SFI Holdings Limited

Annual Report and Non-Statutory Accounts 2004

Registered No: 05095347

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Chairman's statement

Introduction

This report and accounts for the year ended 29 May 2004 reflects the successful completion of a significant restructuring of SFI Group plc ("SFI") after an extended period of uncertainty, investigation, corporate review and re-financing activities. The preparation and distribution of this report and accounts so shortly after the delayed 2003 report is a reflection of the excellent progress which has been made in the last few months.

To describe the year ending 29 May 2004 as a one of transition is true in every sense of the word. In the last year the Board has addressed an array of accounting, financial, funding, compliance and regulatory issues, whilst at the same time seeking to first stabilise and then improve the trading position in a difficult market through the implementation of the first phase of the Recovery Plan. Concurrently the banks, shareholders and SFI agreed and then implemented a financial restructuring of the group's capital base.

It has required a significant effort to balance the priorities over the last year but the financial and management platform has now been created from which a trading recovery can be realised.

Key events during the year

On 23 June 2003 I joined SFI shortly after it had announced sales behind expectations, an inability to clarify its financial position and as a consequence the delisting of the shares with effect from 12 May 2003. Clearly this represented a very challenging set of circumstances with the underlying issues and significant accounting discrepancies having been first communicated to shareholders in October and November 2002.

Following an initial review of the business, market conditions and an assessment of the most beneficial strategic direction, a Recovery Plan was developed, providing the basis for ongoing discussions and support from SFI's banks. This in turn created both the support and time necessary for the Directors to put in place the multiple work-streams, with selected new advisors, to resolve the complex legacy issues and produce a viable way forward for all stakeholders. Further details including an update on strategic developments against the background of challenging trading conditions were outlined in a circular sent to shareholders on 6 October 2003. Resolutions voted on by shareholders at the AGM, which followed on 7 November 2003, were strongly endorsed.

On 12 December 2003 the Financial Services Authority ("FSA") announced the results of its enquiries into the accounting discrepancies. The FSA concluded that there had been a breach of the listing rules, albeit there was no evidence to suggest that this was deliberate. The FSA acknowledged that SFI had taken a co-operative approach to the investigations and, taking into account this and its financial position, issued a censure but imposed no financial penalty.

Well-publicised trading challenges facing the sector and SFI's distressed financial position combined to deliver trading results which were weaker than expected during the second half of calendar year 2003. This necessitated an update to the underlying financial outlook supporting the Recovery Plan. The initial engagement of the management team in the key activities set out in the Recovery Plan went on to stabilise SFI's trading position albeit against a challenging company and sector backdrop.

In the first quarter of 2004 the Board was able to conclude on a number of key work-streams culminating in a circular to shareholders on 7 April 2004, which set out the recommended proposals for the restructuring of SFI. The circular was accompanied by the annual report and accounts for 2003, which included the results for the year ended 31 May 2003 along with a restatement of the results for the year ended 31 May 2002. The restructuring proposals and the accounts were the end result of a particularly significant period of activity for the Board, with both documents reflecting the complexity of issues that had to be addressed.

The four key elements in the Scheme of Arrangement were:

- The introduction of SFI Holdings Limited (the "Company") as the ultimate holding company of SFI;
- The discharge of part of the amount owing by SFI to its banks that comprised the debt conversion amount of £83.4 million, in consideration for the issue of shares to the banks;

Chairman's statement

- The elimination of the current deficit on the profit and loss account reserves of SFI Group plc by the cancellation of the amounts standing to the credit of the share premium account and reduction in share capital; and
- The issue to the shareholders of litigation entitlements, which relate principally to the recovery from potential proceedings against SFI's former auditors.

On 7 May 2004 a Court meeting and EGM were held and received the overwhelming support of the shareholders. This allowed the restructuring to progress through a Court hearing on 27 May 2004 with the Scheme of Arrangement becoming effective and SFI Holdings Limited becoming the ultimate holding company of the group on 21 May 2004.

At the request of some shareholders, the Company has subsequently arranged a facility whereby its shares may be traded on a matched bargain basis only. Further details of this facility and contact information are included on page 21 of the Directors' Report.

Results for the year ended 29 May 2004

Shareholders will be aware that the historic profitability of the Group was significantly below that previously reported and 2004's trading therefore started from this much lower base. The financial results for the year also reflect the weak trading start to the year, the impact of actual and attempted disposals, the management focus on the restructuring and limited levels of capital investment. These factors have contributed to a consequential like-for-like sales decline across some but not all of the portfolio with a cost base which in the short to medium term is relatively fixed.

The results for the year show a pre-tax loss of £26.4 million (2003 £110.0 million) on turnover of £128.7 million (2003 £153.2 million). This loss is after exceptional items of £13.1 million, comprising impairment charges on fixed assets of £5.9 million, professional fees of £5.8 million, provision for onerous leases of £0.8 million, loss on disposal of fixed assets of £0.5 million and bank charges of £0.1 million.

Profits before interest, tax, depreciation, amortisation and exceptional items were £8.2 million (2003 £9.2 million). Before interest and exceptional items the Group reported an operating loss of £0.1 million (2003 £6.7 million). Head office costs amounted to £9.4 million for the year (2003 £10.6 million).

As at 29 May 2004 the Group's balance sheet shows net liabilities of £7.2 million (2003 £66.0 million).

Turnover for the Group's ongoing operations reduced by £24.5 million to £128.7 million reflecting the disposal of 26 sites and an overall like-for-like sales decline of 3.5%. The like for like sales performance varied across the brands and has been impacted by the uncertainty surrounding some brands, limited capital investment and a previous lack of strategic focus on sustainable improvements in both the customer offer and the retail operation.

A more detailed commentary on the financial performance for the year is contained in the Financial Review.

Portfolio structure and brand evolution

The Group has a principally well-located portfolio of pubs and bars which in parts has been under-invested and under-traded. As part of the Recovery Plan there are selected changes being made to the portfolio, some of which have been completed during the year to May 2004.

The Slug & Lettuce brand has been developed significantly since the original acquisition of 34 units by SFI in August 2000 and the subsequent conversion of the acquired Parisa sites. In the year six sites have been added by way of rebranding and conversion, with development and profit sustaining capital investment made in a further three sites. These selected investments, when combined with the strength of the locations, careful evolution of the offer, sales mix and operating standards, show early indications of producing increasingly favourable returns from this brand in our portfolio.

The Litten Tree brand trades across a highly competitive segment of the sector with associated pressures on volumes and margins. During the year we have added three sites by way of rebranding and conversion and

Chairman's statement

we have made capital investment into a further ten sites; the initial capital investment is producing a good return. The Litten Tree portfolio will be further enhanced by the introduction of an updated brand template which has been developed out of a four-month evolution project including elements of design, development of the food and drinks offer (including its merchandising and marketing), music, sport and entertainment, along with our approach to customer service and our own staff recruitment and induction. The Litten Tree brand has the potential to convert sales to profit on an increasingly leveraged basis as the evolution and Recovery Plan activities are implemented across the estate in the years ahead.

The Bar Med brand has seen the greatest degree of change in the last year after a period when it suffered the inevitable uncertainty of the previous potential disposal activity. Following the decision to cease marketing the brand for sale, we have taken the opportunity to rebrand certain sites where either the Slug & Lettuce or Litten Tree brand has a stronger customer attraction in those locations. In the year ahead a further seven sites have been identified for potential conversion. It is then planned to apply the key learnings from the evolution process adopted for Litten Tree in defining the next steps for the continuing Bar Med sites.

The Latin business, which now operates nine sites, was also subject to the uncertainty of a curtailed disposal process. In the year following the decision not to proceed with a disposal there have been encouraging results from these assets with the rebrand of one site at the end of the last year and refurbishment investment in another. Other potential sites have been identified, where the location and trading strategy would benefit from the installation of the Latin brand.

The Group operates a further 11 sites shown under the "Other" category in the table below, which includes continuing operations of unbranded pubs and bars, along with the one continuing site under each of the Break for the Border and For Your Eyes Only operations. Since the year-end a further disposal of one site has taken place. Where financially justifiable the Group will be considering further sites for conversion to one of the continuing and evolving brands.

The Group has identified a limited number of non-core sites and will be progressing with selected disposals in the year ahead.

Table: **Summary of portfolio movements**

	Slug & Lettuce	*Litten Tree*	*Bar Med*	*Latin*	*Other*	*Total*
At 31 May 2003	53	61	31	9	29	183
Disposed	(3)	(5)	(2)	0	(16)	(26)
Conversions	6	3	(7)	0	(2)	0
At 29 May 2004	56	59	22	9	11	157

In addition, during the course of the year the number of landbank sites has been reduced from eighteen to eight. Agreements to exit from a further three landbank sites have been entered into since the year-end.

In summary the Group benefits from a number of key brands which are all capable of further evolution so as to better meet customers' requirements now and in the future. Within the activities and tasks established in our Recovery Plan and with the capital available we will continue to prioritise the investment in reshaping the portfolio so as to provide customers with the most appropriate trading template in each location.

Recovery Plan

The Recovery Plan was initially drawn up for the period to May 2006 and set out the key areas to address so as to rebuild the profitability of the Group over the subsequent three years. The principles of a trading recovery remain unchanged and the management team are continuing to address the issues and opportunities across the key areas of; people, operations, customer offer, portfolio and support functions.

The initial planning and steps to implement key tasks in the Recovery Plan though challenging against the backdrop of stabilising the Group and effecting the financial restructuring have been successfully completed.

Chairman's statement

In spite of the understandable diversion in management time, progress is being made in each functional and operational area so as to deliver the necessary improvements in profitability, though it will take time for all of the plan activities to be implemented and for the full benefits to be realised.

Trading update

The first twelve weeks of the new financial year have started in line with expectations with a 2.0% uplift in like-for-like sales compared with the prior year and improvements in overall profitability.

Whilst there are continuing challenges in developing sales and margins, sales' trends in each of the key brands have shown improvements, in part driven by performance from sites where capital investment has been focused and also through stabilisation of margins on the back of more targeted promotional activities.

Suppliers

The combination of having a number of established brands trading in a well-located portfolio has enabled us to continue strong trading relationships with our key supply partners. Suppliers maintained a supportive stance through the period to the restructuring and we now look forward to refining our product strategies with them and realising the trading opportunities in the year ahead.

Board and senior management changes

There have been a number of changes to the composition of the SFI Group plc Board both during the year and immediately after the year-end. Following the implementation of the initial management and operational changes Andrew Latham, Managing Director, resigned on 3 October 2003 and Robert Lo, Non-Executive Director, elected not to stand for re-appointment and resigned on 7 November 2003.

As announced in the last report and accounts of SFI Group plc, Tim Andrews, Finance Director, had indicated his wish to resign and he duly left the Board on 7 June and the Company on 20 July 2004, having spent his final weeks assisting Simmons and Simmons, our lawyers, in their work on preparation for the potential action against SFI's former auditors.

Mark Robson was appointed Finance Director on 7 June 2004 and his previous experience has shown immediate benefits to the finance and IT functions as well as the year-end process and statutory audit. Mark brings to the Company the necessary skills to support the business fully in the ongoing implementation of the Recovery Plan.

