

HUDSWELL COMMUNITY PUB LTD

(An Industrial and Provident Society for Community Benefit
Society Number 30867R)

Prospectus



August 2010

An opportunity to invest in a Community Enterprise in the Yorkshire Dales Village of Hudswell

Summary

This Prospectus replaces our original document published in December 2009. At that time we were seeking investors who wished to become members of a community co-operative that planned to buy the George and Dragon Public House and an associated acre of land, in Hudswell, North Yorkshire (post code DL11 6BL) and run it as a community enterprise.

By February 2010, 140 people had responded to this offer and we reached our initial target of £220,000 of investment, which enabled us to complete the purchase of the George and Dragon. Following a major refurbishment project, the pub was re-opened by Foreign Secretary and Hudswell Community Pub member, William Hague MP on the 12th June 2010. We now have 169 members, but we are still seeking investment as we have plans to further develop the premises and once we have reached our initial target of £249,000 of investment we will establish a waiting list of investors to replace those who leave the Society and withdraw their funds, which they will be entitled to do after the first year.

The George and Dragon is now open and providing a service for the residents of Hudswell and visitors to the area. We intend it to be a profitable business that provides a fair investment opportunity and offers a reasonable return to its members. The George and Dragon provides services to the village and to visitors to the area and supports other local businesses and tourism within Swaledale. It has now put the heart back into the village and is providing a place for social gathering and cultural activities. It is a place to meet people, exchange information, and through the activities based at the pub, it is promoting a cohesive, friendly and co-operative community in Hudswell. The very process of the campaign to buy the pub and the huge communal effort to refurbish the building and bring the associated land back into use has depended up an enormous amount of voluntary work from members and villagers. The publicity associated with all of this has generated a great deal of interest. There is an enormous well of good will towards the project, which should help the business to prosper.

If you choose to make an investment you will become a member of Hudswell Community Pub Ltd. We are an Industrial and Provident Society – a co-operative, run for the benefit of the local community. All our members will have a say in how the affairs of Hudswell Community Pub Ltd are managed and will elect the board of directors. You will be a co-owner of a traditional Dales pub in a beautiful setting and will always receive a friendly welcome in the pub that you own.

Members are asked to invest between £500 and £20,000. Each member will have an equal say in the enterprise, irrespective of how much they have invested. In return for their investment the HCP intends to pay an annual

dividend. It is anticipated that, depending on actual trading circumstances, that a dividend of 3.5% will be paid in the first year, rising to 5% by year three.

The initial directors that have formed the society are accountable to the membership. After the first year, directors will be elected by the membership. Members will receive a regular newsletter and be entitled to attend our Annual General Meetings and other Special General Meetings that may be called from time to time.

The Society has appointed tenants to run the licensed business and they pay rent to the co-operative at a level that has been set for the first three years, but which will, after that, reflect the profitability of the business. The rental income will provide the dividend to be paid to investors. We firmly believe that the business will be profitable, but if it is not, the Society owns a valuable asset – the building and land associated with it - which can be sold in order to return funds to investors.

This is a great opportunity to be a part owner of community enterprise that will support a traditional Dales Pub.



The Board of Directors of HCP Ltd meeting on the pub patio, prior to the opening of the George and Dragon

Description of Business

The George and Dragon was the only pub in Hudswell. It closed its doors on the 8th August 2008 and was marketed intermittently over the following year, without any sale being agreed. The Hudswell Community Pub Initiative was formed in June 2009 with the aim of seeing the pub reopened and run for the benefit of the village. Our offer to buy the Pub for £209,950, made on the 28th July 2009, was finally accepted by the vendor on the 30th October 2009. Our plan was to buy the freehold of the George and Dragon Public House in Hudswell and reopen it as a traditional pub, selling local ales from local brewers, good quality food (also using local suppliers wherever possible) and providing a venue for traditional pub sports and games, local events and celebrations, music and culture. It was also planned to run a shop from the premises selling a few basic supplies and local produce (eggs, milk and fruit and vegetables). All of this has now been achieved or is on the way to being achieved. The co-operative owns the land and buildings and has agreed a lease with our tenants, Jackie and Margaret Stubbs who are running the licensed business. The terms that we have agreed with our tenants gives them every incentive to build a profitable business for themselves and also ensure that the society receives a benefit (through increased rent), as the business becomes more profitable. The lease also requires the tenant to provide for community events, celebrations, and cultural and social activities and to allow HCP Ltd to establish a village shop from the premises, providing that this proves to be a viable proposition.

Hudswell has a village hall, but no other shop, post office, or any public facility. The re-opened George and Dragon has now filled this void and has already become a meeting place at the centre of the social life of the village and it has the potential to become a thriving business.

The tenants are responsible for opening times. They have currently agreed a weekly programme as set out below.

George and Dragon Opening Times

Monday	12 noon – 11.30pm
Tuesday	12 noon – 11.30pm
Wednesday	12 noon – 11.30pm
Thursday	12 noon – 11.30pm
Friday	12 noon – 12midnight
Saturday	12 noon - 12.midnight
Sunday	12 noon - 11.30pm

Food is available every day 12noon – 2pm and 6pm –9pm apart from Mondays and Sundays evenings when no food is served. Sunday lunch is served from 12 noon – 3pm

For booking and special events, contact Jackie or Margaret Stubbs at the George and Dragon on 01748 518373.

We made it clear in appointing our tenants that we felt that the food sales were the key to establishing a profitable business and it is the tenant's stated ambition to build up food sales by generating a reputation for good quality, simple pub fayre, using local produce as far as possible.

The pub has planning permission to convert some former outhouses at the rear of the building into bed and breakfast accommodation. The board will consider whether to progress these plans during the second year of operation. If they were to be developed

this would increase the profitability of the business and provide more employment and help to meet the increasing demand for bed and breakfast accommodation in Swaledale.

