also negotiated cuts in professional and advisors fees.

During the year your Board engaged in extensive discussions with the Company's Bankers over the level of the current borrowings, which resulted in the decision to dispose of The Pelican. After a marketing campaign an offer was accepted and a sale was made to a small pub company. This has enabled the Company to pay down a significant portion of the debt, linked to an agreed programme to pay down the balance. However, the Board has not discounted the need for further disposals and debt reduction should the need or opportunity arise.

**Impairment**

An impairment review process has been carried out again this year and the resulting impairment adjustment has been taken through the profit and loss account. The process has included the valuation of the pubs on a consistent basis by a professionally qualified director. Accounting rules require the Company to look at each pub individually and charge impairment through the profit and loss account where the valuation of the pub is less than book value.

## BRITISH COUNTRY INNS 2 PLC

### CHAIRMAN'S STATEMENT

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#### **Profitability**

Total house trading profit (before central costs, depreciation, and interest) was £218.9k (2010: £178.2k) representing 7.3% of turnover (2010:5.8%).

The most productive pub is trading at a house profit of 21.2% of turnover.

Like for like sales are 3.4% down on last year which reflects the state of the UK economy and the severe weather conditions during last winter.

Overall profitability has been affected by management issues at three pubs and by the overall downturn in the market. Total food sales account for 64% of the business which is similar to last year.

Management continues to exploit the trading opportunities that exist at each site and to take decisive action where necessary.

#### **Progress**

Against this economic background management continue to make steady progress in the development of your Company's pub estate.

The turnovers at the Lime Kiln and Beambridge have achieved or exceeded expectation.

The performance at the Ponda Rosa is much improved over last year.

The George is performing better under the new management team but there is still some way to go for the outlet to reach a maturity.

Like for like turnover figures have held up well in the current difficult trading climate.

The Pelican has been sold to a small pub company to enable a reduction in the company's debt burden.

Directors' salaries have been further cut as part of the refinancing process.

#### **Key Performance Indicators**

Total turnover is slightly down on last year but house profits substantially improved in an increasingly difficult trading environment. Management is aware of the individual problems within the portfolio and has taken steps to address the issues.

Overall the Gross Profit margins have been maintained at a similar level to last year.

Wage costs have been reduced as a percentage of turnover to 36% (2010: 37.1%).

Controllable costs overall have been reduced from last year.

## BRITISH COUNTRY INNS 2 PLC

### CHAIRMAN'S STATEMENT

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#### Prospects

Management will concentrate on both improving turnover across the portfolio, and controlling margins and costs.

Management continue to exploit opportunities where they exist and to engage the right management team for each individual property.

#### Risks and Uncertainties

The following risks and uncertainties have been identified:

The lack of consumer confidence and uncertainty over future levels of disposable income and job security following recent action taken by the Government to reduce the national debt.

Flooding of the market with significant disposals planned by the two major pub companies and the banks.

Future uncertainty about the Beer Tie and the tied tenancy system

A failure of Government to address the issue of supermarkets continuing to sell liquor as a loss leader at prices which are at or below cost.

#### The Future

Now that the 3 year restriction period under the EIS Rules has passed there are no limitations as to the action that can be taken on the future direction of the Company.

You will be aware that the initial thinking behind creating a pub portfolio was to build up an estate of pubs through individual acquisitions with the aim of selling the portfolio three years later at a premium having improved turnover with capital and management investment.

The market place now is very different to that which existed at the time your Company was established. We are now in a severe economic recession; customers are concerned about employment with the subsequent reduction in discretionary leisure spend; we face continued competition from supermarkets; and more recently, business has been affected by the substantial increase in petrol prices. Also the major players have withdrawn from the market place as a result of over borrowing and a need to make disposals to reduce their debt burden. All this has resulted in a dramatic fall over the last three years in the market value of public houses.

Your Board has therefore carried out a strategic review of the individual properties within your estate and of the Company as a whole.

All options have been considered for the use of the company's assets including individual or a group disposal, leasing, new trading formats, or conversion to an alternative use. The Board has consulted various licensed property agents as well as a corporate finance adviser who has been closely involved with this industry over many years and specifically with a number of the recent market transactions.

