THE SPECTATOR (1828) LIMITED

Financial Statements

for the year ended

31 December 2003

Company Registration No. 1232804

THE SPECTATOR (1828) LIMITED

Directors

J G Cluff *Chairman*
D C Fildes OBE
K Fortier
The Lord King of Wartnaby
The Rt Hon Francis Maude
Sir Patrick Sheehy
The Lord Tebbit PC CH
The Hon. J W Deedes

Secretary

S Griffiths

Registered Office

56 Doughty Street
London WC1N 2LL

Auditors

KPMG Audit Plc
8 Salisbury Square
London EC4Y 8BB

Report of the Directors

The directors present their report and the accounts of the company for the year ended 31 December 2003.

Activities

The company's principal activity is the publication of *The Spectator* magazine and *Apollo* magazine.

Results and dividends

The company showed a profit after tax for the year of £1,092,677 compared to £978,596 in 2002.

Profit for the year retained in the company is £418,772 *(2002: £23,898).*

During the year, interim dividends of £673,905 *(2002: £954,698)* were paid. The directors do not recommend a payment of a final dividend.

Directors and directors' interests

The directors who served during the year were:

J G Cluff *Chairman*
Lady Black (ceased to be a director 19 May 2004)
The Lord Black of Crossharbour (ceased to be a director 26 March 2004)
D W Colson (ceased to be a director 23 March 2004)
D C Fildes OBE
K Fortier
The Lord King of Wartnaby
The Rt Hon Francis Maude
Sir Patrick Sheehy
The Lord Tebbit PC CH
The Hon. J W Deedes (appointed as a director 12 May 2004)

The company's articles of association do not require the retirement of directors by rotation or the re-election at a general meeting of directors appointed by the board.

Under the Companies (Disclosure of Directors' Interests) (Exceptions) Regulations 1985 directors of the company are exempt from the obligation otherwise imposed by s324 Companies Act 1985 ("the Act") to notify the company of an interest in shares in, or debentures of, the company, or any other body corporate, being the company's subsidiary or holding company or a subsidiary of the company's holding company, which is based overseas.

None of the directors who held office at the end of the financial year had any disclosable interest in the shares of the company or any other UK based group company.

None of the directors had a beneficial interest in any contract to which the company was a party during the year.

Elective resolutions

At the annual general meeting held in 1991, the members invoked section 379A of the Act by passing elective resolutions:

(i) as permitted by section 252 of the Act, to dispense with the laying of accounts and reports before the company in general meeting;

(ii) as permitted by section 366A of the Act, to dispense with the holding of annual general meetings; and

(iii) as permitted by section 386 of the Act, to dispense with the obligation to appoint auditors annually.

By Order of the Board

S Griffiths
Secretary

56 Doughty Street
London WC1N 2LL

15 July 2004

Statement of directors' responsibilities in respect of the financial statements

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

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

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Act. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

KPMG Audit Plc
8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Report of the independent auditors to the members of The Spectator (1828) Limited

We have audited the financial statements on pages 7 to 20.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 5, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor

26 July 2004

Profit and loss account
for the year ended 31 December 2003

	Notes	2003 £	2002 £
Turnover	1,2	8,207,785	*7,216,164*
Cost of sales		(3,550,589)	*(3,100,831)*
GROSS PROFIT		4,657,196	*4,115,333*
Other operating expenses	3	(3,794,391)	*(2,882,012)*
OPERATING PROFIT		862,805	*1,233,321*
Interest receivable and similar income	5	144,072	*155,326*
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	4	1,006,877	*1,388,647*
Tax on profit on ordinary activities	6	85,800	*(410,051)*
PROFIT FOR THE FINANCIAL YEAR		1,092,677	*978,596*
Dividends payable on equity shares	7	(673,905)	*(954,698)*
Retained profit for the year		418,772	*23,898*

Results for the year arise from continuing operations.

The historic cost profit and loss is the same as that shown above.

The notes on pages 9 to 20 form part of these accounts.