The reopened George and Dragon is already attracting both villagers and visitors to the area to use it. The opening event on June 12th 2010 was attended by over 200 people and generated a great deal of media interest on television, radio and in the press. This has led to large numbers of people using the services at the pub. The activities at the pub will complement the activities run at the village hall and also support other businesses in the village serving tourists, including a holiday chalet business, a caravan site, riding stables and a few holiday cottages. Whilst it is in the Yorkshire Dales National Park, Hudswell is also near to larger centres of population including Richmond, Catterick Garrison, Darlington, Northallerton and the conurbations of Teesside. The pub has already begun to attract visitors to the area to use its services and to build up a reputation as an attractive, friendly pub, selling good quality food and beer. It is linked to a network of footpaths along the Swale valley and will also, therefore, attract walkers using these paths, who can access the pub directly from these paths through the field allotments and pub garden. It is also on popular cyclists' route through the dales and will be marketed as a refreshment stop for them. The patio and garden behind the pub are a great asset, with superb views over the Swale valley. These views will be used in marketing material. Part of the land at the rear of the George and Dragon has been converted into 10 allotments. These have all been taken by villagers and members of HCP Ltd.

The re-opened pub has quickly attracted local users from its former customer base. 79 villagers are members of the co-operative and shareholders in the business. They are all committed to using the pub themselves and also to bringing their friends and family with them. A large number of other villagers, whilst not investors in the Society have given their time and expertise to the project during the refurbishment of the building. They are equally committed to using the pub in which they have invested their voluntary effort. Clearly building its reputation in the area as an attractive venue for visitors to the Dales will take longer, but all the publicity associated with the campaign to buy the pub and the highly publicised opening event have given it a great start and within a year this should be firmly established.

The proposed shop, selling basic supplies is not seen as a profit making part of the business, but one which will be run at cost, as a service to the village, thus saving journeys by car to the nearby towns. The precise management arrangements for the shop have yet to be agreed, but our tenants are very keen for this to be developed and see it as an integral part of their plans for the development of the pub as the hub of village life.

We indicated in the original prospectus that we anticipated that the pub would be open within two months of acquiring the freehold. In the event, as we had sufficient funds to undertake a major refurbishment, it took three and a half months to complete this work. During the refurbishment the internal layout was significantly improved, with a new and larger bar area, and new, redesigned toilets. New fire and burglar alarms were also fitted and whole building was redecorated. The George and Dragon freehold was acquired on the 17th February 2010 and the pub opened for business on the 5th June. Everyone visiting the pub has been impressed with the improvements which provided a completely new pub kitchen, a new kitchen for the tenant's accommodation, new toilets with an improved layout and more convenient entrance, a much larger bar with a far more open and airy lounge area, whilst still retaining the attractive, wood panelled snug area. This work means that the feeling on entering the pub is now far more open, welcoming and

inviting, and, as you enter the pub you can see through the bar area to the spectacular views at the rear. This work required some major structural alterations which had to be carefully planned and costed before contractors were appointed to carry out the work. The patio area to the rear has also been improved and extended and the garden and quoits pitch tidied. The costs of refurbishment were considerably lower than they might have been, due to the tremendous amount of voluntary effort that was donated by HCP Ltd members and by other villagers and supporters. It was also the case that the contractors appointed to undertake the work, all of whom were local tradesman, worked at discounted prices and many companies either donated supplies and equipment or also gave generous discounts. The whole project was well managed and came in within budget despite numerous unexpected problems. This effort was a tribute to the community spirit that this project has generated in working towards a common goal.

The pictures below show some of the refurbishment in progress and then the final outcome of a bar area which provides an attractive and more open feel to the pub.



The first picture shows the bar area before the bar was installed. The white boxed in beam that had to be installed by the building team to replace a demolished wall is shown going across the top of the picture from left to right.



The second picture shows our volunteer co-ordinator marking off the jobs done at one of our working party weekends



To the left, our tenant Jackie Stubbs was keen to get stuck in and help us with the redecoration of the pub. Here she is seen stripping the walls



This is what the bar looks like now – all shiny and new.

Appointing our tenant

Clearly the appointment of tenants to run the business was a crucial step. As soon as HCP Ltd had acquired the George and Dragon, the position was advertised through Sydney Phillips Ltd. From about a dozen enquiries, eventually four applicants were short-listed. The board of Hudswell Community Pub Ltd chose Jackie and Margaret Stubbs because we were impressed with their enthusiasm, the ideas that they had for developing the business and the wide variety of experience that they brought with them of the hospitality industry. Jackie and Margaret are mother and daughter and they bring a blend of youthful enthusiasm and mature judgement to the management of the George and Dragon.

Jackie has more than 10 years experience working in a variety of hospitality settings including front of house supervisor in a number of restaurants and pubs, managing canteens and cafes, being the cook/manager at a Scottish Country estate and the chef to a millionaire in the Bahamas. Margaret has worked behind the bar for more than 20 years and is also an experienced bookkeeper. They had been looking for two years for their "ideal country pub" to take on and were delighted to be given the opportunity by HCP Ltd. This is a new venture for them both which they are determined will be successful.

The advantage of this arrangement for HCP Ltd is that the tenant carries the business risk. Our tenants have been provided with a fully refurbished and newly equipped pub. They are now responsible for maintenance of the building and its contents and for developing the trade. The attraction for the tenant is that they benefit from a low initial rent, which has been agreed in advance for three years. This enables them to build a profitable business from which they will directly benefit from increased income for the business that they own. Therefore they have every incentive to ensure that the business thrives.

As soon as they were appointed Jackie and Margaret got involved with the refurbishment of the building and begun to plan for the re-opening the pub. As the building work was coming to an end they gradually took over the premises and were ready to open as soon as the building was fit to use. They have secured arrangements with suppliers of food and drink and employed a chef and local staff to serve food. They began trading on the 5th June and the official opening event followed a week later on the 12th June. The pub has now been open for two months and trade is good and the takings higher than expected.

HCP Ltd have signed a three-year lease with our tenants, based on rental levels outlined later in this document. We have agreed an "open book" policy run through an accountant that we mutually agreed. This enables us to have full confidence in the financial reports that we are given and the lease agreement also allows for the level of rent to be increased if the business is more profitable than expected, once the initial three year period is completed, or reduced if it is less so.

Whilst the tenant is responsible for running the business within broad terms set by the board, we will hold three monthly review meetings with the tenant at which mutually agreed targets are set and progress towards them is monitored. The lease agreement contains clauses that allow the board of directors to terminate the tenancy at each anniversary of the lease commencing should performance falls seriously below our mutually agreed expectations. Our tenants are running their own business within our premises and they carry all the risk of failure and debt. If the business were to fail and the tenants leave, there would be no legal access to the co-operative's assets. The George and Dragon remains in the hands of HCP Ltd who could then seek another tenant to take on the business.