Edward Lavelle, Commercial Director and Company Secretary was appointed to the Board on 28 May 2004 and continues with his responsibilities for property, buying and supply chain. Edward played an important role in the restructuring process and is well placed to support key elements of the Recovery Plan.

It is planned to strengthen the Board with the appointment of a further Non-Executive Director and an appropriate search is underway.

During the year and since the year-end, we have restructured responsibilities whilst strengthening the Executive Committee which now includes six members in addition to the Executive Directors. Key appointments have been made in operations and buying, each bringing significant experience to the team, which is now well established in its task of implementation of the Recovery Plan.

People

Whilst there has been considerable change across the organisation along with some understandable uncertainty over the last year I would like to express my thanks to all of our employees who have shown a great deal of loyalty and commitment to their sites and the business.

We have set about creating a new culture for the Group with clear leadership and direction, a clear focus on implementing necessary business changes, at the same time as enhancing accountability and ownership. To date, I have been encouraged by the level of engagement from our people who have shown themselves to be fully committed to the journey ahead.

Chairman's statement

Litigation against former auditors

Following completion of the audited accounts for 2003, which included the restatement of the results for the prior years to 31 May 2002, the Directors have continued to investigate and progress the claim against SFI's former auditors, Horwath Clark Whitehill (''HCW'').

SFI and its advisers are currently taking steps to obtain access to HCW's underlying working papers. SFI has provided a detailed analysis to Barlow Lyde & Gilbert, HCW's legal advisers, as to the potential basis of the claim in respect of HCW's audit of the accounts for the three years to 31 May 2002 and the reasons why it requires access to the audit working papers in order to substantiate this claim.

The sector and company outlook

The high street pub and bar sector continues to face a challenging trading environment with over-capacity in certain locations, price competition, actual and anticipated regulatory change and increased legislative and other cost pressures. The sector is also inevitably impacted by changes in the wider economy, such as interest rate movements and general consumer confidence. The Group maintains an appropriate level of awareness of these factors, each of which is considered within the context of our Recovery Plan activities.

Having successfully come through a prolonged period of uncertainty, the platform created by the financial restructuring means that the strengthened management team is now able to focus on addressing the opportunities that exist for the Group through the delivery of the Recovery Plan objectives. The key components are well understood albeit they are being implemented against a continually challenging regulatory, customer and sector perspective and within confines of the available financial resources. The first steps have been negotiated successfully but it will take some time for all of the activities to be implemented and their benefits to flow through the operating results.

Stuart Lawson
Executive Chairman

16 September 2004

Directors and Board

Non-Executive Directors

John Brackenbury CBE

John Brackenbury, aged 68, joined the Board of SFI Group plc in November 1998. He was Deputy Chairman of Pubmaster and has been a leading figure in the drinks and leisure sector for over 40 years, initially with IDV & Watney Mann. He is Chairman of Business in Sport and Leisure; Chairman of the People 1st; Chairman of Avanti Communications plc and a non-executive director of The Isle of Capri Casinos. He was appointed a CBE in the Queen's Birthday Honours List in June 2000 for services to tourism, education and employment.

Hugh Siegle

Hugh Siegle, aged 57, was appointed to the Board of SFI Group plc in 2001. He has extensive leisure industry experience having been at Whitbread for 27 years, latterly as Property Director. He now has non-executive roles as a leisure consultant at DTZ Debenham Tie Lung, and the Boards of Portsmouth Harbour Renaissance Limited, the Portsmouth Naval Base Property Trust, and Business in Sport and Leisure where he also chairs the Property Group. As a Chartered Surveyor he has sat on property committees of the Royal Institution of Chartered Surveyors (RICS) and the Brewers and Licensed Retailers' Association.

Executive Directors

Stuart Lawson, Executive Chairman

Stuart Lawson, aged 41, was appointed Executive Chairman of SFI Group plc in June 2003. He is a Chartered Management Accountant with extensive corporate experience of multiple site operations. He has experience of managing turnaround and refinancing situations and most recently was involved in the refinancing and recovery of value of Alldays plc. Previously, he was at Diageo plc where he was Finance Director and Commercial Director of Burger King Limited.

Mark Robson, Finance Director

Mark Robson, aged 41, who was appointed to SFI Group plc in June 2004, is a Chartered Accountant. Prior to joining SFI, Mark was Finance Director of Claires Accessories (UK) Limited and Alldays plc (2001 to 2003) where he was part of the executive team that created a recovery in value for stakeholders prior to its sale to the Co-operative Group. Before joining Alldays in 1995 Mark was with Rank Xerox.

Edward Lavelle, Commercial Director

Edward Lavelle, aged 40, was appointed to the Board of SFI Group plc in May 2004 following completion of the financial restructuring. Edward, who qualified as a Chartered Accountant, has corporate finance experience with KPMG and then Hambros Bank. Since 1997 he has held Board positions in various companies. He was appointed Commercial Director in November 2002 and Company Secretary in November 2003.

Board changes

During the period since incorporation there have been the following changes in the composition of the Board of SFI Holdings Limited.

The following Directors resigned during the period:

Hackwood Directors Limited	(appointed 5 April 2004, resigned 28 May 2004)
Hackwood Secretaries Limited	(appointed 5 April 2004, resigned 28 May 2004)

In addition the following Directors were appointed on the dates below:

S Lawson	5 April 2004
FEJG Brackenbury	5 April 2004
H Siegle	5 April 2004
EC Lavelle	28 May 2004
WHM Robson	7 June 2004

Financial review

Summary

The continuation of a challenging trading environment, the extended period of uncertainty and financial distress combined with significant exceptional costs incurred in connection with the Scheme of Arrangement (the "Scheme") announced to SFI Group plc shareholders on 7 April 2004 and which became effective on 28 May 2004 have all impacted the financial results for the year ended 29 May 2004. The ongoing reorganisation of the SFI portfolio and a further review of the projected earnings of specific units has also resulted in additional asset write downs and provisions.

For the year to 29 May 2004, the Group has incurred a pre-tax loss of £26.4 million (2003 £110.0 million) on turnover of £128.7 million (2003 £153.2 million) and a post-tax loss of £25.8 million (2003 £99.7 million).

This result can be further analysed as follows:

- Operating loss before exceptional items of £0.1 million (2003 £6.7 million)
- Net interest costs of £13.3 million (2003 £14.8 million)
- Loss on ordinary activities before exceptional items and taxation of £13.3 million (2003 £17.9 million)

Pre-tax exceptional costs for the year total £13.1 million (2003 £92.1 million) and comprise:

- Professional fees and associated costs principally in relation to the Scheme of £5.8 million (2003 £6.4 million)
- Impairment of tangible fixed assets of £5.8 million (2003 £58.2 million)
- Impairment of intangible fixed assets of £0.1 million (2003 £8.9 million)
- Provisions for onerous lease costs of £0.8 million (2003 £3.1 million)
- Loss on disposal of tangible fixed assets of £0.5 million (2003 profit of £0.1 million)
- Bank charges and associated costs of £0.1 million (2003 £3.5 million)
- Provision for loss on disposal of tangible fixed assets of £Nil (2003 £10.5 million)
- Aborted developments of £Nil (2003 £1.7 million)

The Group trading performance for the year has been impacted by the key events as set out in the Chairman's Statement and reflects the impact of the following key factors:

- A challenging trading environment with the high street pub and bar market continuing to experience intense competition with the associated adverse impact on sales and margins.
- The adverse effect of the Group's continued distressed financial position and the significant exceptional costs which have necessarily been incurred as the Board dealt with the myriad of accounting and other issues and went on to secure the banks' and shareholders' agreement to the financial restructuring as set out in the Scheme.

Following the shareholders' and Courts' approval of the Scheme and the subsequent financial reorganisation, the Group had net liabilities of £7.2 million, a reduction from the net liabilities of £66.0 million reported in 2003.

SFI Holdings Limited and the Scheme of Arrangement

As set out in the Scheme Circular issued to the shareholders of SFI Group plc and which became effective on 28 May 2004, a restructuring of the Group's finances was approved to enable the business to continue to trade and to provide a more appropriate base from which to rebuild the business and to implement the Recovery Plan.

Financial review

The restructuring of the Group reduced the existing banking facilities of £152.9 million (plus rolled up interest of approximately £8.0 million and unpaid fees due to the banks of £2.5 million) to £80 million with the balance of these obligations due to banks (amounting in total to approximately £83.4 million) being converted into equity. The debt for equity conversion, coupled with the restructuring, involved the incorporation of SFI Holdings Limited which became the ultimate parent company of SFI Group plc by way of the Scheme.

Consolidated accounts

The Group restructuring and the subsequent acquisition of SFI Group plc has been accounted for using merger accounting principles. For the consolidated accounts, the adoption of merger accounting presents SFI Holdings Limited as if it had always been the parent undertaking of the Group. Consequently the consolidated accounts include a profit and loss account covering the year to 29 May 2004 with comparative figures for the prior year, both of which have been prepared as if SFI Holdings Limited had existed throughout that period. Equally, Group balance sheets and Group statements of cash flows have been prepared on the same basis.

Turnover

Turnover for the year was £128.7 million compared with £153.2 million for the previous year. The decline in turnover is principally due to the reduction in site numbers from 183 at the beginning of the year to 157 as at 29 May 2004, in addition to the overall decline in like for like (''LFL'') sales of 3.5% for the year. Since the year-end and up to the end of August, the LFL performance has improved to a positive 2.0% showing early signs of benefits of the implementation of the Recovery Plan.

Operating loss

The Group incurred operating losses (before exceptional items) of £0.1 million (2003 £6.7 million). Across part of the portfolio we have continued to experience intense competitor pressure with the effect of discount pricing and over capacity. As a result gross margins for the year were marginally down to 73.4% (2003 73.6%).

The operational results of the Group have however been impacted through the disposal of 26 sites during the year together with the conversion of an additional 9 sites. The 26 sites sold during the year incurred net losses in aggregate of £0.4 million in the periods prior to disposal (2003 profit of £2.1 million).

For comparative purposes and excluding the trading results from the disposal sites, the operating losses have reversed from a loss of £8.8 million in the year to 2003 to an operating profit of £0.3 million in 2004, an uplift of £9.1 million in total, of which £7.6 million is represented by a reduction in depreciation charged in the year.

Administrative expenses (before exceptional items) decreased to 73.4% from 77.9% of sales. This was due to a number of factors including, the 26 site disposals and a lower depreciation charge following the impairment and further write off charges of £67.1 million in 2003, and other one-off costs relating to the restatement exercise that were included in the 2003 charge.

Included within administrative expenses is £8.3 million of depreciation and amortisation charges (2003 £15.9 million). Consequently taking the pre-exceptional operating loss of £0.1 million (2003 £6.7 million) the Group achieved an underlying pre-exceptional EBITDA of £8.2 million (2003 £9.2 million) which only part covered the interest charge for the year of £13.3 million (2003 £14.7 million).