Balance sheet

at 31 December 2003

	Notes	2003 £	2003 £	2002 £	2002 £
INTANGIBLE ASSETS					
Goodwill	9		74,568		*82,860*
FIXED ASSETS					
Tangible assets	10		601,689		*591,030*
CURRENT ASSETS					
Stocks	11	20,198		*32,162*	
Debtors	12	2,833,502		*2,977,242*	
Cash at bank and in hand		2,843,424		*2,773,008*	
		5,697,124		*5,782,412*	
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	13	(4,356,860)		*(4,858,553)*	
NET CURRENT ASSETS			1,340,264		*923,859*
TOTAL ASSETS LESS CURRENT LIABILITIES			2,016,521		*1,597,749*
Net Assets			2,016,521		*1,597,749*
CAPITAL AND RESERVES					
Called up share capital	14		1,403,968		*1,403,968*
Profit and loss account	16		612,553		*193,781*
Equity shareholder's funds	15, 16		2,016,521		*1,597,749*

Approved by the board on 15 July 2004 and signed on its behalf by:

J G Cluff (Chairman)

The notes on pages 9 to 20 form part of these accounts.

Notes to the accounts
31 December 2003

1. Accounting policies

(a) *Accounting convention*

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

Under Financial Reporting Standard ("FRS") 1 (Revised) (*cash flow statement*) the company is exempt from the requirement to produce a cash flow statement as it is a subsidiary undertaking of Hollinger Inc which itself prepares consolidated accounts.

(b) *Foreign currencies*

Transactions in foreign currencies are recorded at the rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

(c) *Goodwill*

Purchased goodwill (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) arising on business combinations in respect of acquisitions since 1 January 1998 is capitalised. Positive goodwill is amortised to nil by equal annual instalments over its estimated useful life. The directors, having regard to the nature of business, the industry in which it operates and the impact of competitors, have assessed this period to be 10 years in relation to goodwill arising on the purchase of *Apollo* magazine business on 18th November 2002.

(d) *Tangible fixed assets*

Tangible fixed assets are stated at cost less accumulated depreciation.

Depreciation is calculated to write off the cost on a straight line basis over the expected useful economic lives of the assets which are as follows:

Fixtures and fittings	3-5 years
Property improvements	4-10 years
Property	50 years
Computer equipment	3-5 years

Notes to the accounts
31 December 2003 – continued

1. Accounting policies (continued)

(e) *Stocks*

Stocks are valued at the lower of cost and net realisable value on a first in first out basis.

(f) *Deferred taxation*

Full provision is made for deferred tax at the rates of taxation which are expected to apply on all material differences arising from the inclusion of income and expenditure in taxation computations in periods different from those in which they are included in the accounts, except where such differences are expected to continue in the future.

(g) *Turnover*

Turnover represents the invoiced amount of goods sold and advertising space provided net of commission, allowances and value added tax. It is recognised when the goods are delivered or as the advertising is shown in the newspaper. Contracts which span the year end are recognised on a pro rata basis in line with contractual milestones.

(h) *Pensions*

The company is a participating employer under the Telegraph Staff Pension Plan, a hybrid pension scheme operated by the immediate parent company, Telegraph Group Limited, the contributions to which are charged to the company's profit and loss account as the company's obligation to pay arises.

2. Turnover

	2003	*2002*
	£	*£*
Magazine sales and advertising revenue	7,846,344	*6,924,220*
Other revenue	361,441	*291,944*
	8,207,785	*7,216,164*

Analysis by geographical area	%	*%*
United Kingdom and Eire	79	*77*
Rest of the world	21	*23*
	100	*100*

The directors consider there is only one class of business.