Industrial and Provident Society Structure

We have established a new corporate body that is an Industrial and Provident Society (a co-operative) for Community Benefit. Our lawyers, Muckle LLP acted for us on the registration of the IPS with the Financial Services Authority and they also in the acquisition of the freehold and the agreement of lease and deposit bond with our tenants. Co-operative and Mutual Solutions Ltd have advised us on the content of this prospectus.

We have chosen this legal model because it emphasises the social benefit of the investment we are asking our members to make. Incorporation gives the members and directors the protection of limited liability, just like a limited company, but unlike a company, an IPS is not designed to generate private profit, (though we certainly intend that investors will receive a fair return on their investment), but to deliver a community benefit. This model guarantees that the assets that the society will own will be used for the benefit of the community and cannot be disposed of for the private profit of the directors or members. This is called an "asset lock". The Co-operative rules, which act as our constitution, have been approved by Financial Services Authority and are available on our website (www.richmond.org/community/hudswellpub/index.html).

Providing that they behave responsibly, reasonably and legally and take out any necessary insurances, incorporation protects the members and directors of the society from any legal action against them as individuals and any access to their personal finance in the event of the enterprise entering receivership. Our members have joined our society because they wish to be part of a community enterprise that will provide local services and maintain the centuries old tradition of the English pub at the heart of a Yorkshire village. We have demonstrated that there is sufficient interest from within the village and from other supporters with connections to Hudswell and from others who simply wish to own a share of a traditional Dales Public House, to recruit 169 members to join the co-operative. The IPS structure allows any person who buys one or more shares to become a member of the society. Each member has one vote irrespective of how many shares he or she owns.

Each share costs £1. Because of the large amount funds that were required, the board decided that a minimum investment would be 500 shares. No shareholder can invest more than £20,000. Between the 18th December and the 22nd May 169 members had invested in Hudswell Community Pub Ltd. The breakdown of investment is set out below.

70 members have invested	£500	=£35,000
1 member has invested	£600	=£600
51 members have invested	£1,000	=£51,000
2 members have invested	£1,250	=£2,500
11 members have invested	£1,500	=£16,500
7 members have invested	£2,000	=£14,000
7 members have invested	£2,500	=£17,500
9 members have invested	£3,000	=£27,000
1 member has invested	£4,000	=£4,000
1 member has invested	£4,500	=£4,500
7 members have invested	£5,000	=£35,000
1 member has invested	£6,500	=£6,500
1 member has invested	£20,000	=£20,000
TOTAL investment		=£234,600

The one investment of £20,000, the legal maximum, was made by the Key Fund Yorkshire. Therefore our largest individual member investment is £6,500 and by far the majority of investors (122 of them) have invested between £500 and £1000.

Our initial target was to reach £220,000 to enable us to complete the purchase of the George and Dragon. This was achieved by early February 2010. This member investment has been supplemented by grant aid as is set out later in this document. Our next target is to reach £249,000 worth of investment. Once this is achieved we will establish a waiting list so that when members wish to withdraw their investment, which they are entitled to after one year, others who wish to invest can replace them. There are currently 169 members of the co-operative. The rules of HCP Ltd include a clause which requires that at least 40% these members are Hudswell residents. A Hudswell resident is defined as someone with an address who within the Hudswell Parish boundary. Currently 79 of our members meet this definition, which is 47% of the current membership.



A packed meeting of members at Hudswell Village Hall receive the great news that we have raised sufficient funds to buy the George and Dragon

The co-operative will pay interest to its shareholders at least as good as from an ordinary savings account and investors can withdraw their money when they wish to, having given the required notice. In order to give the enterprise a chance to grow the business, we require investors to commit to keeping their investment in the enterprise for at least the first year before they can withdraw it. This initial year will be from the day that HCP Ltd acquired the freehold of the George and Dragon, which was the 17th February 2010. Therefore, from February 2011 onwards members will be entitled to withdraw funds should they wish to do so. Investors will be required to give three months notice of their

intention to withdraw funds. The company rules give the directors the power to refuse a request to withdraw funds if it will endanger the business. It is our very firm intention not to use these powers unless absolutely necessary. We want investors to know that their money is available if and when they need it. We anticipate that there will be a waiting list of new members ready to replace investors that withdraw funds.

The shares that members buy are redeemable in the way set out above, but they are not transferable (i.e. people cannot sell, or give them to anyone else). This arrangement allows the society to be exempt from the Financial Services and Markets Act for Society share issues.

Whilst we firmly believe that the business will be profitable and that the ownership of the asset, the land and buildings, provides members with a high level of security, it is nevertheless important for members to understand that there is a potential risk that the business may fail and land values may fall. If this were to occur the value of the share in the Society could reduce. Whilst this risk needs to be stated here, the directors are confident that the acquisition of the building and associated acre of land, within the Yorkshire Dales National Park, for the price of £209,950 represents very good value for money. The asset has subsequently been valued at a higher value than this purchase price and this was prior to all the improvements that have been carried out.

The rules requiring that at least 40% of the membership shall be Hudswell residents has been inserted in order to ensure that the village continues to have a substantial say in how the society is run. However, HCP Ltd very much welcomes investments from anyone who wishes to support our enterprise. Indeed it would not have been possible to have achieved the purchase and refurbishment of the premises had not a large number of friends and supporters from all over the country and from abroad been willing to invest in our enterprise.

The Society is managed by a board of directors of up to 12 members of the IPS. Currently the board has 11 members, all of whom are residents of Hudswell. The board of directors are accountable to the membership and will report to them via a newsletter, general meetings and an AGM. All members will be provided with an annual report that sets out how the enterprise has developed its activities over past year and provides an audited financial report. After the first year, one third of the directors will stand down each year and may be re-elected or replaced by new directors drawn from the membership of the IPS.

HCP Ltd has leased the business to our tenants, who will run the pub and pay rent to the Society. The board has set the broad policy direction for the business and agreed key targets with the tenant. The lease agreement ensures that the pub will continue to be called the George and Dragon and that it will run as a traditional Dales village pub. It also requires the tenants to work with the board on the development of the shop and the land below the pub garden, where there will be grassed area that can be used for events. The allotments and an orchard, remains within the direct control of HCP Ltd. All ten allotments have now been let to member of HCP Ltd or villagers who currently pay a rent of £25 a year to HCP Ltd.