Interest payable

The interest payable for the year was £13.3 million (2003 £14.8 million). As part of the agreement reached with the banks, interest ceased to be charged from the middle of February through to the effective restructuring date of 28 May 2004. At the beginning of the year the Group had interest rate swaps on £100 million of debt which carried fixed rates at significantly above forward rates available in the market at that time. These agreements were terminated on 16 and 17 December 2003, and, the cost of this, approximately £4.3 million, was included in the interest payable charge and added to the Group's total debt.

Financial review

Exceptional costs

The Group incurred pre tax exceptional costs of £13.1 million (2003 £92.1 million) in the year. These costs were as follows:

Professional fees charged in the year to 29 May 2004 amounted to £5.8 million (2003 £6.4 million). In addition further bank fees of £0.1 million (2003 £3.5 million) were incurred. These fees were a result of conducting the investigation into the causes of the accounting discrepancies, assisting the Executive Directors in the ongoing discussions with the banks and securing their continued support for the Group, documenting and then completing the Scheme.

A further provision of £0.8 million (2003 £3.1million) has also been included within exceptional costs in respect of landbank sites where the Group has existing obligations under leases which had previously been entered into. The provision has been calculated on the basis that the Group will be able to achieve a surrender of these obligations in due course and that in the meantime it will continue to meet its obligations under each of these onerous leases. The cash outflow for the current financial year is forecast to be £1.8 million including forecast reverse premiums payable on surrender and ongoing obligations.

In 2003, a provision for loss on disposal of tangible fixed assets of £10.5 million and aborted development costs of £1.7 million were included in exceptional costs. No such provision was necessary in 2004.

In accordance with FRS 11, the Group has undertaken a review of the carrying value of its fixed assets. The result of this impairment review, which was conducted on a unit by unit basis and which took account of restated historic and future anticipated earnings, is that £5.8 million (2003 £58.2 million) has been written off the carrying value of tangible fixed assets and £0.1 million (2003 £8.9 million) has been written off the carrying value of goodwill in the year.

During the year, 26 units and 10 landbank sites were disposed of generating net proceeds of £14.3 million and realising a loss on disposal of £0.5 million (2003 profit on asset disposals of £0.1 million).

Balance sheet

The balance sheet as at 29 May 2004 reflects the implementation of the Scheme with the conversion of bank debt into equity of the Company, and the restructuring of the remaining bank debt into a term loan repayable in May 2006. The acquisition of SFI Group plc has been accounted for using merger accounting principles.

As at the year-end, fixed assets totalled £74.5 million (2003 £99.2 million), offset by net current liabilities of £9.2 million (2003 £161.9 million), long term bank debt of £70.0 million (2003 £Nil), provisions for liabilities and charges of £2.6 million (2003 £3.3 million), and resulted in net liabilities of £7.2 million (2003 £66.0 million).

Cashflow

The continued support of the Group's bankers and creditors combined with the successful disposal of part of the undeveloped land bank and further under performing trading sites during the year to 29 May 2004, and the approval of the Scheme has now created the platform from which the Group can appropriately manage its funding requirements.

The net cash outflow from operating activities was £4.8 million (2003 cash inflow of £5.7 million). After interest payments and bank fees of £7.3 million (2003 £11.2 million), capital expenditure payments of £3.1 million (2003 £15.4 million), cash receipts on fixed asset disposals of £14.3 million (2003 £8.0 million), acquisition costs of £3.9 million (2003 £3.9 million), the resultant net cash outflow before financing was £4.9 million (2003 £16.7 million).

There were new loans during the year of £8.2 million (2003 £11.2 million) which in part funded exceptional costs incurred in the creation and implementation of the Scheme. After taking account of the repayment of loans of £0.6 million (2003 £4.1 million), there was an overall net increase in cash of £2.7 million (2003 decrease in cash £9.5 million) in the year.

Financial review

Derivatives and other financial instruments

The Group's principal financial instruments, other than derivatives, comprise bank loans and cash. The main purpose of these financial instruments is to raise finance for its operations. The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

The Group has previously entered into derivative transactions (interest rate swaps) in order to manage the interest rate risks arising from the Group's operations and its sources of finance. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The policies for managing each of these risks are summarised below and the magnitude of this risk that has arisen over the period is detailed in note 20.

Interest rate risk

The Group borrows in Sterling at both fixed and floating rates of interest and has used interest rate swaps to generate the required interest profile and to manage the Group's exposure to interest fluctuations. At the 2003 year end, the Group had £100 million of its debts hedged by way of interest rate swap arrangements. During the year, the Company broke these swap contracts, at a cost of £4.3 million. This action was taken in view of the ongoing cost of the contracts and in the context of the overall debt restructuring which was under negotiation at the time.

Following approval of the Scheme and the completion of the restructuring, interest rate risk will be limited to the extent of £35 million of one year fixed rate borrowings out of total syndicated facilities of £70 million which run to May 2006. The remaining £35 million of syndicated facilities and £10 million of one-year overdraft will be at floating rates.

Liquidity risk

The Group's liquidity position during the year has been carefully managed in order to deal with the risks that were not adequately dealt with in prior years.

As a consequence during the negotiations with the Group's bankers, there has been intensive cashflow management with the active support of the banks. This approach, through detailed and documented cash flow procedures, will continue in order to ensure that liquidity risk is managed effectively during the various stages of the Recovery Plan.

Taxation

As a consequence of the restatement of the 2002 financial statements and the subsequent losses arising, the Group has a corporation tax recoverable debtor of £2.2 million (2003 £1.8 million). A deferred tax asset of £10.1 million (2003 £2.2 million) has not been recognised in the accounts. As a result the profit and loss account shows a tax credit of £0.6 million (2003 £10.2 million).

Post balance sheet events

On 2 June 2004 the balance on the pre-payment account £3,695,000, and which comprised of cash proceeds from certain disposals, was released to the Group (see note 20).

As part of the Scheme the capital of SFI Group plc was increased by the creation of 19,600,000 ordinary shares of 25 pence each, created out of distributable profit and loss account reserves. The shares were allotted and issued as fully paid to SFI Holdings Limited on 14 June 2004.

Mark Robson
Finance Director

16 September 2004

Corporate governance statement – SFI Group plc

The Directors of SFI Holdings Limited have not reported on the corporate governance of SFI Holdings Limited due to the fact that it was only incorporated on 5 April 2004. Therefore, the following corporate governance statement sets out the workings, committees and activities of the Board of SFI Group plc in the year to 29 May 2004. On 28 May 2004 SFI Holdings Limited acquired SFI Group plc under the terms of the Scheme of Arrangement.

Although SFI Group plc has de-listed and, as a consequence, this statement is not a requirement, the Board of SFI Holdings Limited (''the Company'') remains accountable to the Company's shareholders for good corporate governance and this statement describes how the principles of corporate governance are applied to the Company, SFI Group plc and their compliance with the Code provisions.

Statement by the Directors on compliance with the provisions of the Combined Code

SFI Group plc has been in full compliance with the provisions set out in Section 1 of the Combined Code throughout the year with the exception of:

A2.1 The role of Chairman and Chief Executive has been combined since Stuart Lawson's appointment on 23 June 2003.

C3.1 Following the resignation of Robert Lo on 7 November 2003, the audit committee comprised only two Non-Executive Directors.

The workings of the Board and its committees

The Board

The Board currently comprises three Executive Directors (Executive Chairman, Finance Director and Commercial Director) and two independent Non-Executive Directors. Their biographies appear on page 7. One Non-Executive Director resigned during the year.

All of the Non-Executive Directors who have served during the year are considered by the Board to be independent.

Following the appointment of Stuart Lawson to the Board on 23 June 2003 and the resignation of Andrew Latham on 3 October 2003, the role of Chairman and Chief Executive have been combined into Stuart Lawson's role of Executive Chairman. The combining of the roles was an important part in creating a smaller executive team to ensure that the financial restructuring was effected and that the Recovery Plan could be implemented.

The senior Non-Executive Director is John Brackenbury.

The Board is responsible to shareholders for the proper management of the Group. A statement of the Directors' responsibilities in respect of the accounts is set out on page 22.

The Board has a formal schedule of matters specifically reserved to it for decision. All Directors have access to the advice and services of the Company Secretary, Edward Lavelle, who is responsible to the Board for ensuring that Board procedures are followed and that applicable rules and regulations are complied with. In addition, the Company Secretary ensures that the Directors receive appropriate training as necessary. The appointment and removal of the Company Secretary is a matter for the Board as a whole.

The Board meets every month, reviewing trading performance, ensuring adequate funding, setting and monitoring strategy and reporting to shareholders. The Non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully considered. To enable the Board to discharge its duties, all Directors now receive appropriate and timely information. Briefing papers are distributed by the Company Secretary to all Directors in advance of Board meetings. The Chairman ensures that the Directors take independent professional advice as required.

Corporate governance statement – SFI Group plc

The following committees deal with the specific aspects of the Group's affairs.

Nomination committee

During the year the nomination committee, chaired by John Brackenbury, comprised the Non-Executive Directors. Following his appointment on 23 June 2003, Stuart Lawson, the Executive Chairman, also joined the committee.

The committee is responsible for proposing candidates for appointment to the Board, having regard to the balance and structure of the Board. In appropriate cases, recruitment consultants are used to assist the process.

Remuneration committee

John Brackenbury chairs the remuneration committee and its other members are Robert Lo (until his resignation on 7 November 2003) and Hugh Siegle. It is responsible for making recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration and its cost. The committee determines the contract terms, remuneration and other benefits for each of the Executive Directors, including performance related bonus schemes, share incentive schemes, pension rights and compensation payments. The Board itself determines the remuneration of the Non-Executive Directors.

Further details of the Company's policies on remuneration, service contracts and compensation payments are included in the Directors' Remuneration Report.

Audit committee

The audit committee was chaired by Robert Lo, until his resignation on 7 November 2003 at which time Hugh Siegle was appointed chairman in his place. The committee comprises the Non-Executive Directors and meets not less than twice annually, providing a forum for reporting by the Group's external auditors. Meetings are also attended, by invitation, by the Executive Directors.

The audit committee is responsible for reviewing a wide range of matters including the annual financial accounts before their submission to the Board and monitoring the controls that are in force to ensure the integrity of the information reported to the shareholders. The audit committee advises the Board on the appointment of external auditors and on their remuneration both for audit and non-audit work, and discusses the nature, scope and results of the audit with external auditors. The audit committee keeps under review the cost effectiveness and the independence and objectivity of the auditors.

Relations with shareholders

Communications with shareholders continue to be given high priority. The Board uses the Shareholder Meetings to communicate with investors and welcomes their participation. The Chairman aims to ensure that the chairmen of the audit, remuneration and nomination committees are also available at Annual General Meetings to answer questions.

Internal control

The Directors acknowledge that they are responsible for the Group's system of internal control and for reviewing its effectiveness and that significant attention has been required in this area over the past year. The system now in place, which is still subject to ongoing review and improvement, is designed to manage rather than eliminate the risk of failure to achieve the Group's strategic objectives, and can only provide reasonable not absolute assurance against material misstatement or loss.

