

Pubmaster Holdings Limited  
Annual report  
for the year ended 28 September 2003

Registered Number 3720775



# Pubmaster Holdings Limited

## Annual report

for the year ended 28 September 2003

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# **Pubmaster Holdings Limited**

## **Directors' report for the year ended 28 September 2003**

The directors present their report and the audited non-statutory financial statements for the year ended 28 September 2003.

### **Principal activities**

The company's principal activity during the year was as an intermediate holding company. The principal activity of the company's subsidiaries during the year was the operation of public houses, letting the pubs to tenants and lessees through tenancy and lease agreements. The agreements provide that the subsidiaries derive income from three main sources, namely, the wholesale supply of beer and other products, rent from the tenants/lessees and a share of the profits from gaming machines sited in pubs.

### **Review of the business**

We continued throughout the year with our successful "Churn and Invest" strategy - selling our underperforming pubs and re-investing the proceeds of sale by development of our core estate. During the year under review we have sold 69 pubs and invested £10.2 million in the estate.

We remain a major operator in the tenanted/leased pub industry and retain confidence in our ability to continue to exploit growth opportunities as they arise.

The group re-financed the acquisition of 59 pubs located in Scotland and 1,200 tenanted/leased pubs located principally in the North West, Midlands and South West of England by issuing £535 million (gross) of new fixed and floating rate notes on 28 November 2002.

The assets had been acquired earlier in the year by other companies within the Pubmistress Limited (the group's ultimate parent company) group. The businesses had been successfully integrated with the existing business of the securitised group prior to the issue of new notes which refinanced the original acquisition debt, bringing the legal and beneficial title to the new assets into the securitised group principally via Sister of Pubmaster Limited a newly created subsidiary of Pubmaster Holdings Limited.

The new notes are structured in a similar manner to, and rank pari-passu with, existing classes of notes already in issue, security being granted to all classes of notes over all assets then held in the securitised group.

### **Results and dividends**

During the year to 28 September 2003 the group made a profit before taxation of £19,837,000 (2002: £7,952,000). This is stated after exceptional operating charges of £1,990,000 (2002: £909,000) (see note 2). During the year the group paid dividends of £4,000,000 (2002: £Nil). The directors do not recommend the payment of a final dividend (2002: £Nil).

# Pubmaster Holdings Limited

## Directors and their interests

The directors who held office during the year were as follows:

Mr F E J G Brackenbury CBE

SPV Management Limited

Mr J R Sands

Mr R Turnbull

The directors hold no beneficial interests in the shares of the company. The beneficial interests of the directors at the end of the year in the shares of the ultimate parent undertaking, Pubmistress Limited, are disclosed in the annual report of that company.

## Employees

It is the company's practice to give full and fair consideration to applications for employment received from disabled persons, subject to the company's requirements and to the qualifications, ability and aptitude of the individual in each case.

Employees are provided with information about the company through regular briefing bulletins.

## Political and charitable contributions

The group made no political contributions during the year. Charitable donations amounted to £Nil (2002: £1,000).

## Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period. The directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 28 September 2003 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## Auditors

The auditors, PricewaterhouseCoopers LLP have indicated their willingness to continue in office. An elective resolution has been passed removing the requirement to reappoint auditors annually.

By order of the Board

J Deegan  
Secretary

13 NOVEMBER 2003

# **Pubmaster Holdings Limited**

## **Independent auditors' report to the members of Pubmaster Holdings Limited**

We have audited the financial statements which comprise the group profit and loss account, the group balance sheet, the company balance sheet, the reconciliation of movements in group shareholders' deficit, the group cash flow statement, the statement of accounting policies and the related notes.

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

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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 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 affairs of the company and the group at 28 September 2003 and of the profit and cash flows of the group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



**PricewaterhouseCoopers LLP**

Chartered Accountants and Registered Auditors  
Newcastle upon Tyne

13 November 2003

# Pubmaster Holdings Limited

## Group profit and loss account for the year ended 28 September 2003

	Note	Continuing operations £'000	Acquisitions £'000	2003 £'000	2002 £'000
Turnover	1	135,506	104,734	240,240	127,342
Operating costs	2	(80,923)	(55,194)	(136,117)	(76,054)
Operating profit	3	54,583	49,540	104,123	51,288
Loss on sale of fixed assets				(3,498)	(2,839)
Profit on ordinary activities before interest and taxation				100,625	48,449
Interest receivable and similar income	6			2,638	866
Interest payable and similar charges	7			(83,426)	(41,363)
Profit on ordinary activities before taxation				19,837	7,952
Tax on profit on ordinary activities	8			(11,153)	(4,579)
Profit on ordinary activities after taxation				8,684	3,373
Dividends	9			(4,000)	-
Retained profit for the financial year	18			4,684	3,373

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

There are no recognised gains and losses other than the result set out above.