Our tenants are now wholly responsible for the management and development of their business. The board does not intend to interfere in the day-to-day running of the business or attempt to micro manage the pub. The performance of the tenant and the business that they are managing will be monitored at quarterly review meetings described

earlier. The society will pay a competitive dividend to the membership that will be obtained from the secure income of rent paid by the tenant. Interest to members is paid gross and is taxable. It is the member's responsibility to declare any such earnings to HMRC if applicable.

The IPS rules determine any surplus made by the Society, after it has paid dividend to its share holders must either be reinvested in the business or used for the benefit of the community of Hudswell or for another charitable or community purposes. Directors and members will not benefit financially in any other way from the activities of the society. It is our intention that the George and Dragon will continue to operate a public house for the benefit of the village of Hudswell for the foreseeable future. If, however, the directors should choose, at any time, to dispose of the property, any surpluses that may arise after all the shareholders have been paid back the amounts they invested must be used for a charitable purpose. This does not, however, prevent the directors choosing to reflect the fact that the enterprise has made a profitable sale in the level of dividend paid to members in the final year of operation, providing that this dividend is "reasonable".

It is important for members to understand that the value of their share will not increase. The only financial benefit for members is from the dividend that is paid. We intend that level of this dividend will be competitive and will grow with the profitability of the business.

This proposal is not regulated by the Financial Services and Markets Act 2000 because the shares in the co-operative are not 'securities' for the purpose of those regulations. It is therefore not authorised by the Financial Services Authority. If the business fails investors have no right of complaint to the Financial Ombudsman or the Financial Services Compensation Scheme.

Initial Directors

The initial directors who have worked to establish this enterprise come from a variety of backgrounds and have a range of relevant experience and skills. Brief summaries of these are provided below:

Paul Cullen Co-owner of thriving holiday complex in Hudswell. Paul is a recently retired teacher with experience of involvement in budgeting and management of numerous capital projects. Paul is also a long serving Richmondshire District councillor and has chaired several committees considering and dealing with complex issues involved in sustaining local communities. Paul has been appointed **Chair** of the Board of Directors.

Tim Williamson Mechanical Engineer (retired). Tim is a member of the Institute of Energy. He was formerly Product Manager for company supplying oil and gas industries. Currently, he is employed by the Wensleydale Railway Association to manage fleet engineering and maintenance and he has also joined the board of Wensleydale Railway Association Ltd.

Martin Booth Currently Assistant Programme Director of Hartlepool New Deal for Communities, a 10-year, £50 million neighbourhood regeneration partnership. Has been involved in number of community enterprises, including acting company secretary of the Azaad Youth Project (an IPS), a director of BOW Community Projects (a company limited by guarantee) and is currently company secretary of the Hartlepool NDC Trust (a charity

and company limited by guarantee). Martin has been appointed as **Secretary** to the board.

Dave Wilkinson Retired British Telecommunications Technician. Dave has been Church Warden since 1989 looking after church, churchyard and services. He is vice chair of the Village Hall committee and has been a Trustee of the local 'charity cottages' since 1989.

Paul Hetherington Self employed computer engineer since 1990 after setting up business supplying IT to local authorities, police forces, banks throughout UK. Formerly senior manager in computer operations Land Rover/Jaguar Cars. Paul has been appointed as **Vice Chair** of the Board

Martin Towell Teacher, who has worked in education for over 30 years. Martin was Head of Business & Economics at Richmond School between 1989 & 2008 and now works for Teesside University Business School as a lecturer and the OCR Examinations Board as a visiting moderator. He recently set up his own business and has many links to the local business community.

Ivor Sadler Owner/Director of Sadler's Taxis Ltd founded in 1997. Ivor was formally the owner Landlord of The Travellers Rest Public House in, Skeeby between 1994 to 1997. Prior to that he was a director of poultry/Frozen Food Company in Billingham serving butchery & catering markets from 1974 to 1993.

Sheila Sadler Part time shop assistant at Lightfoots Jewellers for the past 12 years. Sheila was landlady of the Travellers Rest, Skeeby from 1994 to 1997. She has been a Trustee of local charity cottages for the past three years.

Annie Sumner Currently a full time carer. Anne was recently employed to establish a northern manufacturing branch in West Yorkshire for a company specialising in medical equipment. Previous employment has included many years in the NHS latterly as Complaint Manager for the General & Orthopaedic Surgery Directorate prior to that as Regional Intensive Care Auditor, auditing patient outcomes. Other experience includes a six month sabbatical in Annapolis, USA helping a friend to reopen a historic tavern as pub and tearoom and organising several international conferences. Anne has been appointed by the board as **Treasurer**.

Carol Wilkinson is a clinical administrator with wide customer services and sales experience. She is the secretary for Hudswell Parochial Church Council and also a former Bed and Breakfast Proprietor. She lives directly opposite the George and Dragon Public House.

Ron Lightfoot Currently Pre-projects Manager at Siemens VAI Metals Technologies Ltd, a company which designs and builds iron and steel making equipment. He has travelled extensively throughout the world presenting the company's technology and negotiating contracts of sale. Ron is also Secretary of Hudswell Gardening Club. Ron has been appointed by the board as **Membership Secretary**.

This team has a broad range of skill and experience to draw on, including expertise in finance, management, staff employment, and running licensed premises. We also have a team of advisors to draw on. This Team includes:

Dave Hollings and Garath Nash of Co-operative and Mutual Solutions Ltd. Dave has wide experience in the co-operative field and helped to establish the Old Crown public house co-operative in Cumbria. They advised us on co-operative structure, the content of the prospectus, obtaining investment and business planning

Charlotte Foster from Pub is the Hub and the Plunkett Foundation. Charlotte is advising us on the development of the village shop and assisting with funding bids.

Bob Middleton is a business advisor with Business Link Yorkshire and he is also helping us with funding applications and business planning.

In addition to this we have appointed **Muckle LLP** as our lawyers and they handled the registration of the Industrial and Provident Society, (which they did on a pro bono basis) and acted for us in the purchase of the George and Dragon and in drawing up the lease and deposit bond with our tenants.