An ongoing process, in accordance with the guidance of the Turnbull Committee on internal control, has been established for identifying, evaluating and managing the significant risks faced by the Group. The process was formally instituted in September 2002 and has been in place since the end of 2002 and up to the date of approval of the report and accounts. The Board regularly reviews the process and has reviewed the effectiveness of the system of internal controls in the year to May 2004.

Corporate governance statement – SFI Group plc

The Group's key risk management processes and system of internal control procedures include the following:

- Management structure
- Identification and evaluation of business risks
- Information and financial reporting systems
- Investment appraisal
- Audit Committee

The Board continues to review the requirement for establishing an internal audit function. However, given the size of the Company, and work undertaken by both internal and external parties in providing assurances on various matters, the requirement for an internal audit function is not considered necessary.

Directors' remuneration report – SFI Group plc

The Directors of SFI Holdings Limited have not produced a Directors' remuneration report for SFI Holdings Limited due to the fact that the Company has not paid any remuneration to SFI Holdings Limited or SFI Group plc Directors. This Directors' remuneration report is for SFI Group plc.

Remuneration committee

John Brackenbury chairs the remuneration committee. The committee makes recommendations to the Board, within agreed terms of reference, on an overall remuneration package for Executive Directors and other senior executives. Stuart Lawson, the Executive Chairman, provides advice to the committee in relation to the remuneration of other senior executives.

Remuneration policy

SFI Group plc policy on Directors' remuneration for 2004 and subsequent financial years is that the overall remuneration package should be sufficiently competitive to attract, retain and motivate high quality executives capable of achieving the Group's objectives and thereby enhancing shareholder value. The package consists of basic salary, benefits, the opportunity to invest in the shares of SFI Holdings Limited (the parent undertaking) under a share based incentive scheme, performance related bonuses with a significant proportion relating to performance and dependent upon the achievement of demanding targets and pension contributions. Consideration is given to pay and employment policies elsewhere in the Group, especially when determining annual salary increases.

Executive remuneration package

The remuneration committee reviews salary and other benefits annually, taking into account the performance of the individual, experience, responsibility, budgeted performance targets and comparative pay in the industry.

The details of individual components of the remuneration package and service contracts are discussed below.

Basic salary and benefits

Salary and benefits are subject to annual review and benchmarking, with the policy for 2004 and subsequent years being that basic salary should not increase by more than the average increase for employees throughout the Group. Benefits principally comprise a car allowance and private healthcare.

Annual performance related bonuses

For the financial year 2004-05, the Executive Chairman has the opportunity to earn a performance related bonus of up to 100% of his basic salary relating to the Group's financial performance over the full year. The other Executive Directors have the opportunity to earn up to 50% of their basic salary based on the same criteria. The remuneration committee has approved the basis of financial performance targets by which these bonuses may be earned.

Pensions

SFI Group plc contributes into the private pension schemes of Executive Directors at 10% of salary with each Director paying a minimum of 3% of salary.

Fees

The fees for Non-Executive Directors are determined by the Board within the limits stipulated in the Articles of Association. The Non-Executive Directors are not involved in any discussions or decision about their own remuneration.

Directors' remuneration report – SFI Group plc

Service contracts

The policy is for all Executive Directors to have contracts of employment of one year's duration and with provision for termination on no more than 12 months' notice.

None of the Non-Executive Directors have service contracts. Letters of engagement provide for an initial period of three years, subject to review. The remuneration of the Non-Executive Directors takes the form solely of fees, which are set by the Board of SFI Group plc, having taken advice on appropriate levels.

There are no predetermined special provisions for Executive or Non-Executive Directors with regard to compensation in the event of loss of office. The remuneration committee considers the circumstances of individual cases of early termination and in exceptional circumstances only would recommend compensation payments in excess of contractual obligations.

Executive Directors:

The service contracts and letters of appointment of the Executive Directors who served during the year include the following terms:

	Date of contract	*Unexpired term (months)*	*Notice period (months)*
S Lawson	23 June 2003	12	6
EC Lavelle	28 May 2004	12	6
A Latham	9 September 1998	12	12
TK Andrews	26 April 2002 (note 1) (note 2)	12	12

Note 1 — Contract effective 8 July 2002

Note 2 — Tim Andrews gave 12 months' notice on 27 January 2004 and left the Company on 20 July 2004

In the event of a change of control of the Company and notice to terminate an Executive Director's service agreement is given within 12 months of such change of control, the Executive Director shall receive an amount equal to the sum of his annual salary and the annual value of his contractual benefits in addition to his normal notice period.

Non-Executive Directors:

Hugh Siegle and John Brackenbury do not have service contracts with SFI Group plc but are appointed under letters of engagement. They do not participate in any of the Group's bonus, share or other incentive schemes and are subject to a notice period of three months.

Directors' remuneration report – SFI Group plc

Directors' remuneration

The remuneration of the Directors of SFI Group plc is as follows:

	Basic salary and fees £000	*Benefits £000*	*Performance related bonuses £000*	*Compensation for loss of office £000*	*Total 2004 £000*	*Total 2003 £000*
Executive Directors:						
S Lawson (appointed 23/06/03)	215	10	201	—	426	—
EC Lavelle (appointed 28/05/04)	1	—	—	—	1	—
TK Andrews (resigned 07/06/04)	159	13	50	110	332	126
Non-Executive Directors:						
RA Lo (resigned 7/11/03)	12	—	—	—	12	25
H Siegle	25	—	—	—	25	25
FEJG Brackenbury	25	—	—	—	25	25
Former Directors:						
AM Latham (resigned 3/10/03)	60	3	—	217	280	201
AS Hill (resigned 12/11/02)	—	—	—	—	—	62
CR Eplett (resigned 12/9/01)	—	—	—	—	—	32
NJ Irens (resigned 30/6/02)	—	—	—	—	—	2
	497	26	251	327	1,101	498

The Directors of SFI Holdings Limited received no remuneration from that entity.

The remuneration package of Executive Directors includes non-cash benefits comprising the provision of private health insurance.

Stuart Lawson received a performance related bonus which included £115,000, which had previously been approved at his appointment, in addition to £57,500 on the successful restructuring of the Group and £28,750 relating to targeted financial performance for the year ended 29 May 2004.

Pension entitlements

SFI Group plc contributes to Executive Directors' private defined contribution pension schemes.

The pension contributions paid by SFI Group plc in respect of the Directors are as follows:

	2004 £000	*2003 £000*
S Lawson	21	—
EC Lavelle	—	—
AM Latham	25	19
TK Andrews	23	12
	69	31

The Directors of SFI Holdings Limited received no pension contributions from that entity.

Share based incentive plan

The Executive Directors are eligible to participate in a share based incentive plan which includes the opportunity to subscribe for C Shares in SFI Holdings Limited. The shares that form the incentive plan represent 12.5% of the new issued share capital of SFI Holdings Limited and are held on behalf of those employees who subscribe for these shares by an Employee Benefit Trust.

Directors' remuneration report – SFI Group plc

Following the year end the Executive Directors have been invited to and have subscribed at par for C Shares made available under the incentive plan as follows:

	Number of C shares	*% of C shares*	*% SFI Holdings Shares*
S Lawson	18,769,610	25%	3.13%
EC Lavelle	7,507,844	10%	1.25%
M Robson	7,507,844	10%	1.25%

The Executive Directors are also able to participate in an Enterprise Value Uplift Scheme that has been adopted by SFI Holdings Limited, which is designed to reward employees who are holders of C Shares for an increase in value of the business over and above a base of £50 million. 5% of any increase over and above this base value will accrue to the employees who are holders of C Shares. To the extent the value of C Shares exceeds the amount that would have been paid under the Enterprise Value Uplift Scheme then no payments will be made under the Enterprise Value Uplift Scheme.

Share capital

Following the restructuring of SFI Group plc under the Scheme, the holders of shares in SFI Group plc were issued A shares in a new holding company, SFI Holdings Limited. The shares in SFI Group plc were then cancelled.

The interests of the Directors in the share capital of SFI Group plc and in SFI Holdings Limited after approval of the Scheme, were as follows:

	29 May 2004	*28 May 2004*	*31 May 2003**
	A shares in SFI Holdings Limited	*SFI Group plc*	
	Shares	*Shares*	*Shares*
S Lawson	—	—	—
EC Lavelle	2,000	2,000	2,000
TK Andrews	—	—	—
H Siegle	8,601	8,601	8,601
FEJG Brackenbury	20,773	20,773	20,773

** or at date of appointment if later*

Share options

No Director had any interest in share options in SFI Group plc at 29 May 2004 (2003 Nil). No share option schemes have been set up in SFI Holdings Limited.

By order of the Board

Edward Lavelle
Company Secretary

16 September 2004

Directors' report

The Directors present their report and non-statutory accounts for the year ended 29 May 2004.

Incorporation

The Company was incorporated on 5 April 2004.

Basis of preparation

Although there are no statutory requirements to prepare audited accounts for the Company until the period ended 28 May 2005, the Directors believe that it is in the shareholders' interests that audited consolidated accounts are prepared for the period ended 29 May 2004. The Group restructuring and the acquisition of SFI Group plc has been accounted for using merger accounting principles.

For the consolidated accounts, the adoption of merger accounting presents SFI Holdings Limited as if it always had been the parent undertaking of the Group. In the Directors' opinion, to present the accounts covering only the period from incorporation to 29 May 2004 would be misleading as the Company did not trade. Consequently the consolidated accounts include a profit and loss covering the year to 29 May 2004 with comparative figures for the prior year, both of which have been prepared as if SFI Holdings Limited had existed throughout that period. Equally, group balance sheets and group statements of cash flows have been included to complement the profit and loss accounts.

Group restructuring

As set out in the Scheme Circular issued under Section 425 of Companies Act (the "Scheme") to the shareholders of SFI Group plc and which became effective on 28 May 2004, a restructuring of the Group's finances to enable the business to continue to trade and provide a more appropriate base from which to rebuild the business and to implement the Recovery Plan was put in place.

The restructuring of the Group reduced the existing banking facilities of £152.9 million (plus rolled up interest of approximately £8.0 million and unpaid fees due to the banks of £2.5 million) to £80 million with the balance of these obligations due to Banks (amounting in total to approximately £83.4 million) being converted into equity. Approximately £3.7 million remaining in a prepayment account and arising largely from the disposal of assets, was released by the banks to the Group on 2 June 2004 to enable the settlement of deal costs and to provide working capital. The debt for equity conversion coupled with the restructuring involved the incorporation of SFI Holdings Limited and which became the ultimate parent company of SFI Group plc by way of the Scheme.

Further details of the Scheme are set out in Notes 1 and 21 to the accounts.

Your Directors believe that the completion of the restructuring now allows the implementation of the Recovery Plan and will enable the Group to continue to operate as a going concern and, in the medium term, to refinance its debt on conventional banking terms at or beyond the term of the new syndicated facilities which now extend to the end of May 2006. Therefore, the Directors believe it is appropriate to prepare these accounts on a going concern basis.

Results and dividends

The Group loss for the year, after taxation, amounted to £25.8 million (2003 £99.7 million).