## BRITISH COUNTRY INNS 2 PLC

### CHAIRMAN'S STATEMENT

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#### **The Future (continued)**

The Board believes your Company has two options: either to liquidate all of the company's assets at the best price currently achievable or to continue trading in the hope that the market will improve in the medium term. In order to establish a route to follow the Board has decided to put another company, British Country Inns PLC, on the market in order to clarify current values. Once this other company has received a clear indication of its value in the market place, I will then write to you again following the AGM.

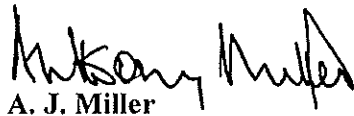
#### **Environment**

The Company recognises the importance of its environmental responsibilities. Initiatives designed to minimise the Company's impact on the environment include recycling and reducing energy consumption wherever possible.

#### **Management and Employees**

Once again on your behalf I would like to thank operational staff, unit managers and their staff for all they are doing. They are all working extremely hard to move their individual businesses forward.

Finally I would encourage you to visit your pubs to see for yourself how the businesses are now trading. You might also like to visit our website at [www.bciplc.co.uk](http://www.bciplc.co.uk) for further details and directions. If you require any further assistance, please contact Sumaer Amar at Smith & Williamson Tax Efficient Solutions on 020 7131 4325, [sumaer.amar@smith.williamson.co.uk](mailto:sumaer.amar@smith.williamson.co.uk).



A. J. Miller  
Chairman

## BRITISH COUNTRY INNS 2 PLC

### DIRECTORS' REPORT FOR THE PERIOD ENDED 29 JANUARY 2011

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The directors present their report and financial statements for the period ended 29 January 2011.

#### **Principal activities and review of the business**

The principal activity of the company is the ownership and operation of a portfolio of public houses. A review of the business is given in the Chairman's statement.

#### **Results and dividends**

The results for the period are set out on page 9.

#### **Directors**

The following directors have held office since 31 January 2010:

P J Mathews  
A J Miller  
M W Sherwood  
D T Udell

#### **Creditor payment policy**

The company's current policy concerning the payment of trade creditors is to:

- settle the terms of payment with suppliers when agreeing the terms of each transaction;
- ensure that the suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts; and
- pay in accordance with the company's contractual and other legal obligations.

As at the period end Creditors Days amount to 16 days (2010: 23 days).

#### **Auditors**

In accordance with section 485 of the Companies Act 2006, a resolution proposing that Saffery Champness be re-appointed will be put at a General Meeting.

**DIRECTORS' REPORT (continued)**  
**FOR THE PERIOD ENDED 29 JANUARY 2011**

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**Statement of directors' responsibilities**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK 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 company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors have reviewed the company's financial position at the balance sheet date and for a period of 12 months from the date of approval of these financial statements. They have considered liquidity risk, key assumptions and uncertainties. As a result of this assessment, the directors have adopted the going concern basis of accounting for the preparation of these financial statements.

**Statement of disclosure to auditors**

So far as the directors are aware, there is no relevant audit information of which the company's auditors are unaware. Additionally, the directors have taken all the necessary steps that they ought to have taken as directors in order to make themselves aware of all relevant audit information and to establish that the company's auditors are aware of that information.

On behalf of the board



.....  
D T Udell

Director

.....  
01/06/2011

## **BRITISH COUNTRY INNS 2 PLC**

### **INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF BRITISH COUNTRY INNS 2 PLC**

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We have audited the financial statements of British Country Inns 2 PLC for the period ended 29 January 2011 set out on pages 9 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

As explained more fully in the Directors' Responsibilities Statement set out on pages 5 - 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 29 January 2011 and of its loss for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

**BRITISH COUNTRY INNS 2 PLC**


**INDEPENDENT AUDITORS' REPORT (continued)  
TO THE MEMBERS OF BRITISH COUNTRY INNS 2 PLC**

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**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Andrew Gaskell (Senior Statutory Auditor)  
for and on behalf of Saffery Champness