Business SWOT Analysis

STRENGTHS

- Excellent location at the centre of the village and close to large towns (Richmond, Catterick Garrison, Darlington)
- A base of regular customers who have already returned to the George and Dragon
- The commitment of the wide membership base of 169 people who are already using and will continue to use what is their business and who will also encourage their friends and family to use the pub
- The location within the Yorkshire Dales National Park, a holiday area, will enable the business to attract tourists to use the pub
- The business does not have to service any debt
- The business owns the freehold and the tenants are not tied to any particular brewery and are therefore free to negotiate the best deals
- Local micro brewers are keen to support the business and to supply excellent and popular real ale. Several have already supplied the pub with beer
- The company has appointed experienced licensees as the tenants to run the business and take all the business risk
- The company has the secure income of rent from the tenant and a bond of £10,000 from our tenants

WEAKNESSES

- The pub had been closed for almost two years and therefore lost users to other venues
- It therefore had little or no "good will" to build on
- It is not located in a well known Dales village, but a little off the main tourist routes
- The car parking facilities are limited

OPPORTUNITIES

- To build up a reputation starting from scratch with new tenants and staff team
- To develop new customers bases including walkers (with a Walks from the G and D booklet), cyclists, people in search of locally sourced, good quality food, and locally produced beers

- The building has planning permission to convert the outhouses into bed and breakfast accommodation
- As the business has been established as a community enterprise, run for the benefit of the residents of Hudswell, has been able to access grant aid to help establish the business and it will be able to do so to assist with development plans
- The proposed programme of events should attract new and old customers to the pub

THREATS

- The costs of improving the building were significant and more work may be needed
- Once business is established several shareholders may request withdrawal of their shares at the same time
- Despite all the work and effort the continued economic downturn may lead to insufficient use of the pub and the business may prove not to be viable.

Addressing the Weaknesses and Threats:

Attracting trade

The parish of Hudswell has an adult population of over 200 people. On past experience less than half of these have been regular users of the pub. However, now that the pub is owned by the village (with 79 members from the village), the commitment to use the pub and to encourage family and friends to use it is considerable. We have already seen evidence of this during the first few weeks of trading. We estimate that in an average week up to 80 of these adult residents will visit the premises and of these 40 will visit on more than one occasion. The significant publicity and press, radio and TV coverage of the campaign to reopen the pub and of the Opening Event itself has led to large numbers of people coming to the George and Dragon for the first time during first few weeks since it opened. Providing that their experience at the pub is good, many of these should return again. In addition to this, the pub is situated in the Yorkshire Dales National Park and there are other businesses in the village that attract tourists to Hudswell and whose customers will also use the pub. The pub will attract visitors on holiday in the Dales and from nearby towns by building up its reputation as a traditional, friendly country pub selling good quality food and beer.

Lack of car parking space.

There is room for four or five cars at the front of the pub and ample street park along the village lane. In addition to this the village hall car park (three minutes walk away) can be utilised and has space for 16 cars. The Opening event attracted 200 people, nonetheless the street parking and village hall car park proved sufficient to cope with this unprecedented level of attendance. The business will deliberately set out to attract cyclists and walkers to use the pub and most of the villagers can walk to it. There is also a regular bus service to the village from Richmond on weekdays and Saturdays.

The building

The Interior layout of the old George and Dragon was a major drawback, but this has been comprehensively addressed during the refurbishment that took place prior to it opening. This refurbishment also included the redesign of the toilet area and beer cellar and repairs to the restaurant area roof. A brand new, fully equipped kitchen has been installed and a new wood-burning stove has been provided in the snug area. Whilst there are other improvements and maintenance that may be needed in the future, the directors are confident that all the major issues with the building have been addressed and the George and Dragon now presents a comfortable and practical environment in which to

enjoy food and drink and socialise. The responsibility for the maintenance of the building now rests with the tenants. However, HCP Ltd have given them an undertaking that, if major works were necessary, the Society will assist them to meet these costs.

Shareholder withdrawal

In order to ensure that we have a growing reserve fund it was stated in the original prospectus that the directors would aim to sell shares and raise funds from other sources that would lead to a sum being raised that is 5% greater than that needed to buy the business, convert and fit out the pub. With the assistance of grant aid (detailed below) this has been achieved. The full cost of the purchase and refurbishment of the George and Dragon was £278,000. The total sums raised from shareholder investment, grant aid and donations is £303,000. This is 9% greater than the costs we incurred and we currently have a reserve fund of £25,000. We are aware, however, that our largest investor, Key Fund Yorkshire, may wish to withdraw all or most of their funds after the initial year. Therefore we aim to have a reserve fund of at least £35,000 by May 2011. The rental income which we will receive should allow us to pay dividend to shareholder investors at 3.5% or greater on shareholder investment up to £249,000. Therefore we intend to continue to receive investment up to that level (a further £14,500 at the time of going to press). In addition to the rental income HCP Ltd also has income from the allotments, from merchandise (badges, tee shirts and so forth) and will earn interest on the reserve fund. All shareholders have agreed not to withdraw funds for the first 12 months of the operation of the business, to allow it to establish itself. After that they will be required to give three months notice if they wish to withdraw shares. In effect, therefore, the earliest that any shares can be withdrawn is 15 months after the building was purchased. As the business grows, each year, a proportion of the surplus will be added to this reserve fund up to a maximum of £50,000. If a shareholder gives notice that they wish to withdraw shares then shares of the same value will be marketed and can be acquired by new or existing shareholders. Ideally, new shareholders will be found to replace those shares that are to be withdrawn. It is intended that a waiting list of new shareholders will be established which can be drawn upon to replace those who wish to withdraw their share. In the unlikely event that new shareholders cannot be found, then the reserve fund can be utilised. Most shareholders have invested relatively small sums and the largest single investment (apart from the Key Fund's £20,000) is £6,500. So this limits the potential of one or two withdrawals to seriously undermine the business.

Providing that the business is successful and pays a competitive dividend, in line with or better than the interest rates available from banks and building societies, it is unlikely that large numbers of shareholders will wish to withdraw their shares at the same time. If the business is not successful and does not pay a reasonable interest rate then it may be that a number of shareholders would seek to withdraw their investment. If this were to happen the business would have to close and the assets would be disposed of in order to return the shareholder's funds. The directors will have the power to refuse a withdrawal if it will endanger the business. This is a power that the directors intend to use only in extreme circumstances and for a limited period of time. The directors believe that the revitalised George Dragon has every chance of success and an investment in a business that you use regularly and that is run by people that you know and trust is a safe investment.