No dividend will be paid (2003 £Nil).

Principal activity

The principal activity of the Group continues to be the operation of high street bars, public houses and restaurants. The principal activity of SFI Holdings Limited is that of a holding company.

Review of the business and future developments

A review of the business and the future developments of the Group is presented in the Chairman's Statement and in the Financial Review.

Directors' report

Events since the balance sheet date

As part of the Scheme the capital of the SFI Group plc was increased by the creation of 19,600,000 ordinary shares of 25 pence each from distributable profit and loss account reserves. The shares were allotted and issued as fully paid to SFI Holdings Limited on 14 June 2004.

As set out in this report, the £3.7 million remaining in a prepayment account and arising largely from the disposal of assets, was released by the banks to the Group on 2 June 2004.

Directors and their interests

The Directors of the Company who served during the year are as follows:

S Lawson	(appointed 5 April 2004)
E C Lavelle	(appointed 28 May 2004)
FEJG Brackenbury	(appointed 5 April 2004)
H Siegle	(appointed 5 April 2004)
Hackwood Directors Limited	(appointed 5 April 2004, resigned 28 May 2004)
Hackwood Secretaries Limited	(appointed 5 April 2004, resigned 28 May 2004)

Following the year end, M Robson was appointed to the Board on 7 June 2004.

Major interests in shares

As at 16 September 2004, in addition to the Executive Chairman, the following had interests in the share capital of the Company that exceeded 3%.

Organisation	*A shares of 0.0167 pence each*	*B shares of 0.0167 pence each*	*% of share capital*
Barclays Bank plc	96,250,000	50,655,878	17.50
West Register Investments Limited (a subsidiary of The Royal Bank of Scotland plc)	96,012,788		17.46
Fortis Bank S.A./N.V.	48,063,610		8.74
Evansgrove Limited (a subsidiary of Alliance & Leicester Commercial Bank plc)	36,426,690		6.62
Banc of America Securities Limited	91,005,693		6.21
The Governor and Company of the Bank of Scotland	32,055,969		5.83
Trafalgar Recovery Fund	25,021,320		4.56
Cargill Financial Markets plc	16,892,649		3.07
Orn Capital LLP	16,892,649		3.07

No other person has notified an interest in the ordinary shares of the Company required to be disclosed to the Company in accordance with sections 198 to 208 of the Companies Act 1985.

Political and charitable contributions

During the year, the Group made no political or charitable contributions (2003 £Nil).

Disabled employees

The Group gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person.

Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

Directors' report

Employee involvement

The Group continues to encourage the involvement and participation of employees in matters which affect their interests as employees. It is the Group's policy to promote equality of opportunity in both recruitment and career development.

Health and safety

The Group is committed to providing a safe environment for its customers and employees. Formal policies and procedures to ensure this aim is met are regularly reviewed and form a core part of each employee's training.

Environment

The Group aims to limit the impact of its operations on the environment and therefore seeks to develop and maintain good environmental practices. The Group is fully compliant with EU and domestic packaging legislation and other requirements.

Creditor payment policy and practice

It is the Company's policy that payments to suppliers are made in accordance with those terms and conditions agreed between the Company and its suppliers, provided that all trading terms and conditions have been complied with.

At 29 May 2004, the Company had an average of 35 days (2003 41 days) purchases outstanding in trade creditors.

SFI Holdings Limited shares

First Equity Limited ("First Equity"), a member of the London Stock Exchange and a company regulated by the FSA, has established facilities whereby the Company's shareholders may be able to buy and sell shares in the Company on a matched bargain basis only. A matched bargain relies on the existence of both a willing buyer and seller of a set number of shares at an agreed price.

Shareholders wishing to buy or sell the Company's shares using this facility should contact Simon Cowan or Paul Henry at First Equity on 0207 374 2226. In order for First Equity to be able to deal on behalf of shareholders, each shareholder will need to:

- provide details to First Equity of the number of shares, the price at which they would be willing to buy or sell shares and the period over which they would be willing for First Equity to be mandated to trade;
- complete a Client Registration Form together with a Customer Agreement, which includes the relevant terms and conditions; and
- satisfy the usual money laundering checks.

First Equity, who will act on an execution only basis, has agreed to deal as a principal in any transaction and will charge a fee of 0.6% on the total value (subject to a minimum of £35 per bargain).

The Company is not a party to any transaction nor will its Directors, officers or employees offer advice or accept any liability on any matter relating to any trading in its shares.

Further information with respect to the administration of this matched bargain facility can be obtained from Shamsul Khan, of First Equity, on 0207 374 2212.

Auditors

A resolution to appoint Ernst & Young LLP as the Company's first auditors will be put to the shareholders at the Annual General Meeting on 11 November 2004.

Edward Lavelle
Company Secretary

16 September 2004

Statement of directors' responsibilities in respect of the financial statements

Company law requires the Directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss of the Group for that period. In preparing those accounts, 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 accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Company 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 Group and to enable them to ensure that the accounts 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.

Independent auditors' report

to the members of SFI Holdings Limited

We have audited the Group's financial statements for the year ended 29 May 2004 which comprise the Group Profit and Loss Account, Group Statement of Total Recognised Gains and Losses, Reconciliation of Shareholders' Funds, Group Balance Sheet, Balance Sheet, Group Statement of Cash Flows and the related notes 1 to 26. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Company's members, as a body. Our report has been undertaken so that we might state to the Company's members those matters we are required under UK Auditing Standards to state to them in an auditors' report and for no other purpose. To the fullest extent required by the 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 described in the Statement of Directors' Responsibilities the Company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom accounting standards.

Our responsibility is to audit the financial statements in accordance with United Kingdom Auditing Standards, and to report to you our opinion as to whether the financial statements give a true and fair view.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises the Chairman's Statement, Directors and Board, Financial Review, Corporate Governance Statement, Directors' Remuneration Report, and Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 Group's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 29 May 2004 and of the loss of the Group for the year then ended in accordance with accounting principles generally accepted in the United Kingdom.

Ernst & Young LLP
Southampton

16 September 2004

Group profit and loss account

for the year ended 29 May 2004

	Notes	*Before exceptional items Pro forma 2004 £000*	*Exceptional items Pro forma 2004 £000*	*Total Pro forma 2004 £000*	*Pro forma 2003 £000*
Turnover	2	128,738	—	128,738	153,171
Cost of sales		(34,238)	—	(34,238)	(40,446)
Gross profit		94,500	—	94,500	112,725
Administrative expenses		(94,561)	(12,492)	(107,053)	(197,652)
Operating loss	3	(61)	(12,492)	(12,553)	(84,927)
(Loss)/profit on disposal of tangible fixed assets	4	—	(510)	(510)	149
Provision for loss on disposal — tangible fixed assets	4	—	—	—	(10,459)
Loss on ordinary activities before interest and taxation		(61)	(13,002)	(13,063)	(95,237)
Bank interest receivable		—	—	—	7
Interest payable and similar charges	6	(13,254)	(75)	(13,329)	(14,750)
Loss on ordinary activities before taxation		(13,315)	(13,077)	(26,392)	(109,980)
Tax on loss on ordinary activities	7	597	—	597	10,237
Loss on ordinary activities after taxation		(12,718)	(13,077)	(25,795)	(99,743)
Dividends					
Ordinary dividend on equity shares	9	—	—	—	1,402
Retained loss for the year		(12,718)	(13,077)	(25,795)	(98,341)

Group statement of total recognised gains and losses
for the year ended 29 May 2004

	Pro forma 2004 £000	*Pro forma 2003 £000*
Loss for the financial year	(25,795)	(99,743)
Total recognised losses relating to the year	(25,795)	(99,743)

Reconciliation of shareholders' funds
for the year ended 29 May 2004

	Pro forma 2004 £000	*Pro forma 2003 £000*
Total recognised losses	(25,795)	(99,743)
Dividends	—	1,402
Other movements:		
New shares issued by SFI Group plc	83,363	95
Cancellation of SFI Group plc share capital and share premium	(139,711)	—
Cancellation of deficit on reserves in SFI Group plc	139,711	—
Goodwill reinstated on disposals	1,168	—
Total movements during the year	58,736	(98,246)
Shareholders' funds at 1 June 2003	(65,969)	32,277
Shareholders' funds at 29 May 2004	(7,233)	(65,969)

Group balance sheet
at 29 May 2004

	Notes	2004 £000	*Pro forma* 2003 £000
Fixed assets			
Intangible assets	10	3,848	4,167
Tangible assets	11	70,690	95,041
		74,538	99,208
Current assets			
Stocks	13	2,454	2,609
Debtors	14	3,244	3,018
Cash at bank and in hand		6,150	3,609
		11,848	9,236
Creditors: amounts falling due within one year	15	(21,061)	(171,124)
Net current liabilities		(9,213)	(161,888)
Total assets less current liabilities		65,325	(62,680)
Creditors: amounts falling due after more than one year	16	(70,000)	—
Provisions for liabilities and charges	19	(2,558)	(3,289)
		(7,233)	(65,969)
Capital and reserves			
Called up share capital	21	99	87
Profit and loss account	22	(7,245)	(122,317)
Merger reserve	22	(87)	56,261
Shareholders' funds — equity interests		(7,233)	(65,969)

Approved by the Board on 16 September 2004

Stuart Lawson
Executive Chairman

Mark Robson
Finance Director

Balance sheet
at 29 May 2004

	Notes	2004 £000
Fixed assets		
Investments	12	87
Capital and reserves		
Called up share capital	21	99
Profit and loss account	22	(12)
Shareholders' funds — equity interests		87

Approved by the Board on 16 September 2004

Stuart Lawson
Executive Chairman

Mark Robson
Finance Director

Group statement of cash flows
for the year ended 29 May 2004

	Notes	Pro forma 2004 £000	Pro forma 2003 £000
Net cash (outflow)/inflow from operating activities	23(a)	(4,784)	5,728
Returns on investments and servicing of finance			
Interest received		—	7
Interest paid		(7,333)	(9,890)
Bank fees		—	(1,299)
		(7,333)	(11,182)
Taxation			
Corporation tax		—	2
Capital expenditure and financial investment			
Payments to acquire tangible fixed assets		(3,120)	(15,357)
Receipts from sale of tangible fixed assets		14,257	7,970
		11,137	(7,387)
Acquisitions and disposals			
Deferred consideration relating to 2002 acquisition	23(e)	(3,910)	(3,902)
Net cash outflow before financing		(4,890)	(16,741)
Financing			
Shares issued by subsidiary		—	95
New loans		8,198	11,190
Repayment of loans		(586)	(4,074)
		7,612	7,211
Increase/(decrease) in cash		2,722	(9,530)

Reconciliation of cash flow to movement in net debt

	Notes	Pro forma 2004 £000	Pro forma 2003 £000
Increase/(decrease) in cash	23(b)	2,722	(9,530)
Cash inflow from increase in loans		(8,198)	(11,190)
Repayment of loans		586	4,074
Change in net debt resulting from cash flows	23(b)	(4,890)	(16,646)
Cancellation of loans in consideration for shares issued	23(b)	72,920	—
Movement in net debt		68,030	(16,646)
Net debt at 1 June 2003	23(b)	(138,847)	(122,201)
Net debt at 29 May 2004	23(b)	(70,817)	(138,847)

Notes to the financial statements
at 29 May 2004

1. Accounting policies

Fundamental accounting concept — Going concern

The Directors believe that the approval of the Scheme of Arrangement (''the Scheme'') and the completion of the restructuring has created the platform which allows the Group's management to continue with the implementation of the Recovery Plan. The Directors expect that the Group will be able to refinance its debt in the medium term on conventional banking terms at or beyond the term of the new syndicated facilities which now extend to the end of May 2006. The Directors therefore believe that it is appropriate to prepare these accounts on a going concern basis.