Chartered Accountants  
Statutory Auditors

1 June 2011

Lion House  
Red Lion Street  
London  
WC1R 4GB

**BRITISH COUNTRY INNS 2 PLC**

**PROFIT AND LOSS ACCOUNT  
FOR THE PERIOD ENDED 29 JANUARY 2011**

	Notes	2011 £	2010 £
Turnover	2	2,992,124	3,089,939
Cost of sales (excluding depreciation)		(2,773,181)	(2,911,692)
<b>House trading profit/(loss)</b>		218,943	178,247
Depreciation		(207,581)	(214,418)
Cost of sales - Exceptional item	4	(711,142)	(914,818)
<b>Gross loss</b>		(699,780)	(950,989)
Administrative expenses		(321,618)	(430,909)
Loss on disposal of fixed assets		(153,602)	(13,848)
Amortisation of intangible fixed assets		(135,886)	(38,970)
<b>Operating loss</b>	4	(1,310,886)	(1,434,716)
Other interest receivable and similar income		-	22
Interest payable and similar charges	6	(39,681)	(50,015)
<b>Loss on ordinary activities before taxation</b>		(1,350,567)	(1,484,709)
Tax on loss on ordinary activities	7	-	-
<b>Loss on ordinary activities after taxation</b>	14	(1,350,567)	(1,484,709)

The profit and loss account has been prepared on the basis that all are continuing operations.

There are no recognised gains and losses other than those passing through the profit and loss account.

The notes on pages 12 to 21 form part of these financial statements.

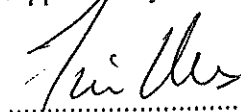
BRITISH COUNTRY INNS 2 PLC

BALANCE SHEET  
AS AT 29 JANUARY 2011

	Notes	2011		2010	
		£	£	£	£
<b>Fixed assets</b>					
Intangible assets	8		-		178,032
Tangible assets	9		4,829,062		6,629,901
			<u>4,829,062</u>		<u>6,807,933</u>
<b>Current assets</b>					
Stocks	10	72,695		84,667	
Debtors	11	55,919		91,651	
Cash at bank and in hand		44,399		49,177	
		<u>173,013</u>		<u>225,495</u>	
<b>Creditors: amounts falling due within one year</b>	12	<u>(1,408,438)</u>		<u>(2,089,224)</u>	
<b>Net current liabilities</b>			<u>(1,235,425)</u>		<u>(1,863,729)</u>
<b>Total assets less current liabilities</b>			<u>3,593,637</u>		<u>4,944,204</u>
<b>Capital and reserves</b>					
Called up share capital	13		3,957,457		3,942,457
Share premium account	14		3,324,584		3,339,584
Profit and loss account	14		<u>(3,688,404)</u>		<u>(2,337,837)</u>
<b>Shareholders' funds</b>	15		<u>3,593,637</u>		<u>4,944,204</u>

The notes on pages 12 to 21 form part of these financial statements.

Approved by the Board and authorised for issue on 01/06/2011



.....  
D T Udell  
Director

Company Registration No. 05915350

**BRITISH COUNTRY INNS 2 PLC**

**CASH FLOW STATEMENT  
FOR THE PERIOD ENDED 29 JANUARY 2011**

	£	2011 £	£	2010 £
<b>Net cash outflow from operating activities</b>		(341,328)		17,985
<b>Returns on investments and servicing of finance</b>				
Interest received	-		22	
Interest paid	(39,681)		(50,015)	
<b>Net cash outflow for returns on investments and servicing of finance</b>		(39,681)		(49,993)
<b>Capital expenditure</b>				
Payments to acquire tangible assets	(54,468)		(110,771)	
Receipts from sales of tangible assets	850,000		32,195	
<b>Net cash inflow/(outflow) for capital expenditure</b>		795,532		(78,576)
<b>Net cash inflow/(outflow) before management of liquid resources and financing</b>		414,523		(110,584)
<b>Financing</b>				
Issue of ordinary share capital	-		19,993	
Other new short term loans	-		1,000,000	
<b>Net cash (outflow)/inflow from financing</b>		-		1,019,993
<b>Increase in cash in the period</b>		414,523		909,409

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED 29 JANUARY 2011

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**1 Accounting policies**

**1.1 Accounting convention**

The financial statements are prepared under the historical cost convention.

The Directors are aware that the Company's income is based on its customers' discretionary spending. This is undoubtedly being affected by the state of the economy, food and petrol prices, increased VAT and concerns about employment.