Notes to the accounts
31 December 2003 – continued

3. Other operating expenses

	2003	*2002*
	£	*£*
Distribution costs	3,116,599	*2,296,697*
Administrative expenses	677,792	*585,315*
	3,794,391	*2,882,012*

4. *Profit on ordinary activities before taxation*

	2003	*2002*
	£	*£*
The profit on ordinary activities before taxation is stated after charging:		
Depreciation of tangible fixed assets	56,394	*53,135*
Amortisation of goodwill	8,292	-
Auditors' remuneration	7,700	*7,650*

In addition to the above, the auditors received £nil for other services to the company *(2002: £4,900).*

5. Interest receivable and similar income

	2003	*2002*
	£	*£*
Interest receivable from parent undertaking	81,264	*88,000*
Bank Interest	62,808	*67,326*
	144,072	*155,326*

Notes to the accounts
31 December 2003 – continued

6. Taxation

	2003 £	*2002 £*
UK corporation tax at 30% *(2002: 30%)*	322,703	*435,051*
Group relief adjustment to prior years	(408,503)	-
Over provision in previous year	-	*(25,000)*
Tax on profit on ordinary activities	(85,800)	*410,051*

Factors affecting the tax charge for the current year:

The current tax charge for the year is lower *(2002:lower)* than the standard rate of corporation tax in the UK (30%) *(2002: 30%).* The differences are explained below:

Current tax reconciliation:	2003 £	*2002 £*
Profit on ordinary activities before tax	1,006,877	*1,388,647*
Tax at current rate: 30% (2002: 30%)	302,063	*416,594*
Expenses not deductible for tax (primarily: depreciation/amortisation)	30,657	*25,074*
Capital allowances for the year (in excess of)/less than depreciation	(10,017)	*(6,617)*
Group relief adjustment to prior years	(408,503)	-
Adjustment to tax charge in previous year	-	*(25,000)*
	(85,800)	*410,051*

7. Dividends

	2003 £	*2002 £*
Dividends payable on 1,403,968 ordinary equity shares (48p per share) *(2002: 68p per share)*	673,905	*954,698*

Notes to the accounts
31 December 2003 – continued

		2003	*2002*
8.	**Emoluments of the directors and employees**	£	*£*
(a)	Total emoluments, including pension contributions of the directors:		
	As directors	31,000	*31,000*
	Other emoluments	133,814	*124,449*
		164,814	*155,449*
	Emoluments of the highest paid director:		
	Salary and benefits	102,000	*93,000*
	Pension contributions	10,189	*9,224*
		112,189	*102,224*

		2003	*2002*
(b)	Average number of persons employed:		
	Editorial	14	*13*
	Selling, distribution and administration	18	*15*
		32	*28*

		2003	*2002*
(c)	Employee costs - all employees including directors	£	*£*
	Wages and salaries	1,384,804	*1,108,189*
	National insurance contributions	149,027	*113,868*
	Pension contributions *(see note 17)*	96,019	*72,557*
		1,629,850	*1,294,614*

Notes to the accounts
31 December 2003 – continued

9. Intangible fixed assets

	Goodwill £
Cost:	
1 January 2003	82,860
Additions	-
31 December 2003	82,860
Amortisation:	
1 January 2003	Nil
Charged in year	8,292
31 December 2003	8,292
Net book value:	
At 31 December 2003	74,568
At 1 January 2003	82,860

Notes to the accounts
31 December 2003 – continued

10. Tangible fixed assets

	Freehold property and improvements £	Fixtures & fittings £	Total £
Cost:			
At 1 January 2003	627,117	399,218	1,026,335
Additions	-	68,673	68,673
Disposals	-	(1,620)	(1,620)
At 31 December 2003	627,117	466,271	1,093,388
Depreciation:			
At 1 January 2003	88,303	347,002	435,305
Charge for the year	27,825	28,569	56,394
At 31 December 2003	116,128	375,571	491,699
Net book value: At 31 December 2003	510,989	90,700	601,689
At 31 December 2002	538,814	52,216	591,030

11. Stocks

	2003 £	*2002 £*
Paper and stationery stocks	20,198	*32,162*

12. Debtors

	2003 £	*2002 £*
Trade debtors	515,702	655,155
Amounts owed by parent company	2,066,254	2,117,143
Other debtors	10,618	-
Prepayments and accrued income	240,928	204,944
	2,833,502	2,977,242

Notes to the accounts
31 December 2003 – continued

13. Creditors: amounts falling due within one year

	2003 £	*2002 £*
Trade creditors	287,122	*268,177*
Other creditors including taxation and social security:		
Mainstream corporation tax	527,488	*850,697*
Other creditors	1,229	*1,877*
Accruals and deferred income	2,867,116	*2,783,104*
Dividends proposed	673,905	*954,698*
	4,356,860	*4,858,553*