Basis of preparation

Although there are no statutory requirements to prepare audited accounts for the company until the period ended 28 May 2005, the Directors believe that it is in the shareholders' interests that non-statutory audited accounts are prepared for the period ended 29 May 2004. The first set of statutory accounts will be prepared for the period ended 28 May 2005. The Group restructuring has been accounted for using merger accounting principles.

For the consolidated accounts, the adoption of merger accounting presents SFI Holdings Limited as if it always had been the parent undertaking of the Group. In the Directors' opinion, to present the accounts covering only the period from incorporation to 29 May 2004 would be misleading as the Company did not trade. Consequently the consolidated accounts include a profit and loss covering the year to 29 May 2004 with comparative figures for the prior year, both of which have been prepared as if SFI Holdings Limited had existed throughout that period. Equally, Group balance sheets and statements of cash flows have been included to complement the profit and loss accounts.

The accounts are prepared under the historical cost convention and in accordance with applicable accounting standards.

Basis of consolidation

As detailed below, under the terms of the Scheme, SFI Holdings Limited became the parent company of SFI Group plc.

The B ordinary shares of SFI Group plc have no voting rights, whereas the A shares of SFI Holdings Limited have voting rights. Therefore under the terms of the Scheme, the rights of the shareholders have changed. As a result, the detailed accounting requirements of Schedule 4A to the Companies Act 1985 and Financial Reporting Standard No. 6, ''Acquisitions and Mergers'' would require that the Group reconstruction be accounted for as an acquisition. This would have resulted in all of the separable assets and liabilities of the group at the date of the reconstruction being recorded at their fair values, substantial goodwill and goodwill amortisation charges arising and only post reconstruction results being reported in the Group profit and loss account. In the opinion of the Directors, this would not have given a true and fair view of the state of affairs of the Group and of its results as in substance the Group reconstruction represented a change in identity of the holding company, but with the ultimate shareholders remaining the same and their proportion of shares unchanged.

Consequently, the Group reconstruction has been accounted for using merger accounting principles for all periods presented as the Directors consider this necessary in order to meet the overriding requirement of the Companies Act 1985 to show a true and fair view. The Directors consider that it is not practicable to quantify the effect of this departure from the requirements of the Companies Act and of accounting standards.

SFI Group plc Restructuring

The Company was incorporated on 5 April 2004, and became the ultimate parent company to SFI Group plc under the terms of the Scheme approved by SFI Group plc shareholders and the Courts and which became effective from 28 May 2004.

Notes to the financial statements
at 29 May 2004

1. Accounting policies (continued)

Under the terms of the Scheme, shares in the Company were offered to the existing ordinary shareholders of SFI Group plc and the B shareholders (namely the existing bank lenders to SFI Group plc to whom B shares in SFI Group plc were issued as a result of the debt conversion).

The details of the Scheme approved by the Courts and SFI Group plc shareholders were as follows.

SFI Group plc and its lending banks entered into an investment agreement pursuant to which it was agreed that a debt conversion amount of £83.4 million would be discharged in full, in consideration for the issue of 450,470,628 new B shares in SFI Group plc.

As a result of the debt conversion, the amounts credited to SFI Group plc's share capital and share premium were increased by £83.4 million. Apart from 10 shares (held by SFI Holdings Limited) the entire issued share capital and the sum credited to the share premium account was cancelled, and in consideration for which the SFI Group plc shareholders were allotted shares fully paid in the Company on the following basis:

- for every SFI Group plc share held by existing ordinary shareholders, one SFI Holdings Limited A share was issued
- for the SFI Group plc B shares issued to the lending banks as a result of the debt conversion a total of 399,814,744 SFI Holdings Limited A shares and 50,655,878 SFI Holdings Limited B shares were issued.

The rights attached to the A and B shares in the Company are set out in note 21 to the accounts.

Goodwill

Goodwill arising on acquisitions prior to 31 May 1997 was set off directly against reserves. Goodwill previously eliminated against reserves has not been reinstated on implementation of FRS 10.

Positive goodwill arising on acquisitions since 1 June 1998 is capitalised, classified as an asset on the balance sheet and amortised on a straight-line basis over its useful economic life up to a presumed maximum of 20 years.

Goodwill is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

If a subsidiary, associate or business is subsequently sold or closed, any goodwill arising on acquisition that was written off directly to reserves or that has not been amortised through the profit and loss account is taken into account in determining the profit or loss on sale or closure.

Fixed assets

Tangible fixed assets are included at their original historic cost.

Depreciation of tangible fixed assets (excluding freehold land, which is not depreciated) is calculated on a straight-line basis at rates estimated to write down the cost of each asset to its residual value over its useful life. Expected useful lives are as follows:

Freehold buildings	—	over 50 years
Leasehold land and buildings	—	over the shorter of the lease term and 50 years
Plant and machinery	—	over 10 years
Fixtures and fittings	—	over 4 years
Motor vehicles	—	over 4 years
Computer equipment	—	over 4 years

The carrying value of tangible fixed assets is reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Any impairment in the value is charged to the profit and loss account. Profits or losses on disposal of fixed assets reflect the difference between net selling price and net book value at the date of disposal.

Notes to the financial statements
at 29 May 2004

1. Accounting policies (continued)

Investments

Investments in subsidiary undertakings, direct and indirect are stated in the Parent Company's accounts at cost, less provisions for any impairment in value.

Stocks

Stocks are stated at the lower of cost and net realisable value with due allowance for any obsolete or slow moving items.

Cost includes all costs incurred in bringing each product to its present location and condition, with the exception of delivery costs that are specifically excluded.

Net realisable value is based on estimated selling price less any further costs expected to be incurred to completion and disposal.

Provisions for liabilities and charges

Provision is made for future rental expenses and related costs of leasehold property to the expected date of disposal of the Company's interests in the lease (net of estimated sub-lease income) where space is vacant or not yet developed.

Taxation

The charge for taxation is based on the profit or loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more, tax, with the following exceptions:

- Provision is made for tax on gains arising on disposal of fixed assets that have been rolled over into replacement assets only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

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

Derivative instruments

The Group has used interest rate swaps to adjust interest rate exposures.

The Group's criteria for interest rate swaps are:

- the instrument must be related to an asset or a liability; and
- it must change the character of the interest rate by converting a variable rate to a fixed rate or vice versa.

Interest differentials, together with penalties arising on early cancellation, are recognised by accruing with net interest payable. Interest rate swaps are not re-valued to fair value or shown on the Group balance sheet at the year-end. If they are terminated early, the gain or loss is taken in the year of termination.

Notes to the financial statements
at 29 May 2004

1. Accounting policies (continued)

Leasing commitments

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

Lease incentives

Lease incentives include rent-free periods and other incentives received from lessors upon entering into lease agreements. The Group's policy for accounting for lease incentives is in accordance with UITF 28, whereby the aggregate income from lease incentives is recognised as an adjustment to rental cost, allocated evenly over the lease term or the term to the first open market rent review if earlier.

Pensions and other post-retirement benefits

The Group makes defined contributions to employee personal pension plans. The pension cost charged to the profit and loss account represents the contributions payable to the pension plans in respect of the accounting year.

Capital instruments

Shares are included in shareholders' funds. Other instruments are classified as liabilities if they contain an obligation to transfer economic benefits and if not they are included in shareholders' funds. The finance cost recognised in the profit and loss account in respect of capital instruments other than equity shares is allocated to periods over the term of the instrument at a constant rate on the carrying amount.

Employee Benefit Trust

Shares issued by the Company to an Employee Benefit Trust have been charged to reserves, net of subscriptions received in respect of the shares at the time of issue to the employees. This is in accordance with UITF 38 "Accounting for ESOP trusts".

2. Turnover

Turnover represents the total amounts receivable for goods and services provided, after deducting VAT and excluding sales between Group companies.

Notes to the financial statements
at 29 May 2004

3. Operating loss

This is stated after charging/(crediting):

	2004 *£000*	*2003* *£000*
Auditors' remuneration (Group) — audit services	125	500
— non audit services	955	100
Depreciation of owned assets	8,047	15,119
Impairment charge — tangible fixed assets	5,839	58,183
Provision for loss on disposal of fixed assets	—	10,459
Total depreciation charge	13,886	83,761
Amortisation of goodwill	242	757
Impairment charge — goodwill	77	8,873
Rental income	(576)	(318)
Operating lease rentals — plant and machinery	18	22
— other	17,919	20,897

Fees in relation to the audit of SFI Holdings Limited were borne by SFI Group plc, the Company's immediate subsidiary.

4. Exceptional items

	2004 *£000*	*2003* *£000*
Recognised in arriving at operating loss (within Administrative expenses):		
Impairment of tangible fixed assets	5,839	58,183
Impairment of intangible fixed assets	77	8,873
Professional fees and associated costs	5,772	6,413
Provision for onerous lease costs	804	3,116
Costs on aborted developments	—	1,685
	12,492	78,270
Recognised below operating loss:		
Provision for loss on disposal of fixed assets	—	10,459
Loss/(profit) on disposal of tangible fixed assets	510	(149)
	13,002	88,580
Bank charges and associated costs	75	3,549
Exceptional items before taxation	13,077	92,129

The tax effect in the profit and loss account of £Nil (2003 £8.3 million) includes £Nil (2003 £Nil) relating to the exceptional items recognised below operating profit.

The professional fees and associated costs incurred in the years to 29 May 2004 and 2003 arose from conducting the investigation into the causes of the accounting discrepancies, assisting the Executive Directors in ongoing discussions with the banks, securing their continued support for the Group and culminating in the approval of the Scheme.

Notes to the financial statements
at 29 May 2004

5. Staff costs

	2004	*2003*
	£000	*£000*
Wages and salaries	32,311	37,775
Social security costs	2,678	2,652
Other pension costs	262	206
	35,251	40,633

The average monthly number of employees during the year was made up as follows:

	2004	*2003*
	No.	*No.*
Public house management and staff	3,079	3,541
Administration	101	139
	3,180	3,680

Details of Directors' emoluments can be found within the Directors' Remuneration Report.

6. Interest payable and similar charges

	2004	*2003*
	£000	*£000*
Bank loans and overdrafts	13,329	14,750

Interest payable on bank loans was waived from 17 February 2004 until 28 May 2004. Also included within the charge is £4,288,000 (2003 £Nil) relating to the penalties incurred in relation to the cancellation of interest rate swaps.