# Pubmaster Holdings Limited

## Group balance sheet as at 28 September 2003

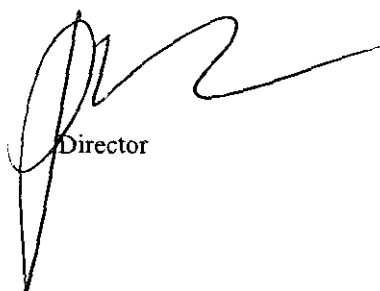
	Note	2003 £'000	2002 £'000
<b>Fixed assets</b>			
Tangible assets	10	1,004,812	404,352
<b>Current assets</b>			
Assets held for resale	12	9,864	7,114
Debtors - Amounts falling due after more than one year	13	16,942	25,304
Debtors - Amounts falling due within one year	13	27,401	15,072
Cash at bank and in hand		68,876	32,890
		123,083	80,380
Creditors – Amounts falling due within one year	14	(90,030)	(43,394)
<b>Net current assets</b>		<b>33,053</b>	<b>36,986</b>
<b>Total assets less current liabilities</b>		<b>1,037,865</b>	<b>441,338</b>
Creditors – Amounts falling due after more than one year	15	(1,048,451)	(456,608)
<b>Net liabilities</b>		<b>(10,586)</b>	<b>(15,270)</b>
<b>Capital and reserves</b>			
Called up share capital	17	84,000	84,000
Merger reserve	18	(84,000)	(84,000)
Profit and loss account	18	(10,586)	(15,270)
<b>Total equity shareholders' deficit</b>		<b>(10,586)</b>	<b>(15,270)</b>

# Pubmaster Holdings Limited

## Company balance sheet as at 28 September 2003

	Note	2003 £'000	2002 £'000
<b>Fixed assets</b>			
Investments	11	84,000	84,000
<b>Current assets</b>			
Debtors	13	1,000	-
		1,000	-
Creditors: amounts falling due within one year	14	(1,000)	-
<b>Net current assets</b>		-	-
<b>Net assets</b>		<b>84,000</b>	<b>84,000</b>
<b>Capital and reserves</b>			
Called up share capital	17	84,000	84,000
<b>Total equity shareholders' funds</b>		<b>84,000</b>	<b>84,000</b>

The financial statements on pages 4 to 31 were approved by the board of directors on **13 NOVEMBER 2003** and were:



Director



## Pubmaster Holdings Limited

### Reconciliation of movements in group shareholders' deficit for the year ended 28 September 2003

	2003 £'000	2002 £'000
Profit for the financial year after taxation	8,684	3,373
Dividends	(4,000)	-
Net decrease in equity shareholders' deficit	4,684	3,373
Equity shareholders' deficit at 30 September 2002	(15,270)	(18,643)
Equity shareholders' deficit at 28 September 2003	(10,586)	(15,270)

# Pubmaster Holdings Limited

## Group cash flow statement for the year ended 28 September 2003

	Note	2003 £'000	2002 £'000
<b>Net cash inflow from operating activities</b>	19	117,448	60,592
<b>Returns on investment and servicing of finance</b>			
Interest received		1,346	873
Interest paid		(67,404)	(40,728)
Swap premium received		17,083	-
Payment for swap amendment		(7,383)	-
Issue costs of new loan finance		(7,778)	-
<b>Net cash outflow from returns on investment and servicing of finance</b>		(64,136)	(39,855)
<b>Dividends paid</b>		(4,000)	-
<b>Capital expenditure and financial investment</b>			
Purchase of tangible fixed assets		(615,286)	(6,323)
Sale of tangible fixed assets		6,760	6,165
<b>Net cash outflow from capital expenditure</b>		(608,526)	(158)
<b>Net cash (outflow)/inflow before financing</b>		(559,214)	20,579
<b>Financing</b>			
Proceeds from new loan funding	20	599,585	-
Repayment of loan notes	20	(4,385)	-
<b>Net cash outflow from financing</b>		595,200	-
<b>Increase in net cash</b>	21	35,986	20,579

# **Pubmaster Holdings Limited**

## **Statement of accounting policies**

These financial statements are prepared under the historical cost convention, the accounting policies set out below and in accordance with applicable accounting standards.

### **Basis of merger accounting**

The company was incorporated on 25 February 1999. On 24 June 1999, the Pubmaster Group entered into a group reorganisation whereby the company acquired Pubmaster Limited and its subsidiaries from Pubmaster Group Limited via a share for share exchange.

As the transaction did not give rise to any change in the ultimate ownership of the group, these consolidated financial statements have been prepared using the principles of merger accounting.

### **Group consolidation**

The group accounts comprise a consolidation of the accounts of Pubmaster Holdings Limited and its subsidiary undertakings. The results of subsidiaries acquired in the year are included in the group financial statements from the date of acquisition.

As permitted by Section 230 (1) of the Companies Act 1985, the parent company has not presented its own profit and loss account. The amount of profit after taxation dealt with in the accounts of the parent company is £4,000,000 (2002: £nil).