The Company's forecasts and projections, taking account of reasonably possible changes in trading performance and being conservative for the reasons outlined above, show that the Company should be able to operate within the level of its current facility.

The Company meets its day to day working capital requirements through an overdraft facility. The bank has indicated that this facility will remain in place with a view to being consolidated into a loan in the future.

The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Therefore in preparing the financial statements they continue to adopt the going concern basis of accounting.

**1.2 Compliance with accounting standards**

The financial statements are prepared in accordance with applicable United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), which have been applied consistently (except as otherwise stated).

**1.3 Turnover**

Turnover represents amounts receivable for goods and services net of VAT and trade discounts.

**1.4 Goodwill**

Acquired goodwill is written off in equal annual instalments over its estimated useful economic life of 10 years.

Goodwill is reviewed annually for indications of impairment as described in the tangible fixed asset accounting policy set out below.

**1.5 Tangible fixed assets and depreciation**

Tangible fixed assets other than freehold land are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost less estimated residual value of each asset over its expected useful life, as follows:

Land and buildings Freehold	75 years straight line
Fixtures, fittings & equipment	10-33% straight line

**1 Accounting policies**

(continued)

The directors assess assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Assets are grouped into individual cash generating units which are assessed separately. Impairment occurs where the recoverable amount of the asset is less than its carrying amount. Recoverable amount is the higher of an assets net realisable value less costs to sell and its value in use. Any impairment loss is treated as a charge through the profit and loss account.

**1.6 Stock**

Stock is valued at the lower of cost and net realisable value.

**1.7 Deferred taxation**

Deferred taxation is provided at appropriate rates on all timing differences using the liability method only to the extent that, in the opinion of the directors, there is a reasonable probability that a liability or asset will crystallise in the foreseeable future.

**1.8 Group accounts**

The financial statements present information about the Company as an individual undertaking and not about its group. Consolidated financial statements have not been prepared on the basis that Dog House Inns Limited, the only subsidiary, was dormant and has been dissolved during the period.

**2 Turnover**

The total turnover of the company for the period has been derived from its principal activity wholly undertaken in the United Kingdom.

**3 Cost of sales and net operating expenses**

The company's cost of sales consist of all direct expenditure incurred in operating its public houses. This includes direct goods for trading, labour, promotional, utilities, maintenance and other consumables.

**BRITISH COUNTRY INNS 2 PLC**

**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE PERIOD ENDED 29 JANUARY 2011**

<b>4 Operating loss</b>	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Operating loss is stated after charging:		
Amortisation of intangible assets	135,886	38,970
Depreciation of tangible assets	207,581	214,418
Loss on disposal of tangible assets	153,602	13,848
Fees payable to the company's auditor for the audit of the company's annual accounts	6,000	7,000
Fees payable to the company's auditor for non audit services	1,400	2,015
	<u>          </u>	<u>          </u>
<b>Exceptional items:</b>		
Impairment adjustment to carrying value of public houses and related goodwill	711,142	914,818
	<u>          </u>	<u>          </u>
<b>5 Investment income</b>	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Bank interest	-	22
	<u>          </u>	<u>          </u>
	-	22
	<u>          </u>	<u>          </u>
<b>6 Interest payable</b>	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
On bank loans and overdrafts	39,681	50,015
	<u>          </u>	<u>          </u>

BRITISH COUNTRY INNS 2 PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE PERIOD ENDED 29 JANUARY 2011

7 Taxation	2011	2010
Total current tax	-	-
<b>Factors affecting the tax charge for the period</b>		
Loss on ordinary activities before taxation	(1,350,567)	(1,484,709)
Loss on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 28.00% (2010 - 28.00%)	(378,159)	(415,719)
Effects of:		
Non deductible expenses	2,240	5,964
Depreciation add back	73,147	63,964
Capital allowances	(34,716)	(45,344)
Tax losses carried forward	102,323	131,108
Loss on disposal of fixed assets	36,045	3,877
Fixed asset impairment add back	199,120	256,150
	378,159	415,719
<b>Current tax charge for the period</b>	-	-

The company has estimated trading losses of £1,971,725 (2010: £1,501,554) available to carry forward against future trading profits. Based on a future expected tax rate of 26% this represents a deferred tax asset of £512,649 (2010: £420,435). A deferred liability arises between depreciation and capital allowances of £42,496 (2010: £83,448). The net deferred tax asset has not been included in the balance sheet as the necessary conditions for recognition have not been met.