14. Called up share capital

	2003 £	*2002 £*
Authorised:		
1,700,000 Ordinary shares of £1 each	1,700,000	*1,700,000*
Called up, allotted, and fully paid:		
1,403,968 Ordinary shares of £1 each	1,403,968	*1,403,968*

15. Reconciliation of movement in shareholder's funds

	2003 £	*2002 £*
Profit for financial year	1,092,677	*978,596*
Dividends	(673,905)	*(954,698)*
Net addition to shareholder's funds	418,772	*23,898*
Opening equity shareholder's funds	1,597,749	*1,573,851*
Closing equity shareholder's funds	2,016,521	*1,597,749*

Notes to the accounts
31 December 2003 – continued

16. Reserves

	Share Capital £	Profit and Loss Account £	Equity Shareholder's Funds £
At 1 January 2003	1,403,968	193,781	1,597,749
Profit for the year	-	1,092,677	1,092,677
Dividends payable on equity shares	-	(673,905)	(673,905)
As 31 December 2003	1,403,968	612,553	2,016,521

17. Pensions

The company participates in the Telegraph Staff Pension Plan ("the Plan"). The Plan is a hybrid pension scheme, being part defined contribution and part defined benefit. The Plan is a multi employer scheme and the company has taken advantage of partial exemptions per FRS 17 *Retirement Benefits.*

Benefits from the defined contribution section of the Plan arise directly as a result of contributions paid by members and the company, and from the investment performance of assets into which contributions are invested

The Defined Benefit Section of the Plan is made up of the Insurance Fund and the Protected Fund as follows:

- The Insurance Fund is used to pay benefits in respect of active members who die in-service or take ill-health early retirement. In addition it also meets the final salary promise which was given to a closed group of former members of The Daily Telegraph Group Pension Fund ("the Group Fund") who transferred to the Plan. Expenses of the Plan are also met from this section.

- The Protected Fund is used to pay the benefits in respect of a closed group of deferred pensioners from the Group Fund who transferred to the Plan in 1998 following the wind-up of the Group Fund.

Triennially a qualified actuary performs a valuation of the arrangements. The most recent valuation of the Plan was carried out at 31 March 2003 using the Projected Unit Method and involved calculation of a funding target which was then compared to the actual assets held. Contributions are then calculated in order to meet and maintain this target in the future.

The benefits arising from the Defined Contributions Section of the Plan and from TEPS are exactly balanced by the assets held and thus do not contribute towards any surplus or deficit within the Plan; the funding target is equal to the assets held.

The funding target for the Protected Fund and that of the promise provided under the Insurance Fund was set as the estimated cost of purchasing annuities from an insurance company using an approximate basis provided by an insurer. The funding target for the ill-health pensioners was calculated assuming an investment return of 1% pa above gilts.

An appropriate allowance in the future contribution rate is made for future benefits in respect of the defined benefit promise, ill-health retirement, death in service and expenses.

Notes to the accounts
31 December 2003 – continued

17. Pensions - continued

The most recent actuarial valuation showed that the market value of the Plan's assets was £72.7 million at 31 March 2003 and that the value of those assets represented 96% of the funding target. The Group's contributions in excess of those paid to the Defined Contribution Section were increased from 2.0% to 2.5% of basic salaries with effect from 1 January 2004.

FRS17

Whilst the Company continues to account for pension costs in accordance with Statements of Standard Accounting Practice 24, 'Accounting for Pension Costs', under FRS 17 'Retirement Benefits' certain disclosures are required relating to the Protected Fund and the Insurance Fund of the Plan. However, the Company is only one of a number of employers that participate in the Plan and is unable to identify its share of the underlying assets and liabilities in the Plan on any reasonable basis. It would therefore under FRS 17 account for the contributions to the Plan as if it were purely a defined contribution scheme rather than a hybrid scheme. The disclosures that are required are therefore limited to those relating to the surplus or deficit on the Plan. Full FRS 17 transitional disclosures for all the pension schemes in which the Company participates are provided in the accounts of Hollinger UK Holdings Limited, the company at the head of the UK group that owns Telegraph Group Limited.