### **Turnover**

Turnover, which is stated net of value added tax, represents amounts charged to third parties. Turnover is attributable to the letting of public houses to independent publicans and the wholesale supply of beer and other products to those publicans and a share of income from gaming machines sited in pubs.

### **Tangible fixed assets and depreciation**

All licensed properties are carried at cost less accumulated depreciation.

Freehold buildings and properties held on a lease with an unexpired life exceeding 50 years are depreciated in accordance with Financial Reporting Standard Number 15.

Depreciation is calculated so as to write off the cost of a fixed asset on a straight line basis over its estimated useful economic life, taking into account expected residual values, using the following rates:

Freehold buildings	-	50 years
Leasehold properties	-	lower of life of lease or 50 years
Fixtures, fittings and equipment	-	5 to 10 years

Freehold land is not depreciated.

### **Assets held for resale**

Assets held for resale are stated at the lower of cost and net realisable value.

# Pubmaster Holdings Limited

## Leases

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a "finance lease". The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter. Future instalments under such leases, net of finance charges, are included within creditors. Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments.

All other leases are accounted for as "operating leases" and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease.

## Pension costs

Group companies contribute to a funded pension scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the company. Contributions to the scheme by group companies are charged to the profit and loss account so as to spread the cost over employees' working lives with the company. Details of the most recent actuarial valuation and contribution to the scheme can be found in the financial statements of Pubmistress Limited.

Group companies also operate a defined contribution pension scheme. Contributions to the scheme are charged to the profit and loss account as incurred.

## Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable surpluses from which the future reversal of the underlying timing differences can be deducted. Deferred tax balances are not discounted.

## Investments

Investments held as fixed assets are carried at cost less any provision for permanent diminution in value.

## Debt issue costs and swap premiums

Issue costs incurred in the raising of debt are capitalised and amortised over the term of the relevant financing at a constant rate on the carrying amount.

Premiums received for the acquisition of interest rate swaps are capitalised and amortised over the term of the relevant financing at a constant rate on the carrying amount of the outstanding swap.

## Financial instruments

Interest rate cap agreements taken out are recorded at cost in the balance sheet and amortised over the period of the agreements. Amounts payable or receivable in respect of interest rate cap and swap agreements are recognised in the interest payable charge on an accruals basis. The interest differential amounts due to/from the group on interest rate swaps are accrued until settlement date and are recognised as an adjustment to interest expense.

# Pubmaster Holdings Limited

## Notes to the financial statements for the year ended 28 September 2003

### 1 Analysis of turnover and profit on ordinary activities before taxation

The group's turnover and profit on ordinary activities before taxation are derived wholly within the United Kingdom from its principal activity.

### 2 Operating costs

	Continuing operations £'000	Acquisitions £'000	2003 £'000	2002 £'000
External charges	61,161	52,055	113,216	61,093
Staff costs (see note 5)	9,780	-	9,780	6,628
Other operating charges				
- recurring	6,589	-	6,589	4,663
- exceptional	350	1,640	1,990	909
Depreciation	3,043	1,499	4,542	2,761
	80,923	55,194	136,117	76,054

The exceptional other operating charges in 2003 relate to £1,709,000 of costs associated with the 2002 securitisation which do not fall to be capitalised and amortised in accordance with FRS4, (Capital Instruments) and £281,000 of restructuring costs. The exceptional other operating charges incurred in 2002 relate to restructuring costs.

### 3 Operating profit

	2003 £'000	2002 £'000
Operating profit is stated after charging/(crediting):		
Auditor's remuneration	105	65
Rentals payable under operating leases:		
Land and buildings	2,324	1,068
Plant and machinery	1,302	995
Rents receivable from properties	(54,317)	(25,103)

# Pubmaster Holdings Limited

## 4 Directors' emoluments

	2003	2002
	£'000	£'000
<b>Directors' emoluments</b>		
Aggregate emoluments	434	340

	2003	2002
	£'000	£'000
<b>Highest paid director</b>		
Aggregate emoluments	219	196

2 (2002: two) directors have benefits accruing under a defined benefit pension scheme (see note 24).

The accrued pension benefit of the highest paid director at 28 September 2003 totalled £128,467 (2002: £97,106).