7. Tax

(a) Tax on loss on ordinary activities

The tax credit is made up as follows:

	2004	*2003*
	£000	*£000*
Current tax:		
UK corporation tax	—	—
Tax (overprovided)/underprovided in previous years	(424)	225
Total current tax (credit)/charge (note 7(b))	(424)	225
Deferred tax:		
Origination and reversal of timing differences	(173)	(10,512)
Changes in recoverable amounts	—	50
Group deferred tax (note 7(d))	(173)	(10,462)
Tax on loss on ordinary activities	(597)	(10,237)

Notes to the financial statements
at 29 May 2004

7. Tax (continued)

(b) Factors affecting current tax charge

The tax assessed on the loss of ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% (2003 30%). The differences are reconciled below:

	2004	*2003*
	£000	*£000*
Loss on ordinary activities before tax	(26,392)	(109,980)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003 30%)	(7,918)	(32,994)
Expenses not deductible for tax purposes (including goodwill amortisation)	3,249	20,374
Decelerated capital allowances	2,220	7,140
Losses arising in the year not relievable against current tax	6,237	5,124
Tax (overprovided)/underprovided in previous years	(424)	225
Other timing differences	(110)	356
Capital losses	(3,678)	—
Total current tax (credit)/charge (note 7(a))	(424)	225

(c) Factors that may affect future tax charges

The Group has significant tax losses carried forward that are available for offset against future taxable profits and as a consequence does not expect to pay corporation tax for the foreseeable future. Deferred tax assets have not been recognised in respect of these losses, as they may not be used to offset taxable profits elsewhere in the Group.

(d) Deferred tax

Group

The deferred tax included in the balance sheet is as follows:

	2004	*2003*
	£000	*£000*
Included in provisions for liabilities and charges (note 19)	—	173
	—	173
Accelerated capital allowances	2,037	4,256
Tax losses carried forward	(2,008)	(4,054)
Other timing differences	(29)	(29)
Provision for deferred tax	—	173

	£000
At 1 June 2003	173
Deferred tax credit in Group profit and loss account (note 7(a))	(173)
At 29 May 2004	—

Notes to the financial statements
at 29 May 2004

7. Tax (continued)

The Group has a potential deferred tax asset, which has not been recognised in the accounts, as follows:

	2004	*2003*
	£000	*£000*
Tax losses	(9,638)	(1,697)
Other timing differences	(467)	(467)
Unprovided deferred tax asset	(10,105)	(2,164)

Company

There is no deferred tax asset nor liability, neither provided nor unprovided in the Company.

8. Profit attributable to members of the parent company

The Company did not trade in the year.

9. Dividends

	2004	*2003*
	£000	*£000*
Withdrawn dividend	—	(1,402)

The dividend was originally declared by SFI Group plc to third party shareholders in respect of the year ended 31 May 2002. It was subsequently found that SFI Group plc did not have adequate distributable reserves to pay this dividend as required by the Companies Act and it was withdrawn.

10. Intangible fixed assets

	Goodwill
	£000
Cost:	
At 1 June 2003 and at 29 May 2004	15,134
Amortisation:	
At 1 June 2003	10,967
Provided during the year	242
Impairment charge	77
At 29 May 2004	11,286
Net book value at 29 May 2004	3,848
Net book value at 31 May 2003	4,167

The goodwill arises on the acquisition of Slug and Lettuce Group Limited and is being amortised evenly over the Directors' estimate of its useful economic life of 20 years.

Notes to the financial statements

at 29 May 2004

11. Tangible fixed assets

Group

	Land and buildings £000	*Plant and machinery £000*	*Fixtures and fittings £000*	*Total £000*
Cost:				
At 1 June 2003	144,914	25,889	36,293	207,096
Additions	69	371	2,680	3,120
Disposals	(23,689)	(4,624)	(4,023)	(32,336)
At 29 May 2004	121,294	21,636	34,950	177,880
Depreciation:				
At 1 June 2003	68,703	15,294	28,058	112,055
Reclassification transfers	719	(874)	155	—
Provided during the year	2,358	1,588	4,101	8,047
Impairment charge	4,959	476	404	5,839
Disposals	(11,177)	(3,733)	(3,841)	(18,751)
At 29 May 2004	65,562	12,751	28,877	107,190
Net book value at 29 May 2004	55,732	8,885	6,073	70,690
Net book value at 31 May 2003	76,211	10,595	8,235	95,041

In accordance with FRS 11 "Impairment of Fixed Assets and Goodwill" the carrying values of the income generating units, have been compared to their recoverable amounts, represented by the higher of their value in use to the Group and net realisable value.

The value in use has been derived from discounted cash flow projections using a nominal discount rate of 10% (2003 12%) on a pre-tax basis.

The net book value of land and buildings comprises:

	Group	
	2004 £000	*2003 £000*
Long leasehold	507	645
Short leasehold	54,566	73,356
Freehold	659	2,210
	55,732	76,211

Company

The Company has no tangible fixed assets.

Notes to the financial statements
at 29 May 2004

12. Investments

	Subsidiary undertakings £000
Cost:	
At 29 May 2004	87

Details of the principal trading companies in which the Company holds 20% or more of the nominal value of any class of share capital are as follows:

Name of Company	*Holding*	*Proportion of voting rights and shares held*	*Nature of business*
SFI Group Plc	Ordinary Shares	100%	Operation of high street bars and public houses
Slug and Lettuce Limited*	Ordinary shares	100%	Operation of high street bars and public houses
Parisa Café Bars Limited*	Ordinary shares	100%	Operation of high street bars and public houses
Satellite Holdings Limited*	Ordinary shares	100%	Operation of high street bars and public houses
Inneroll Limited*	Ordinary shares	100%	Operation of high street bars and public houses

*Interest held indirectly through SFI Group plc

13. Stocks

	Group 2004 £000	2003 £000
Retail stocks	2,454	2,609

The difference between purchase price or production cost of stocks and their replacement cost is not material.

14. Debtors

	Group 2004 £000	2003 £000
Trade debtors	226	686
Other debtors	80	53
Corporation Tax	2,230	1,806
Prepayments and accrued income	708	473
	3,244	3,018

Notes to the financial statements
at 29 May 2004

15. Creditors: amounts falling due within one year

	Group	
	2004	*2003*
	£000	*£000*
Current instalments due on loans	—	127,808
Bank overdraft	6,967	14,648
Trade creditors	6,165	8,173
Other taxes and social security costs	2,963	5,177
Other creditors	579	4,874
Accruals and deferred income	4,387	10,444
	21,061	171,124

The bank overdraft is repayable on demand.

16. Creditors: amounts falling due after more than one year

	Group	
	2004	*2003*
	£000	*£000*
Bank Loans	70,000	—

The bank loans fall due for repayment on 31 May 2006 and together with the overdraft are secured by fixed and floating charges over the Group's assets.

17. Loans

	Group	
	2004	*2003*
	£000	*£000*
Amounts falling due:		
In one year or less or on demand	6,967	142,456
In more than one year but not more than two years	70,000	—
In more than two years but not more than five years	—	—
	76,967	142,456

18. Obligations under leases

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

	Group			
	Land and buildings		*Other*	
	2004	*2003*	*2004*	*2003*
	£000	*£000*	*£000*	*£000*
Operating leases which expire:				
Within one year	—	213	18	—
In two to five years	384	509	—	18
In over five years	15,341	18,911	—	—
	15,725	19,633	18	18

The Company has no operating lease commitments.

Notes to the financial statements
at 29 May 2004

19. Provisions for liabilities and charges

	Onerous leases £000	Group Deferred tax £000	Total £000
At 1 June 2003	3,116	173	3,289
Arising during the year	861	—	861
Utilised during the year	(1,419)	—	(1,419)
Deferred tax credit in profit and loss account	—	(173)	(173)
At 29 May 2004	2,558	—	2,558

Leasehold properties

The provision for onerous leases is in respect of vacant leasehold properties from which the Group does not trade, but is liable to fulfil rent and other property commitments up to the lease expiry date. Amounts have been provided on the basis of current rent obligations and the anticipated timing and cost of extinguishing these liabilities. The provision has been discounted using a rate of 8% per annum.

20. Derivatives and other financial instruments

An explanation of the Group's objectives, policies and strategies for the role of derivatives and other financial instruments in creating and changing the risks of the Group in its activities can be found within the Financial Review. The disclosures below exclude short-term debtors and creditors.

Details of the waiving of bank borrowing in consideration for shares in SFI Group plc is set out in note 21.

Interest rate risk profile of financial liabilities

The interest rate profile of the financial liabilities of the Group as at 29 May is as follows:

	Total £000	Fixed rate financial liabilities £000	Floating rate financial liabilities £000
2004			
Sterling	79,525	37,558	41,967
2003			
Sterling	145,572	103,116	42,456

	Fixed rate liabilities	
	Weighted average interest rate %	Weighted average period for which rate is fixed years
2004		
Sterling	7.2	1.0
2003		
Sterling	6.0	6.1

Notes to the financial statements
at 29 May 2004

20. Derivatives and other financial instruments (continued)

The amounts shown in the tables above take into account the interest rate swaps used to manage the interest rate profile of financial liabilities.

The floating rate financial liabilities comprise sterling denominated bank loans and overdrafts that bear interest at rates based on LIBOR.

Interest rate risk profile of financial assets

The interest rate profile of the financial assets of the Group as at 29 May is as follows:

	Total £000	*Floating rate financial assets £000*	*Financial assets on which no interest is earned £000*
2004			
Sterling	6,150	3,695	2,455
2003			
Sterling	3,609	569	3,040

The financial assets on which no interest is earned comprise the Group's cash floats and cash in transit. The floating rate financial assets comprise a bank account holding disposal proceeds of tangible fixed asset sales (the ''prepayments account''). The balance on the prepayments account at the year-end was £3,695,000 (2003 £569,000). Access by the Group to these funds was restricted until the Scheme of Arrangement became effective. These funds were released to the company on 2 June 2004.

Maturity of financial liabilities

The maturity profile of the Group's financial liabilities at 29 May is as follows:

	2004 £000	*2003 £000*
In one year or less, or on demand	8,713	144,724
In more than one year but not more than two	70,453	848
In more than two years but not more than five	359	—
In more than five years	—	—
	79,525	145,572

Borrowing facilities

The Group has various borrowing facilities available to it. The undrawn committed facilities available at 29 May in respect of which all conditions precedent had been met at that date are as follows:

	2004 £000	*2003 £000*
Expiring in one year or less	3,033	3,910
Expiring in more than one year but not more than two years	—	—
	3,033	3,910

Notes to the financial statements
at 29 May 2004

20. Derivatives and other financial instruments (continued)

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of book values and fair values of the Group's financial assets financial liabilities and non-equity shares as at 29 May:

	Book value 2004 £000	*Fair value 2004 £000*	*Book value 2003 £000*	*Fair value 2003 £000*
Primary financial instruments				
Short-term borrowings	(6,967)	(6,967)	(142,456)	(142,456)
Long-term borrowings	(70,000)	(70,000)	—	—
Onerous leases	(2,558)	(2,558)	(3,116)	(3,116)
Cash	6,150	6,150	3,609	3,609
Derivative financial instruments held to manage the interest rate profile				
Interest rate swaps	—	—	—	(10,778)

Market values have been used to determine the fair value of interest rate swaps. The Directors believe that for all other items, their fair values equate to their book values.