The business is not viable

If the prevailing market conditions are so unfavourable that, despite a sound business plan, vigorous and sustained marketing and the support of local user/owners, the business does not develop in the way anticipated, then the directors will be forced to close the pub

once again. In this event the Society will seek to dispose of their asset, the building and associated land, for the best possible price. This is not an outcome that we seek, but this possible course of action should give investors the security they need in the unlikely event of the enterprise being unsuccessful.

Marketing Plan

Competition

There is no other pub in the village. The nearest pubs are three miles and one and half miles away respectively. The immediate competition to the George and Dragon is from the Bolton Arms at Downholme and the Holly Hill Hotel on the outskirts of Richmond. There are also numerous pubs in Richmond itself. Also, there are a number of pubs in Swaledale and Wensleydale which, whilst they are some distance away, are competitors for the tourist market. Visitors to the dales looking for a country pub to walk to, or for a meal out, will consider options across a wide area.

Our tenants have agreed that they will market the George and Dragon as a homely, traditional Dales pub, which fully meets the tourists' and day-trippers' idea of a country pub. This involves good quality pub food, sourced from local suppliers, good quality beers again brewed in the Dales, open fires, a friendly atmosphere and traditional pub entertainment. The aim is to attract visitors and to meet the needs of the village for a meeting place and venue for events. Whilst the villagers have returned to the pub quickly now that it is open, it will take time to build up the tourist and visitor usage. Reputation will spread most effectively by word of mouth and must be built on good quality provision and service. Nevertheless, regular marketing is vital to supplement this.

The marketing of the business is the responsibility of for the tenant. The strategy that they presented to us at their interview and which they are now putting in place is summarised below.

- The opening of the pub by Foreign Secretary and Hudswell Community Pub members William Hague was widely covered by press and local TV/radio stations. The event itself was attended by more than 200 people and it led to considerable interest from visitors who had never been to the pub before. The aim of the tenants is to make their experience so good that they will return again.
- There has been ongoing media interest that has led to articles about the George and Dragon and the community campaign to reopen it being published in a wide range of journals and newspapers including the Darlington and Stockton Times, the Northern Echo, the Yorkshire Post, the Sunday Times, the Dalesman, the Publican, New Start and Social Enterprise magazines. There have also been items on Radio Tees, Radio York and Radio Teesdale. In addition to this the George and Dragon is now to be featured in a ITV series called "The Dales" to be broadcast during the winter of 2010/11. All of this publicity has generated increased visitors to the pub.
- The tenants are now planning advertisements in the local press, including the free advertisers and leaflets and posters delivered to all the Bed and Breakfast establishments in Richmond and other nearby holiday venues including the caravan parks in Hudswell and in the Swale valley.

- Regular leaflet drops to the parish of Hudswell and to nearby holiday establishments which advertise the pub and its programme of activities (darts, quizzes, music nights, seasonal events and so forth).
- Regular advertisements in the press advertising the same programme and stressing the traditional Dales pub welcome that you will find at the George and Dragon
- A booklet of walks and cycles rides from the George and Dragon will be produced and marketed locally. This will attract walkers to the pub.
- Holding events that celebrate local food and locally brewed beer and advertising these in the specialist press.
- A well presented and regularly updated website has now been established at <http://www.georgeanddragonhudswell.com/>



River Swale below the George and Dragon Path in Hudswell Woods at rear the George and Dragon



The allotments that have been developed at the rear of the George and Dragon

Building up the business

Our tenants have produced a business plan that demonstrates how they intend to grow the business. We have entered into a tenancy agreement with them that has set the rent levels deliberately low for the first three years in order to give them every incentive to develop the business. We have also secured a bond from them of £10,000, to hold against failure to pay rent or damage to our property and furniture and fittings. Pub tenants are typically expected to pay rents that are equivalent to 50% of the expected profits of the business. A survey of pubs on the market for tenants, with turnovers in the region of £120,000 show that typical rents range from £12,000 to £14,000. We have set the rent level at an amount that will enable us to pay a 3.5% return to our members in year one rising to 5% by the third year. The tenants know what the rent will be and they are required to pay it quarterly in advance. The rent is set £9,500 in year one, £11,000 in year two and £13,000 in year three. After this the lease will be renegotiated, but it is our intention to link the rent level to the profitability of the business, probably at 10% of sales, which we anticipate to have risen to at least £140,000 per annum by then, leading to a rent of £14,000 per annum. This rent will give the society sufficient funds to pay a dividend to shareholders and build up the reserves. It also gives the society the flexibility to lower this the rent level if the business does not grow at the expected rate.

Sales

The sales figures that we expect the tenant to achieve are based on the turnover of the previous landlords who achieved an income from sales of over just over £120,000 per annum. We fully expect that these sales figures can be improved upon for three reasons:

- (i) The fact that the pub is owned by the shareholders, most of whom live locally, will be a big incentive for villagers and other members to support their own business and to encourage their family and friends to use it.
- (ii) The tenants that we have appointed have produced a business plan that demonstrates how they intend to grow the business. We have entered into a tenancy agreement with them that has set the rent levels deliberately low for the first three years in order to give them every incentive to develop the business.
- (iii) The tenants that we have appointed are committed to drive up the sales of food from 30% of the sales to 45% of the sales over the three year period. Increasing food sales is the key to making the George and Dragon a viable business and the tenants that we appointed demonstrated how they plan to achieve this and we will closely monitor this throughout the tenancy.

Having said this, as the pub has been closed for almost two years the business has had to start from a low base. In the first year it is envisaged that income from sales will match that of the previous landlords and be at around £120,000. In the second year it is anticipated that this will grow to £129,000 and in year three to £138,600. This is based on a sales growth of 7.5% each year. The pub has only been open for two months and this period has been marked by considerable publicity surrounding the opening event, good support from members all keen to use "their" pub, and some very good weather. Sales have been good and if they were to continue at that level would lead to the business plan predictions being outstripped by more than 30%. However, it is recognised that this is an

exceptional period, due to the reasons mentioned above, but what can be said with confidence is that the tenants are currently on track to meet the business plan targets or exceed them.