## 5 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2003	2002
Administration	267	201

The aggregate payroll costs of these persons were as follows:

	2003	2002
	£'000	£'000
Wages and salaries	8,171	5,440
Social security costs	792	585
Other pension costs (see note 24)	817	603
	9,780	6,628

# Pubmaster Holdings Limited

## 6 Interest receivable and similar income

	2003	2002
	£'000	£'000
Bank deposit interest	1,346	866
Amortisation of swap premium	1,292	-
	2,638	866

## 7 Interest payable and similar charges

	2003	2002
	£'000	£'000
Secured loan notes	82,307	40,893
Sundry interest payable	71	-
Amortisation of debt issue costs	1,048	470
	83,426	41,363

## 8 Taxation

### (a) Analysis of charge in the period

	2003	2002
	£'000	£'000
<b>Current tax</b>		
Group relief payable at 30%	3,054	3,063
Adjustment in respect of previous periods	(263)	944
Total current tax	2,791	4,007
<b>Deferred tax</b>		
Origination and reversal of timing differences	8,566	712
Adjustment in respect of previous periods	(204)	(140)
Total deferred tax	8,362	572
	11,153	4,579

# Pubmaster Holdings Limited

## (b) Factors affecting tax charge in the period

	2003 £'000	2002 £'000
Profit on ordinary activities before taxation	19,837	7,952
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30% (2002 - 30%)	5,951	2,386
Effects of:		
Expenses not deductible for tax purposes	5,668	1,390
Capital allowances for the period in excess of depreciation	(5,622)	548
Other short-term timing differences	28	(31)
Utilisation of tax losses	(2,971)	(1,230)
Adjustments to tax charge in respect of previous periods	(263)	944
Current tax charge for the period (note 8 (a))	2,791	4,007

## (c) Factors that may affect future tax charge

There are no factors expected to materially affect future tax charges.

## 9 Dividends

	2003 £'000	2002 £'000
Dividends paid in year £0.047 per share (2002 - £Nil)	4,000	-



# Pubmaster Holdings Limited

## 10 Tangible fixed assets

### Group

	Freehold land and buildings	Leasehold land and buildings	Fixtures, fittings and equipment	Total
	£'000	£'000	£'000	£'000
<b>Cost</b>				
At 30 September 2002	381,773	37,181	16,493	435,447
Transfer from group companies	568,739	33,877	2,479	605,095
Additions	7,300	1,091	1,800	10,191
Disposals	(8,882)	(1,264)	(554)	(10,700)
<b>At 28 September 2003</b>	<b>948,930</b>	<b>70,885</b>	<b>20,218</b>	<b>1,040,033</b>
<b>Accumulated depreciation</b>				
At 30 September 2002	2,628	18,467	10,000	31,095
Charge for year	2,068	613	1,861	4,542
Disposals	(52)	(160)	(204)	(416)
<b>At 28 September 2003</b>	<b>4,644</b>	<b>18,920</b>	<b>11,657</b>	<b>35,221</b>
<b>Net book amount</b>				
<b>At 28 September 2003</b>	<b>944,286</b>	<b>51,965</b>	<b>8,561</b>	<b>1,004,812</b>
At 29 September 2002	379,145	18,714	6,493	404,352

The land and buildings transferred were acquired for an amount determined by reference to a valuation performed by DTZ, an independent specialist property valuer, on an existing use basis.

The net book amount of leasehold land and buildings comprises:

	2003	2002
	£'000	£'000
Long leasehold	46,007	16,684
Short leasehold	5,958	2,030
	<b>51,965</b>	<b>18,714</b>

The company has no tangible fixed assets.

# Pubmaster Holdings Limited

## 11 Fixed asset investments

### Company

	Shares in subsidiary undertakings £'000
Cost and net book amount At 28 September 2003 and 30 September 2002	84,000

The subsidiaries, all of which are included within the consolidation and are wholly owned, are as follows:

Subsidiary undertaking	Country of registration or incorporation	Principal activity	Class/percentage of shares held
<b>Held by Pubmaster Holdings Limited</b>			
Pubmaster Limited	England	Operator of public houses	Ordinary 100%
Sister of Pubmaster Limited	England	Operator of public houses	Ordinary 100%
Pubmaster Finance Limited	Cayman Islands	Finance	Ordinary 100%
<b>Held by subsidiary undertakings</b>			
Cousin of Pubmaster Limited	England	Property management	Deferred 100% Ordinary 100%
Son of Pubmaster Limited	England	Non-trading	Ordinary 100%
Daughter of Pubmaster Limited	England	Non-trading	Ordinary 100%
Mercury Taverns (Holdings) Limited	England	Non-trading	Ordinary 100%
Mercury Taverns plc	England	Non-trading	Ordinary 100%

# Pubmaster Holdings Limited

## 12 Assets held for resale

	Group 2003 £'000	Company 2003 £'000	Group 2002 £'000	Company 2002 £'000
Finished goods and goods for resale	9,864	-	7,114	-

There is no material difference between the replacement cost of assets held for resale and their balance sheet amounts.