No disclosures are required other than for the Protected Fund and the Insurance Fund as the liabilities of the Defined Contribution Section are exactly balanced by the assets representing accumulated contribution balances. In addition, the disclosures exclude annuities purchased to secure the benefits of the Plan's pensioners and the related liability to those pensioners.

The full actuarial valuation carried out for the Protected Fund and the Insurance Fund as at 31 March 2003 has been updated to 31 December 2003 by a qualified actuary on a basis consistent with FRS 17 using the following major assumptions:

	2003	**2002**	**2001**
Inflation	2.7%	2.3%	2.5%
Discount rate	5.4%	5.6%	6.0%
Rate of increase in pensions in payment	2.6%	2.3%	2.5%
Rate of increase in salaries	3.7%	3.3%	3.5%

Notes to the accounts
31 December 2003 – continued

17. Pensions - continued

The pension surplus/(deficit) using these assumptions was assessed to be:

	2003		2002		2001	
	Actuary's Expected Return	Value	Actuary's Expected Return	Value	Actuary's Expected Return	Value
		£000		£000		£000
Equities	7.7%	3,730	7.4%	3,190	8.0%	4,000
Bonds	5.4%	310	5.6%	420	6.0%	400
Gilts	4.7%	9,900	4.5%	11,430	4.9%	12,400
Other	4.6%	260	4.0%	540	5.0%	600
Total market value of assets		14,200		15,580		17,400
Present value of liabilities		(14,230)		(15,090)		(14,000)
(Deficit)/surplus in the Plan		(30)		490		3,400
Related deferred tax at 30%		10		(150)		(1,020)
Net pension (liability)/asset		(20)		340		2,380

18. Related Party

There are no related party transactions other than those with the company's parent, Telegraph Group Limited, disclosure of which is granted an exemption under FRS 8 *Related Party Disclosure.*

19. Ultimate parent company

Hollinger Inc., incorporated in Canada and listed on the Toronto, Montreal and Vancouver stock exchanges, is the company's ultimate parent company.

The largest group in which the results of the company are consolidated is that of which Hollinger Inc. is the parent company. The consolidated accounts of Hollinger Inc. can be obtained from Montreal Trust Company of Canada, 151 Front Street West, 8th Floor, Toronto, Ontario, Canada M5J 2N1.

The smallest such group is that of which is Hollinger UK Holdings Limited, registered in England and Wales, is the parent company. Copies of the accounts of Hollinger UK Holdings Limited can be obtained from its registered office, One Canada Square, Canary Wharf, London, E14 5DT.

Notes to the accounts
31 December 2003 – continued

20. Post balance sheet event

On 22 June 2004 DT Holdings Limited, First DT Holdings Limited and Second DT Holdings Limited ("the Vendors") entered into an agreement with Press Acquisitions Limited ("the Purchaser") to sell all the issued shares of Telegraph Group Limited, the owner of the Company's immediate parent, Hollinger Telegraph New Media Holdings Limited, to the Purchaser for the sum of £665 million plus an amount equal to the net cash in Telegraph Group Limited and its subsidiaries at completion (estimated at about £69.5 million). The obligations of the Vendors are guaranteed by Hollinger International Inc. Completion is scheduled to take place on 30 July 2004. If a court order restrains any of the Vendors or Hollinger International Inc, either alone or together with the Purchaser, from transferring or acquiring the shares on 30 July 2004 then Completion shall take place on the last business day of the month in which any such order is lifted. If, because of such an order, completion does not take place by 29 October 2004 then the sale agreement will terminate without liability for any party.

On 1st July 2004, Hollinger Inc. and its wholly-owned subsidiary 504468 N.B. Inc., which together control a majority of the voting power of the common stock of Hollinger International Inc., filed a complaint in Delaware Chancery Court against Hollinger International Inc. seeking to enjoin completion of the sale of the shares in Telegraph Group Limited unless that sale is approved by the holders of a majority of the voting power of the common stock of Hollinger International Inc.