The sales predictions are based on relatively conservative estimates of the number of people who will use the pub. Using an analysis of the amount of spending per visit that other similar pubs experience, the average visit to the pub by one adult generates £6.50 of sales. The table below was produced in our original prospectus and sales for the first month of operation are in line with these projection. The table shows the expected number of visits to the pub in a typical week in the December, March and August and the income that they would generate.

	December		March		August	
Day	Visits	Income	Visits	Income	Visits	Income
Monday	26	£169	10	£65	40	£260
Tuesday	21	£136.50	12	£ 78	31	£201.5
Wednesday	34	£221	18	£ 117	45	£292.5
Thursday	39	£253.50	21	£136.5	58	£377
Friday	78	£507	61	£396.5	115	£747.5
Saturday	98	£637	71	£461.5	130	£845
Sunday	91	£591.50	65	£422.5	112	£728
TOTALS	364	£2515.50	258	£1,677	531	£3,451

These sales figures, would lead to sales for the year in excess of **£120,000**. Now that we have appointed a tenant they are wholly be responsible for running their own business within our building. They will therefore meet all of the running costs from the income that they make from sales. The tenant will be responsible for running the business within broad guidelines set by the board of HCP Ltd. The tenants are required to live in the accommodation in the rooms above the pub, which they are doing.

Dividend to shareholders

It is envisaged that a dividend of 3.5% of their share value will be paid to shareholders at the end of the first year of trading. The actual amount to be paid will be determined by the board of directors and will be dependant up two factors

- (i) The prevailing rate of interest at the time.** Share holders are promised that their investment will give them a return "at least as good as they might expect from a building society or bank". Therefore the board will ensure that, as a minimum, this promise is fulfilled.
- (ii) The profitability of the business.** The rent for the first year has been set at £9,500. A 3.5% return for £249,000 worth of shares purchased by shareholders will cost £8,700. Currently, however, we have £234,500 worth of investment which would lead to a dividend costing the Society £8,207. After paying this dividend the remaining £800 – £1,200 will be added to the reserve fund. The Society should not have to meet any other significant costs, as the costs of insurance, building maintenance, licenses and so forth are all me by the tenant. In addition to the rent the Society has some other small amounts of income from the allotment holders, the sales of merchandise and interest. As explained above, the rent levels have been set for the first three years and should allow for higher levels of dividend to be paid in years two and three. If the business grows as anticipated then the rent will be linked directly to sales from the forth year onwards and should lead to incomes of £14,000 per annum or more for the Society, which will enable us to pay dividends in excess of 5%.

Premises Costs

The original prospectus set out the expected costs and demonstrated how these were to be met. In the event the costs of purchase and refurbishment of the George and Dragon were greater than anticipated. However, the estimates of income were also greater, so the net effect is that we are broadly in the position that we originally anticipated. These costs and income sources are set out below. The figures have been rounded.

Costs

Purchase of the premises	£209,950
Legal and incorporation fees	£6,500
Creation of allotments	£1,500
Purchase of furniture and equipment	£20,000
Refurbishment of premises	£40,000
Reserve Fund	£25,100
TOTAL	£303,050

This was funded from

Share purchase by members	£215,500
Share purchase by the Yorkshire Key Fund	£20,000
Grant aid Rural Access to Opportunities Programme	£50,000
Grant aid from Development Trust Ass	£5,000
Rural Business Development Grant	£9,200
Grant from Yorkshire County Council	£750
Co-op and Mutual Solutions grant	£900
Donations	£1,000
TOTAL	£303,050

Now that the development phase is over and the responsibility for the maintenance of the building and the equipment rests with the tenants we are not anticipating any other significant costs for the Society. Nevertheless we wish to build up a reserve fund of £35,000 by May 2011 rising to £45,000 by May 2013 to cover possible shareholder withdrawals that cannot be met by new investment and to meet any unforeseen costs.

Development of Bed and Breakfast Accommodation

There was a previous planning consent to develop outbuildings at the rear of the premises into six bedrooms and with en suite bathrooms, two of which would have balconies and fine views over the Swale valley. Whilst this has now expired we have been advised by the planning authority that a similar application would be likely to be approved. The construction costs of this development have not yet been estimated neither has the board considered how these funds could be raised. Therefore this development is considered here in outline form only. It is the board's intension to thoroughly investigate the viability of this development and to seek professional assistance in to conduct market research and design work before making any decisions about this development.

Our tenants are keen to see this bed and breakfast accomodation progressed and have already reported a significant number of enquiries about accommodation which they are currently unable to meet. It seems likely that, if this work were to be completed, it would significantly increase the potential income of the business. For example, if the cost of bed and breakfast was to be set at £28 per person per night and the 6 double rooms has an occupancy of 45% of the available space (i.e. out of a possible 4,380 person night per

lettings year, only 1971 were let) this would generate an income of over £50,000 per annum. There would of course be additional staff and other running costs associated with this, but it would certainly add considerably to the viability of the business, as the guests would also use the pub for their meals and drinks. Nevertheless, the development may detract somewhat from the amenity of the patio area and would certainly lead to some disruption to trade during the construction phase. In order to come to a view about whether or not to pursue this development and if it were to be pursued how it would be funded the board proposes to take the following actions over the next 12 months:

- The proposed layout and design will be reviewed and altered if necessary
- The cost of the construction of these rooms will be fully investigated and at least three competitive quotes to undertake the work obtained.
- A full analysis of the likely additional income and of the associated staff and other costs is would be undertaken.
- A market analysis of the likely demand for the accommodation would be carried out.
- Proposals for funding the development would be developed. This could include a combination of the following: (i) an additional share issue, (ii) taking out a business loan, (iii), using company surpluses (iv) grant aid (v) investment from an other party.

As this is an important decision this development will not be undertaken without the consent of the full membership of HCP Ltd, as expressed at a General Meeting of the Co-operative.