## 13 Debtors

	Group 2003 £'000	Company 2003 £'000	Group 2002 £'000	Company 2002 £'000
<b>Amounts falling due within one year</b>				
Trade debtors	13,235	-	6,328	-
Amounts owed by ultimate parent undertaking	-	-	423	-
Amounts owed by immediate parent undertaking	1,000	1,000	-	-
Amounts owed by group undertakings	1,166	-	2,269	-
Other debtors	8,872	-	3,749	-
Prepayments and accrued income	3,128	-	2,303	-
	27,401	1,000	15,072	-

	Group 2003 £'000	Company 2003 £'000	Group 2002 £'000	Company 2002 £'000
<b>Amounts falling due after more than one year</b>				
Deferred tax asset (note 16)	16,942	-	25,304	-
	16,942	-	25,304	-

# Pubmaster Holdings Limited

## 14 Creditors – Amounts falling due within one year

	Group 2003 £'000	Company 2003 £'000	Group 2002 £'000	Company 2002 £'000
Secured notes	9,522	-	-	-
Trade creditors	40,188	-	20,632	-
Amounts owed to ultimate parent undertaking	4,096	-	3,229	-
Amounts owed to immediate parent undertaking	237	-	6,573	-
Amounts owed to group undertakings	4,845	-	2,058	-
Amounts owed to subsidiary undertakings	-	1,000	-	-
Other creditors	7,460	-	6,183	-
Other taxes and social security	4,534	-	2,235	-
Accruals and deferred income	19,148	-	2,484	-
	90,030	1,000	43,394	-

## 15 Creditors – Amounts falling due after more than one year

	Group 2003 £'000	Company 2003 £'000	Group 2002 £'000	Company 2002 £'000
Secured notes	896,842	-	374,071	-
Amounts owed to group undertakings	66,552	-	-	-
Amounts owed to immediate parent undertaking	85,057	-	82,537	-
	1,048,451	-	456,608	-

On 28 November 2002 a subsidiary of the group, Pubmaster Finance Limited, issued £535 million of secured notes, in addition to secured notes issued in June 1999 and February 2000 (the "Notes"). The nominal value of the Notes in issue at the year end and which are listed on the Luxembourg Stock Exchange comprise:

£74,000,000 Class A1 Secured Floating Rate Notes due 2009  
£26,500,000 Class A2 Secured Floating Rate Notes due 2011  
£201,000,000 7.369 per cent Class A3 Secured Notes due 2022  
£65,615,200 Class A4 Secured Floating Rate Notes due 2009  
£120,000,000 Class A5 Secured Floating Rate Notes due 2016  
£220,000,000 5.943 per cent Class A6 Secured Notes due 2024  
£77,500,000 8.44 per cent Class B1 Secured Notes due 2025  
£125,000,000 6.962 per cent Class B2 Secured Notes due 2028

# Pubmaster Holdings Limited

## 15 Creditors – Amounts falling due after more than one year (continued)

The Notes are secured by legal mortgages and fixed and floating charges over all of the assets of Pubmaster Holdings Limited and its subsidiaries (the "Securitisation Group"). The Notes are also secured over the future rental income stream from tenants of the Securitisation Group's public houses. The Class B Notes are subordinate to the Class A Notes.

The interest rate on the Class A1 Notes is LIBOR for three months sterling deposits plus a margin of 1%. The interest rate on the Class A2 Notes is LIBOR for three months sterling deposits plus a margin of 1.25% up to September 2009 and 2.50% thereafter. The interest rate on the Class A4 Notes is LIBOR for three months sterling deposits plus a margin of 0.4%. The interest rate on the Class A5 Notes is LIBOR for three months sterling deposits plus a margin of 0.53% up to December 2012 and 1.32% thereafter.

Interest rate swap agreements have been entered into to cover the Class A1 and Class A2 Notes at a fixed rate of 5.7535% plus a margin of 1% on the Class A1 Notes and a margin of 1.25% on the Class A2 Notes and at 5.7% plus a margin of 0.75% and 0.88% on the Class A4 and Class A5 notes respectively.

The amounts owed to the immediate parent undertaking and to other group undertakings are subordinated loans repayable in 2030 attracting interest rates of 17½%.

Secured notes are repayable as follows:

	Group 2003 £'000	Company 2003 £'000	Group 2002 £'000	Company 2002 £'000
Gross bank and other borrowings	909,615	-	379,000	-
Less: Debt issue costs	(3,251)	-	(4,929)	-
Net bank and other borrowings	906,364	-	374,071	-
Gross borrowings are repayable as follows:				
Less than one year	9,522	-	-	-
Between one and two years	23,403	-	425	-
Between two and five years	78,831	-	47,346	-
In five years or more	797,859	-	331,229	-
	909,615	-	379,000	-

# Pubmaster Holdings Limited

## 16 Deferred taxation

### Group

The deferred tax asset recognised in the financial statements is as follows:

	Amount recognised	
	2003 £'000	2002 £'000
Accelerated capital allowances	(1,421)	369
Short term timing differences	145	116
Losses	18,218	24,819
	16,942	25,304

Movement in the deferred tax account is shown below:

	£'000
Balance as at 30 September 2002	25,304
Deferred tax charge for the year ended 28 September 2003	(8,362)
At 28 September 2003	16,942

## 17 Share capital

### Group and Company

	2003 £	2002 £
Authorised, allotted, called-up and fully paid		
Equity		
84,000,100 ordinary shares of £1	84,000,100	84,000,100