BRITISH COUNTRY INNS 2 PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE PERIOD ENDED 29 JANUARY 2011

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8 Intangible fixed assets

	Goodwill £
<b>Cost</b>	
At 31 January 2010	389,702
Disposals	(126,000)
	<hr/>
At 29 January 2011	263,702
	<hr/>
<b>Amortisation</b>	
At 31 January 2010	211,670
Amortisation on disposals	(83,862)
Charge for the period	135,894
	<hr/>
At 29 January 2011	263,702
	<hr/>
<b>Net book value</b>	
At 29 January 2011	-
	<hr/> <hr/>
At 30 January 2010	178,032
	<hr/> <hr/>

BRITISH COUNTRY INNS 2 PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE PERIOD ENDED 29 JANUARY 2011

9 Tangible fixed assets

	Land and buildings Freehold £	Fixtures, fittings & equipment £	Total £
<b>Cost</b>			
At 31 January 2010	6,867,922	1,013,899	7,881,821
Additions	-	54,468	54,468
Disposals	(846,082)	(155,031)	(1,001,113)
At 29 January 2011	<u>6,021,840</u>	<u>913,336</u>	<u>6,935,176</u>
<b>Depreciation</b>			
At 31 January 2010	962,549	289,371	1,251,920
Revaluation	711,142	-	711,142
On disposals	(19,299)	(45,222)	(64,521)
Charge for the period	63,687	143,886	207,573
At 29 January 2011	<u>1,718,079</u>	<u>388,035</u>	<u>2,106,114</u>
<b>Net book value</b>			
At 29 January 2011	<u>4,303,761</u>	<u>525,301</u>	<u>4,829,062</u>
At 30 January 2010	<u>5,905,373</u>	<u>724,528</u>	<u>6,629,901</u>

10 Stocks	2011 £	2010 £
Finished goods and goods for resale	<u>72,695</u>	<u>84,667</u>

11 Debtors	2011 £	2010 £
Other debtors	4,301	43,661
Prepayments and accrued income	51,618	47,990
	<u>55,919</u>	<u>91,651</u>

BRITISH COUNTRY INNS 2 PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE PERIOD ENDED 29 JANUARY 2011

12 Creditors: amounts falling due within one year	2011 £	2010 £
Bank loans and overdrafts	1,076,900	1,496,201
Trade creditors	118,101	200,682
Taxes and social security costs	127,975	56,521
Other creditors	16,894	281,204
Accruals and deferred income	68,568	54,616
	<u>1,408,438</u>	<u>2,089,224</u>

The bank overdraft is secured by way of a fixed charge over certain freehold property and associated assets held by the company. A short term loan of £745,000 is secured by way of a fixed charge over certain freehold property and associated assets held by the company with interest being charged at 3.5% per annum over LIBOR. A separate interest-free trade loan of £275,000 is secured by way of a fixed charge over certain freehold property.

13 Share capital	2011 £	2010 £
<b>Allotted, called up and fully paid</b>		
7,914,174 Ordinary of 50p each	3,957,087	3,942,087
740 A Ordinary of 50p each	370	370
	<u>3,957,457</u>	<u>3,942,457</u>

The ordinary shares of £0.50 each and the 'A' ordinary shares of £0.50 each rank pari passu except for rights to income and capital where, if the returns are in excess of a specified Initial Return as detailed in the Articles of Association of the company, 75% of any excess will be due to the holders of ordinary shares of £0.50 each in proportion to their holdings of those shares and 25% of any excess will be due to the holders of ordinary 'A' shares of £0.50 each in proportion to their holdings of those shares.