Hedges

The Group's policy was to hedge the interest rate risk exposures. Prior to the Scheme the Group borrowed in Sterling at both fixed and floating rates of interest and used interest rate swaps to generate the desired interest rate profile and to manage the Group's exposure to interest rate fluctuations. At 31 May 2003, the Group had £100 million of its debts hedged by way of interest rate swap arrangements. During the year, the Group broke these swap contracts, at a cost of £4.3 million. This action was taken in view of the ongoing cost of the contracts and in the context of the overall debt restructure subsequently concluded.

The break cost of £4.3 million compares with the fair value at 31 May 2003 of £10.8 million set out above and below.

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. Unrecognised gains and losses and deferred gains and losses on financial instruments used for hedging are as follows:

	Gains £000	*Losses £000*	*Total £000*
Unrecognised gains and losses on hedges at 29 May 2004	—	—	—
Unrecognised gains and losses on hedges at 31 May 2003	—	(10,778)	(10,778)
Gains and losses expected to be recognised in the year to 28 May 2005	—	—	—
Gains and losses expected to be recognised in the year	—	—	—
to 29 May 2004	—	(4,288)	(4,288)

Of the unrecognised gains and losses in hedges at 31 May 2003, £4,288,000 of losses were recognised in the year and no gains were recognised in the year.

At 29 May 2004 the Group had no contracts for financial instruments to hedge interest rate exposures.

Notes to the financial statements
at 29 May 2004

21. Share capital

The authorised, allotted and issued share capital as at 31 May 2003 (Pro forma) and 29 May 2004 is as follows:

Shares of 0.0167 pence each	*Authorised as at 31 May 2003 Number*	*Allotted as at 31 May 2003 Number*	*Issued as at 31 May 2003 £'000*
A Shares	474,893,188	474,893,188	79
B Shares	50,655,878	50,655,878	8
C Shares	75,078,438	—	—
			87

Shares of 0.0167 pence each	*Authorised as at 29 May 2004 Number*	*Allotted as at 29 May 2004 Number*	*Issued as at 29 May 2004 £'000*
A Shares	474,893,188	474,893,188	79
B Shares	50,655,878	50,655,878	8
C Shares	75,078,438	75,078,438	12
			99

Upon incorporation on 5 April 2004, 6 A shares were issued and credited as fully paid.

The Company became the ultimate parent company to SFI Group plc under the terms of a Scheme of Arrangement approved by SFI Group plc shareholders and the Court and which became effective from 28 May 2004.

Under the terms of the scheme, shares in the Company were offered to the existing ordinary shareholders of SFI Group plc and the B shareholders (namely the existing bank lenders to SFI Group plc to whom B shares in SFI Group plc were issued as a result of a debt conversion).

The details of the scheme approved by the Courts and SFI Group plc shareholders were as follows.

SFI Group Plc and its lending banks entered into an investment agreement pursuant to which it was agreed that a debt conversion amount of £83.4 million would be discharged in full, in consideration for the issue of 450,470,628 new B shares in SFI Group plc.

As a result of the debt conversion, the amounts credited to SFI Group Plc's share capital and share premium were increased by £83.4 million. Apart from 10 shares (held by SFI Holdings Limited) the entire issued share capital and the sum credited to the share premium account was cancelled, and in consideration for which the SFI Group plc shareholders were allotted shares fully paid in the Company on the following basis:

- For every SFI Group plc share held by existing ordinary shareholders, one SFI Holdings Limited A share was issued. A total of 75,078,438 A shares in SFI Holdings Limited were issued to the existing shareholders.
- For the SFI Group plc B shares issued to the lending banks, as a result of the debt conversion a total of 399,814,744 million A shares and 50,655,878 B shares in SFI Holdings were issued and credited as fully paid.

Notes to the financial statements
at 29 May 2004

21. Share capital (continued)

The C shares in the Company were issued and credited as fully paid to the SFI Holdings Employee Benefit Trust.

All three classes of shares in the Company rank equally as regards rights to dividends and to a return of capital in the event of a winding up of the Company.

For the purposes of voting at shareholder meetings, each A and C share has one vote. The B shares whilst having the right to receive notices of general meetings have no voting rights. The B shares have conversion rights attached whereby the holder can upon giving notice convert the shares to A shares on a one for one basis, provided that after conversion that shareholder does not hold more that 17.5% of the voting shares.

22. Reserves

Group

	Profit and loss account £000	*Merger reserve £000*
At 1 June 2003	(122,317)	56,261
Issue of B shares in SFI Group plc to lending banks	—	83,363
Cancellation of the ordinary and B shares in SFI Group plc	139,711	(139,711)
Retained loss for the year	(25,795)	—
Goodwill reinstated on disposals	1,168	—
C shares issued by SFI Holdings Limited to SFI Holdings Employee Benefit Trust	(12)	—
At 29 May 2004	(7,245)	(87)

The cumulative amount of goodwill written off at 29 May 2004, net of goodwill relating to undertakings disposed of, is £1,253,000 (2003 £2,421,000).

Company

	Profit and loss account £000
Issue of C shares to Employee Benefit Trust	(12)
At 29 May 2004	(12)

Notes to the financial statements
at 29 May 2004

23. Notes to the statement of cash flows

(a) Reconciliation of operating (loss) to net cash inflow from operating activities

	2004 £000	2003 £000
Operating loss	(12,553)	(84,927)
Depreciation and impairment of tangible fixed assets	13,886	73,302
Amortisation and impairment of goodwill	319	9,630
Decrease in debtors	198	1,715
Decrease in stocks	155	1,434
(Decrease)/increase in creditors	(6,231)	1,458
(Decrease)/increase in provisions	(558)	3,116
Net cash (outflow)/inflow from operating activities	(4,784)	5,728

(b) Analysis of net debt

	At 1 June 2003 £000	Cash flow £000	Other non-cash movements £000	At 29 May 2004 £000
Cash at bank and in hand	3,609	2,541	—	6,150
Bank overdrafts	(14,648)	181	7,500	(6,967)
Cash	(11,039)	2,722	7,500	(817)
Loans due within one year	(127,808)	(7,612)	135,420	—
Loans due after more than 1 year	—	—	(70,000)	(70,000)
	(138,847)	(4,890)	72,920	(70,817)

(c) Major non-cash transactions

Included within creditors at 31 May 2003 was a balance of £2.5 million in respect of bank fees not paid and £8.0 million in respect of accrued interest. Both of these amounts together with the £72.9 million included in other non-cash investments equate to the £83.4 million that was cancelled in consideration for the shares issued as described in note 21.

(d) Exceptional items

Cash flows relating to operational exceptional items

Net cash outflow from operating activities in the year includes cash outflows of £5,733,000 (2003 £4,474,000) in respect of professional expenses incurred as a consequence of the Company's financial position, £Nil (2003 £1,685,000) in respect of costs on aborted developments, £1,419,000 (2003 £Nil) in respect of onerous leases and £31,000 (2003 £569,000) in respect of interest and penalties.

Cash flows relating to non-operating exceptional items

Capital expenditure includes cash inflows of £14,257,000 (2003 £7,970,000) from the sale of tangible fixed assets. Financial investment cash flows include outflows of £Nil (2003 £1,299,000) in respect of bank fees.

(e) Acquisitions and disposals

The final cash consideration paid in respect of the 2002 acquisition of Parisa Café Bars amounted to £3,910,000 in the year (2003 instalment of £3,902,000).

Notes to the financial statements
at 29 May 2004

23. Notes to the statement of cash flows (continued)

(f) Restricted cash

At the year end cash of £3,695,000 (2003 £569,000) was held by the banks with restricted access by the Group until the Scheme of Arrangement became effective. These funds were released to the Company on 2 June 2004

24. Capital commitments

Amounts contracted for but not provided in the accounts amounted to £370,000 for the Group and £Nil for the Company (2003 £Nil and £Nil respectively as restated).

25. Post balance sheet events

(a) Prepayment account

On 2 June 2004 the balance on the prepayment account — £3,695,000 — was released to the Group (see note 20).

(b) Issue of share capital

As part of the Scheme of Arrangement the capital of SFI Group plc was increased by the creation of 19,600,000 ordinary shares of 25 pence each, from distributable profit and loss account reserves. The shares were allotted and issued as fully paid to SFI Holdings Limited on 14 June 2004.

26. Related party transactions

As a result of the Scheme of Arrangement, Barclays Bank plc and Royal Bank of Scotland plc acquired significant shareholdings in the Group as set out in the Directors' Report. These two organisations provide £26,089,000 and £17,051,000 respectively of the total £80,000,000 loan facility made available to the Group. Interest at LIBOR plus 2% is charged on all the facility.

In addition Barclays Bank plc provide merchant card acquiring services and in the year to 29 May 2004 charged £325,000 for these services (2003 £285,000). At the balance sheet date, there was a creditor of £30,000 (2003 £32,000) in relation to these services.

SFI Holdings Limited

(registered in England and Wales, number 05095347)

NOTICE OF ANNUAL GENERAL MEETING

NOTICE is hereby given that the ANNUAL GENERAL MEETING of SFI Holdings Limited will be held at the offices of Eversheds LLP, Senator House, 85 Queen Victoria Street, London EC4V 4JL on Thursday 11 November 2004 at 11.30 a.m.

Ordinary Business:

1. To receive the report and financial statements for the year ended 29 May 2004.
2. To appoint Ernst & Young LLP as auditors to the Company in accordance with Section 385 of the Companies Act 1985, to hold office until the conclusion of the next general meeting at which accounts are laid before the members.
3. To authorise the Directors to fix the remuneration of the Auditors.

By order of the Board

Edward Lavelle
Company Secretary

Registered Office:
SFI House
16 Church Street East
Woking
Surrey GU21 1HJ

16 September 2004

Notes:

(i) Any member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more proxies (who need not be a member of the Company) to attend and, on a poll, to vote instead of the member. Completion and return of a form of proxy will not preclude a member from attending and voting at the meeting in person, should they subsequently decide to do so.

(ii) In order to be valid, any form of proxy and power of attorney or other authority under which it is signed, or a notarially certified or office copy of such power or authority, must reach the Company's Registrars, Computershare Investor Services, The Pavilions, Bridgwater Road, Bristol BS13 8AE not less than 48 hours before the time of the meeting or of any adjournment of the meeting.

(iii) Copies of the service contracts of each of the Directors, and the register of Directors' interests in shares of the Company kept pursuant to section 325 of the Companies Act 1985 will be available for inspection at the registered office of the Company during usual business hours on any weekday (Saturdays and public holidays excluded) from the date of this notice until the date of the Annual General Meeting and at the place of the Annual General Meeting from at least 15 minutes prior to and until the conclusion of the Annual General Meeting.

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