# Pubmaster Holdings Limited

## 18 Reserves

### Group

	Merger reserve £'000	Profit and loss account £'000
At 30 September 2003	(84,000)	(15,270)
Profit for the year	-	8,684
Dividends	-	(4,000)
At 28 September 2003	(84,000)	(10,586)

### Company

	Profit and loss account £'000
At 28 September 2003 and 30 September 2002	-

## 19 Reconciliation of operating profit to net cash flow from operating activities

	2003 £'000	2002 £'000
Operating profit	104,123	51,288
Depreciation charges	4,542	2,761
(Increase)/decrease in assets held for resale	(2,724)	393
Increase in debtors	(12,508)	(2,819)
Increase in creditors	24,014	8,969
Net cash inflow from operating activities	117,448	60,592

# Pubmaster Holdings Limited

## 20 Reconciliation of net cash flow to movement in net debt

	2003 £'000	2002 £'000
Increase in cash	35,986	20,579
Issue of new loan notes	(599,585)	-
Repayment of loans	4,385	-
Issue costs and swap premium receipts	(1,922)	-
Change in net debt resulting from cash flow	(561,136)	20,579
Other non-cash changes	(4,244)	(469)
Movement in net debt in the year	(565,380)	20,110

## 21 Analysis of change in net debt

	At 30 September 2002 £'000	Cash flow £'000	Other non- cash changes £'000	At 28 September 2003 £'000
Cash at bank and in hand	32,890	35,986	-	68,876
Debt due within one year	-	(9,522)	-	(9,522)
Debt due after one year	(456,608)	(587,600)	(4,244)	(1,048,451)
	(456,608)	(597,122)	(4,244)	(1,057,973)
	(423,718)	(561,136)	(4,244)	(989,097)

Cash at bank and in hand includes £5,333,000 (2002: £5,871,000) which is subject to certain restrictions on its use by the group.



# Pubmaster Holdings Limited

## 22 Commitments

### Group

- a) The group had authorised capital commitments of £633,000 (2002: £88,000) at the end of the financial year which had not been contracted.
- b) The group's annual commitments under non-cancellable operating leases are as follows:

	2003		2002	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Operating leases which expire:				
Within one year	78	315	98	405
In the second to fifth years inclusive	518	818	130	665
Over five years	702	-	715	-
	1,298	1,133	943	1,070

### Company

The company had no capital commitments nor commitments under non-cancellable operating leases at the end of the financial year.

## 23 Derivatives and other financial instruments

Set out below are the narrative and numerical disclosures required by Financial Reporting Standard 13 "Derivatives and other financial instruments" (FRS 13). The group has taken advantage of the exemption available under FRS 13 not to provide numerical disclosures in relation to short term debtors and creditors.

### a) Financial instruments

The group's financial instruments, other than derivatives, comprise borrowings, cash and liquid resources, and various items such as trade debtors and trade creditors etc, that arise from its operations. The main purpose of these financial instruments is to manage the group's operations.

The group entered into an interest rate swap agreement covering the outstanding floating rate loan rates. The purpose of these transactions is to manage the interest rate risks arising from the group's sources of finance.

It is, and has been throughout the year under review, the policy of the group that no trading in financial instruments shall be undertaken.

# Pubmaster Holdings Limited

## 23 Derivatives and other financial instruments (continued)

The main risks from the group's financial instruments are interest rate risk and liquidity risk. The board reviews and agrees policies for managing each of these risks and they are summarised below.

### b) Interest risk

The group finances its operations through a mixture of retained profits and bank borrowings. The group borrows at both fixed and floating rates of interest and then uses interest rate swap agreements to manage the group's exposure to interest rate fluctuations. At the year end £770.6 million 72.92% (2002: £278.5 million 78.2%) of the group's borrowings were at fixed rates of interest. A further £286.1 million 27.08% (2002: 21.8% £100.5 million) of debt was covered by interest rate swaps at fixed interest rates between 5.7% and of 5.7535% plus a margin of between 0.75% 1.00% to 1.25%

### c) Liquidity risk

As regards liquidity, the group's policy has throughout the year been to maintain the most appropriate mix of short, medium and long term borrowings from the group's lenders.

### d) Interest rate and currency profile of financial assets and liabilities

After taking into account interest rate swaps entered into by the group, the interest rate and currency profile of the group's financial liabilities at 28 September 2003 was:

Currency	Total £'000	Fixed rate financial liabilities £'000
Sterling		
- Financial liabilities	1,056,737	1,056,737
At 28 September 2003	1,056,737	1,056,737
Sterling		
- Financial liabilities	461,535	461,535
At 30 September 2002	461,535	461,535

# Pubmaster Holdings Limited

## 23 Derivatives and other financial instruments (continued)

### Fixed rate financial liabilities:

Currency	Weighted average interest rate	Weighted average period for which rate is fixed
	%	Years
Sterling		
- Financial liabilities	8.31	15.93
At 28 September 2003	8.31	15.93
Sterling		
- Financial liabilities	8.79	15.36
At 30 September 2002	8.79	15.36

See note 15 for further details of the group's interest rate swap arrangements.

The group has short term cash deposits of £68,876,000 (2002: £32,890,000), all of which are denominated in sterling and earn interest at variable market rates.

### e) Maturity of financial liabilities and undrawn commitments

The maturity profile of the group's financial liabilities at 28 September 2003 was as follows:

	2003 Liabilities £'000	2002 Liabilities £'000
Within one year	9,522	-
In more than one year, but not more than two years	23,403	425
In more than two years, but not more than five years	78,831	47,346
In more than five years	944,981	413,764
	1,056,737	461,535

The group had no undrawn commitments at 28 September 2003 or 29 September 2002.

# Pubmaster Holdings Limited

## 23 Derivatives and other financial instruments (continued)

### f) Fair values of financial assets and liabilities

Set out below is a comparison by category of book values and fair values of the group's financial assets and liabilities as at 28 September 2003:

	2003		2002	
	Book value	Fair value	Book value	Fair value
	£'000	£'000	£'000	£'000
Cash at bank and in hand	63,543	63,543	27,019	27,019
Restricted access bank balances	5,333	5,333	5,871	5,871
Bank and other loans repayable within one year	(9,522)	(9,522)	-	-
Bank and other loans repayable after more than 1 year	(1,048,451)	(1,130,723)	(461,535)	(514,180)
Interest rate swaps	(8,408)	(17,256)	-	(5,619)

The fair value of the financial assets and liabilities due in less than one year approximate their respective book values as a result of the short term nature of these assets and liabilities. The interest rate swap has been marked to market to produce a fair value figure.

All other fair values shown above have been calculated by discounting cash flows at prevailing interest rates.

### g) Gains and losses on hedges

The group uses interest rate swaps to manage its interest rate exposure. Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures. An analysis of these unrecognised gains and losses at 28 September 2003 is as follows:

	Gains	Losses	Total net losses
	£'000	£'000	£'000
Unrecognised gains and losses on hedges at 30 September 2002	-	(5,619)	(5,619)
Changes in value arising in 2003 and unrecognised during 2003	-	(3,229)	(3,229)
<b>Unrecognised gains and losses on hedges at 28 September 2003</b>	<b>-</b>	<b>(8,848)</b>	<b>(8,848)</b>
of which:			
Gains and losses expected to be recognised in more than one year	-	(8,848)	(8,848)

# Pubmaster Holdings Limited

## 24 Pension scheme

The group contributes to a defined contribution pension scheme and a funded pension scheme providing benefits based on final pensionable pay.

Contributions to the defined contribution scheme in the financial year amounted to £230,000 (2002: £110,000). There were £29,000 (2002: £Nil) of contributions outstanding at the end of the year.

Contributions to the defined benefit pension scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives with the group. The pension cost for the period in relation to this scheme represents the contributions payable by the group and amounted to £606,000 (2002: £493,000). There were £62,000 (2002: £Nil) of contributions at the end of the year. The contributions are determined by a qualified actuary on the basis of triennial valuation using the projected unit method. The most recent valuation was 6 April 2001. The assumptions which have the most significant effect on the results of the valuation are:

- that the investment return on the assets of the plan will on average exceed general salary inflation by at least 2.25% per annum over the long term;
- that future increases in salaries of staff and executive members will be in line with experience of similar schemes;
- that pensions can be secured on a gross rate of interest of at least 6.0% per annum before allowing for pension increases at the rate of 3.0% per annum.

The most recent actuarial valuation showed that the market value of the scheme's assets was £27,528,769 and that the value of those assets represented 106% of the benefits that had accrued to members, after allowing for expected future increases in earnings. Since June 2002 the group has paid contributions of 15% of salaries and the members have paid contributions as required under the scheme rules.

## 25 FRS17 retirement benefits

The Company operates a defined benefit pension scheme in the UK. A full actuarial valuation was carried out as at 6 April 2001. The results of that valuation have been projected to 28 September 2003 and then recalculated based on the following assumptions:

	At 28 September 2003	At 29 September 2002	At 30 September 2001
Rate of increase in salaries	4.00%	4.00%	4.25%
LPI increases for pensions in payment	2.50%	2.25%	2.25%
Liability discount rate	5.50%	5.75%	6.00%
Inflation assumption	2.75%	2.50%	2.50%
Revaluation of deferred pensions	2.75%	2.50%	2.50%

# Pubmaster Holdings Limited

## 25 FRS17 retirement benefits (continued)

The assets in the scheme and the expected rate of return were:

	Long-term rate of return expected at 28 September 2003	Value at 28 September 2003 £'000	Long-term rate of return expected at 29 September 2002	Value at 29 September 2002 £'000	Long-term rate of return expected at 30 September 2001	Value at 30 September 2001 £'000
Equities	6.50%	16,156	7.00%	13,867	7.25%	16,033
Bonds	5.00%	4,880	5.00%	4,817	5.25%	5,397
Insured pensions	6.50%	3,057	7.00%	2,986	7.25%	3,600
Cash	4.50%	313	5.00%	127	5.25%	-
<b>Total market value of assets</b>		<b>24,406</b>		<b>21,797</b>		<b>25,030</b>
<b>Present value of scheme liabilities</b>		<b>(30,163)</b>		<b>(25,956)</b>		<b>(25,985)</b>
<b>Deficit in the scheme</b>		<b>(5,757)</b>		<b>(4,159)</b>		<b>(955)</b>
<b>Related deferred tax asset</b>		<b>1,727</b>		<b>1,248</b>		<b>287</b>
<b>Net pension liability</b>		<b>(4,030)</b>		<b>(2,911)</b>		<b>(669)</b>

Analysis of the amount that would be charged to operating profit:

	Year ended 28 September 2003 £'000	Year ended 29 September 2002 £'000
Current service cost	656	670
Past service cost	275	-
<b>Total operating charge</b>	<b>931</b>	<b>670</b>

# Pubmaster Holdings Limited

## 25 FRS17 retirement benefits (continued)

Analysis of the amount that would be credited to other finance income:

	Year ended 28 September 2003	Year ended 29 September 2002
	£'000	£'000
Expected return on pension scheme asset	1,425	1,696
Interest on pension scheme liabilities	(1,494)	(1,554)
Net return	(69)	142

Analysis of amount that would be recognised in statement of total recognised gains and losses (STRGL):

	Year ended 28 September 2003	Year ended 29 September 2002
	£'000	£'000
Actual return less expected return on pension scheme assets	1,243	(4,626)
Experience gains and losses arising on the scheme liabilities	-	2,439
Changes in assumptions underlying the present value of the scheme liabilities	(2,385)	(1,031)
Actuarial loss recognised in STRGL	(1,142)	(3,218)

Movement in surplus during the year

	2003	2002
	£'000	£'000
Deficit in scheme at start of year	(4,159)	(955)
<b>Movement in year:</b>		
Current service cost	(656)	(670)
Contributions	544	541
Past service costs	(275)	-
Other finance income	(69)	143
Actuarial loss	(1,142)	(3,218)
Curtailment	-	-
<b>Deficit in scheme at year end</b>	<b>(5,757)</b>	<b>(4,159)</b>

Following the full actuarial valuation at 6 April 2001 employer contributions have been agreed at the rate of 15 per cent of pensionable pay. Active members pay at the rate of 5 per cent of pensionable pay. From April 2003 contributions from both employer and members were increased by 1 per cent of pensionable pay.

# Pubmaster Holdings Limited

## 25 FRS17 retirement benefits (continued)

### History of experience gains and losses

	2003	2002
<b>Difference between the expected and actual return on scheme assets:</b>		
Amount (£'000)	1,243	(4,626)
Percentage of the scheme assets	5%	(21%)
<b>Experience gains and losses on scheme liabilities:</b>		
Amount (£'000)	-	2,439
Percentage of the present value of the scheme liabilities	-	9%
<b>Total amount recognised in statement of total recognised gains and losses:</b>		
Amount (£'000)	(1,142)	(3,218)
Percentage of the present value of the scheme liabilities	(4%)	(12%)

If FRS17 had been applied to the 28 September 2003 financial statements the net assets and reserves would have been:

### Net Assets:

	At 28 September 2003 £'000	At 29 September 2002 £'000
Net liabilities excluding net pension liability	(10,586)	(15,270)
Net pension liability	(4,030)	(2,911)
Net liabilities including net pension liability	(14,616)	(18,181)

### Profit and loss account:

	At 28 September 2003 £'000	At 29 September 2002 £'000
Profit and loss account excluding net pension liability	(10,586)	(15,270)
Net pension liability	(4,030)	(2,911)
Profit and loss account including net pension liability	(14,616)	(18,181)



# **Pubmaster Holdings Limited**

## **26 Related party transactions**

Transactions with other companies within the Pubmaster Holdings Limited Group are not disclosed as the company has taken advantage of the exemption available under Financial Reporting Standard No 8 "Related Party Disclosures".

## **27 Contingent liabilities**

Under the terms of a Trust Deed dated 30 June 1999 (as amended 28 November 2002), the company has guaranteed the payments of principal of, and interest on, the loan notes issued by Pubmaster Finance Limited. The total outstanding indebtedness of the loan notes at 28 September 2003 was £909,615,200 (2002: £379,000,000).

## **28 Ultimate parent undertaking**

The immediate parent undertaking is Pubmaster Group Limited.

The ultimate parent undertaking and controlling party as at 28 September 2003 is Pubmistress Limited, a company registered in England and Wales. Copies of Pubmistress Limited consolidated financial statements can be obtained from The Registrar of Companies, Companies House, Crown Way, Cardiff, CF14 3HZ.