14 Statement of movements on reserves	Share premium account £	Profit and loss account £
Balance at 31 January 2010	3,324,584	(2,337,837)
Loss for the period	-	(1,350,567)
	<u>3,324,584</u>	<u>(3,688,404)</u>

**BRITISH COUNTRY INNS 2 PLC**

**NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE PERIOD ENDED 29 JANUARY 2011**

<b>15 Reconciliation of movements in shareholders' funds</b>	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Loss for the financial period	(1,350,567)	(1,484,709)
Proceeds from issue of shares	-	19,993
	<u>(1,350,567)</u>	<u>(1,464,716)</u>
Net depletion in shareholders' funds	(1,350,567)	(1,464,716)
Opening shareholders' funds	4,944,204	6,408,920
	<u>4,944,204</u>	<u>6,408,920</u>
Closing shareholders' funds	<u>3,593,637</u>	<u>4,944,204</u>

<b>16 Directors' remuneration</b>	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Remuneration for qualifying services	<u>93,875</u>	<u>145,157</u>

**17 Employees**

**Number of employees**

The average monthly number of employees (including directors) during the period was:

	<b>2011</b>	<b>2010</b>
	<b>Number</b>	<b>Number</b>
Directors	4	4
Operation of public houses	128	168
	<u>132</u>	<u>172</u>

<b>Employment costs</b>	<b>2011</b>	<b>2010</b>
	<b>£</b>	<b>£</b>
Wages and salaries	1,136,904	1,265,944
Social security costs	77,375	90,335
	<u>1,214,279</u>	<u>1,356,279</u>

BRITISH COUNTRY INNS 2 PLC

NOTES TO THE FINANCIAL STATEMENTS (continued)  
FOR THE PERIOD ENDED 29 JANUARY 2011

<b>18</b>	<b>Reconciliation of operating loss to net cash outflow from operating activities</b>		<b>2011</b>	<b>2010</b>	
			£	£	
	Operating loss		(1,310,886)	(1,434,716)	
	Depreciation of tangible assets		918,723	1,019,639	
	Amortisation of intangible assets		135,886	148,567	
	Loss on disposal of tangible assets		153,602	13,848	
	Decrease in stocks		11,972	11,501	
	Decrease/(increase) in debtors		35,732	(20,253)	
	(Decrease)/Increase in creditors within one year		(328,495)	279,399	
	<b>Net cash outflow from operating activities</b>		<u>(383,466)</u>	<u>17,985</u>	
<b>19</b>	<b>Analysis of net debt</b>	<b>31 January 2010</b>	<b>Cash flow</b>	<b>Other non-cash changes</b>	<b>29 January 2011</b>
		£	£	£	£
	Net cash:				
	Cash at bank and in hand	49,177	(4,778)	-	44,399
	Bank overdrafts	(496,201)	419,301	-	(76,900)
		<u>(447,024)</u>	<u>414,523</u>	<u>-</u>	<u>(32,501)</u>
	Debt:				
	Debts falling due within one year	(1,000,000)	-	-	(1,000,000)
	<b>Net debt</b>	<u>(1,447,024)</u>	<u>414,523</u>	<u>-</u>	<u>(1,032,501)</u>
<b>20</b>	<b>Reconciliation of net cash flow to movement in net debt</b>		<b>2011</b>	<b>2010</b>	
			£	£	
	Increase in cash in the period		414,523	909,409	
	Cash inflow from increase in debt		-	(1,000,000)	
	<b>Movement in net debt in the period</b>		<u>414,523</u>	<u>(90,591)</u>	
	Opening net debt		(1,447,024)	(1,356,433)	
	<b>Closing net debt</b>		<u>(1,032,501)</u>	<u>(1,447,024)</u>	

## BRITISH COUNTRY INNS 2 PLC

### NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE PERIOD ENDED 29 JANUARY 2011

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#### 21 Related party relationships and transactions

As at 29 January 2011 British Country Inns 2 PLC owed British Country Inns Plc £5,891 (2010: £12,224). The directors of British Country Inns Plc are also the directors and minority shareholders in British Country Inns 2 Plc.

As at 29 January 2011 British Country Inns 2 Plc owed British Country Inns 3 Plc £5,527 (2010: £249,856). The directors of British Country Inns 2 Plc are also the directors and minority shareholders in British Country Inns 3 Plc.

As at 29 January 2011 British Country Inns 2 Plc owed British Country Inns 4 Plc £2,746 (2010: £17,209). The directors of British Country Inns 4 Plc are also the directors and minority shareholders in British Country Inns 2 Plc.