Land at the rear of the Pub

There is approximately an acre of land that forms part of the property of the George and Dragon. We stated in the original prospectus that this is a considerable asset which needed to be fully exploited. We believe that this has been largely achieved now, though some more work needs to be done. Immediately at the rear of the restaurant area is a paved patio from which there are magnificent views across the Swale Valley. By cleaning and clearing this area and removing the fishpond, this has been transformed into an extremely attractive beer garden which also accommodates smokers. At the rear of this is a further garden and field. The garden contains the quoits pitch. The garden has been weeded and undergrowth has been cut back, but more work is needed to make this into a more attractive area. Our tenants are now responsible for this area and have plans to develop it. Below this is a lawned area and the 10 allotments. This lawn area needs further work to improve it, but it is anticipated that this can be used as additional beer garden, outdoor dining space and a space for barbeques, bonfire nights, musical events and outdoor activities. It could accommodate a marquee for functions such as wedding receptions. The allotment area has been fully fenced off with a rabbit proof fence, divided into 10 allotments. All of these allotments have been let to local residents at a fee of £25 a year and vegetables are already being grown on some of them. Within a year this should be an attractive and well-tended site.

Beyond this is a further field leading down to a network of footpaths leading through Hudswell Woods. This area will be developed as an orchard. The network of paths leading down to the river Swale, into Richmond in one direction and through woods and across moors to Downholme in the other can be accessed by a path leading through the field and up to the pub garden. This path will be retained and improved and signs from the woods will point the way to the George and Dragon. The pub will be marketed to walkers and the path though the pub field to the woods will be maintained and a book of walks from the George and Dragon will encourage walkers to use the pub.



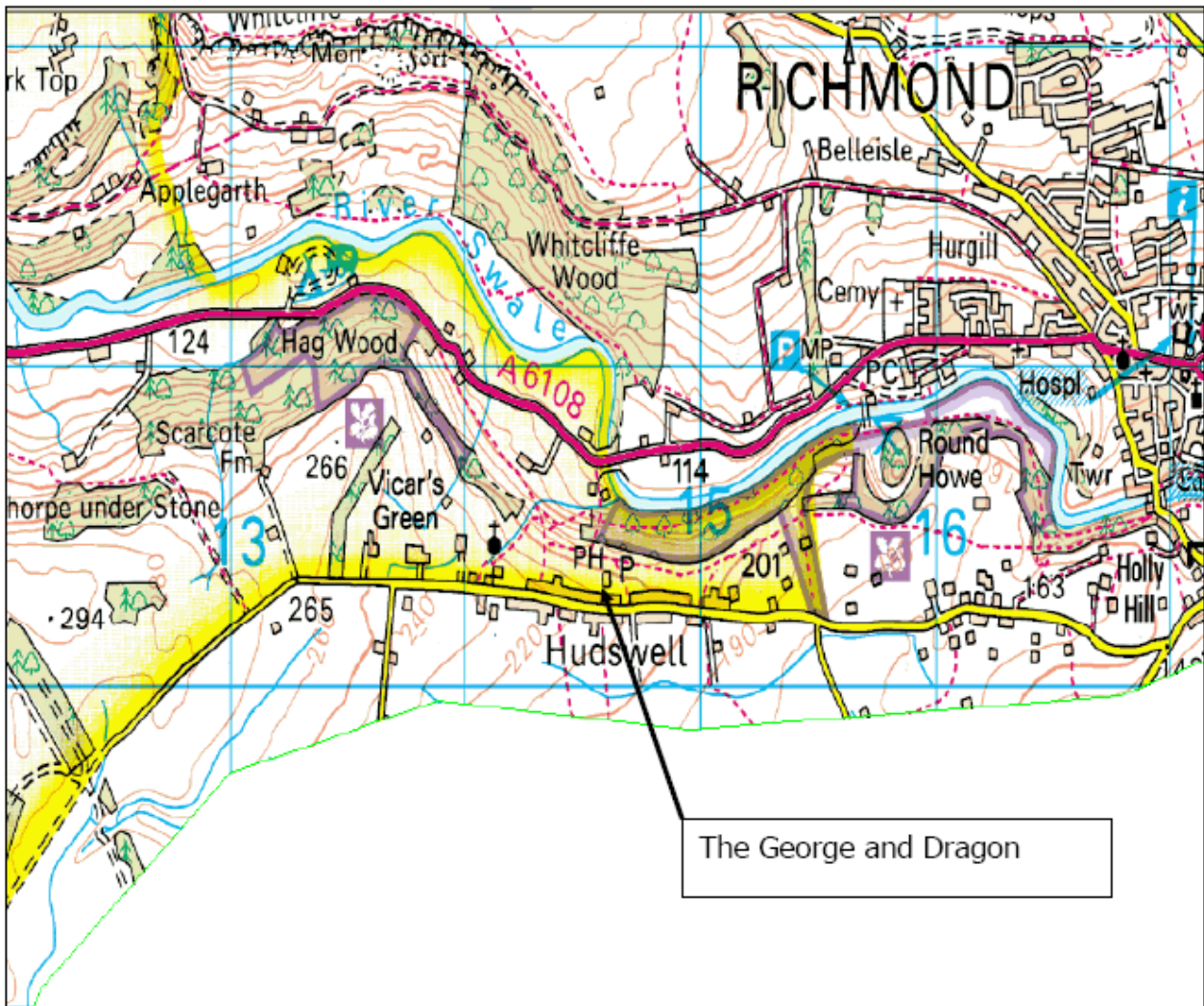
Above: View from the patio at the rear of the George and Dragon



Left: Foreign Secretary William Hague declares the George and Dragon open for business by cutting a George and Dragon cake.



Above: Members chatting at the opening event and the refurbished restaurant area.



Map showing the location of Hudswell and the George and Dragon

How to apply to join Hudswell Community Pub Ltd

If you wish to become a member of HCP Ltd and invest in our venture please complete the form below and return it to the following address:

Hudswell Community Pub Ltd
Membership Secretary
Coromandel
Hudswell
Richmond
North Yorkshire
DL11 6BN

Name

Full address including post code.....

.....

e-mail address

Phone number

Number of shares you wish to acquire (minimum 500, maximum 20,000)

.....

Shares cost £1 each.

Please **DO NOT** send a cheque with this form. We now have a waiting list for new members. We will contact you as soon as there is an opportunity for you to join our co-operative enterprise.

By requesting that I become an investing member of HCP Ltd I agree to my name, address, phone number, email address (where applicable) and the number of shares I wish to purchase being held on a computer database. I understand that this information will be used for the purpose of maintaining a register of members and potential members as required by the rules of the IPS, for posting of notices regarding the activities of Hudswell Community Pub Ltd and will not be passed to third parties.

Signed:

Date: