# Fuller, Smith & Turner P.L.C.

REPORT AND ACCOUNTS 2004

241882

# CONTENTS

# We aim to be the benchmark in retailing and brewing, delivering Quality, Service and Pride in everything we do.

## FINANCIAL HIGHLIGHTS

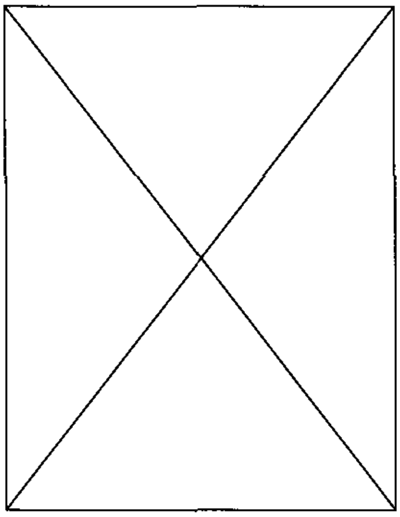
| | *52 weeks to 27 March 2004 £000* | *52 weeks to 29 March 2003 £000* | *Change 2004/2003* |
|---|---|---|---|
| Turnover | **140,322** | 137,643 | **1.9%** |
| Profit before tax | **19,227** | 17,004 | **13.1%** |
| Normalised profits[1] | **16,858** | 16,420 | **2.7%** |
| EBITDA[2] | **27,744** | 26,950 | **2.9%** |
| Basic earnings per share[3] | **60.63p** | 48.04p | **26.2%** |
| Normalised earnings per share[3] | **49.84p** | 45.59p | **9.3%** |
| Dividend per share[3] | **17.31p** | 16.12p | **7.4%** |
| Net assets per share[3] | **£6.95** | £6.52 | **6.6%** |
| Gearing ratio | **10.7%** | 14.5% | **N/A** |

[1] *Pre-tax profits after interest before non-operating exceptional profits.*

[2] *Earnings before interest, tax, depreciation and amortisation.*

[3] *Calculated on the £1 'A' ordinary share.*

# Our performance during the period demonstrates the success of our strategy.



I am delighted to report that the Company increased normalised earnings per share by 9%. Fuller's continues to deliver good results at a time when there remain a number of challenges in our sector.

We believe that our performance during the period demonstrates the success of our strategy, which focuses on long-term returns and high quality earnings. Overall, pre-tax profits are up 13% to £19.2 million *(2003: £17.0 million)* on a 2% increase in turnover to £140.3 million *(2003: £137.6 million)*. On a normalised basis, stripping out the effects of exceptional profits on disposal of properties, profits are up 3% to £16.9 million *(2003: £16.4 million)*.

Basic earnings per share increased 26% to 60.63p *(2003: 48.04p)*, partly reflecting the impact of a 6% reduction in the weighted average number of shares following a series of share buybacks, predominantly in the latter half of the previous financial year. On a normalised basis, earnings per share increased 9% to 49.84p *(2003: 45.59p)*. Tax has been provided for at an effective rate for the year of 32.5% *(2003: 32.5%)* on normalised profits. The majority of the exceptional profits did not carry a tax charge owing to the availability of rollover relief.

Earnings before interest, tax, depreciation and amortisation (EBITDA) increased by 3% to £27.7 million compared to £27.0 million last year.

Total capital expenditure for the year was £18.3 million *(2003: £12.0 million)*. This includes £8.1 million on acquisitions and new projects, in particular the 55-bedroom Red Lion Hotel in Hillingdon. There has also been significant investment in the Brewery, increasing size and capacity to meet demand. Property sales generated net cash proceeds of £5.9 million *(2003: £1.6 million)*, which have been re-invested in the business, and profits of £2.4 million *(2003: £0.6 million)*.

In the first six months of the financial year, we bought back 75,000 £1 'A' ordinary shares and 2,531,000 unquoted 10p 'B' ordinary shares. The average price paid was £5.48 (for every £1 nominal of share capital), which compares favourably with our reported net assets per share of £6.95. There were no further buybacks in the second half of the year. The cumulative buybacks to date have increased normalised earnings per share and net assets per share by 12% and 4% respectively. We will be seeking to renew the current authority to buy back 'A' ordinary shares at the forthcoming Annual General Meeting.

In line with the Company's progressive dividend policy, which has delivered growth of 39% over the past five years, the Directors will be recommending an increase in the final dividend of 7% to 12.21p per 'A' and 'C' £1 ordinary share and 1.221p per 'B' 10p ordinary share. This brings the total dividend for the year to 17.31p per 'A' and 'C' £1 ordinary share and 1.731p per 'B' 10p ordinary share, an overall increase of 7%. The final dividend will be paid on Monday 12 July 2004 to shareholders on the Share Register as at Friday 11 June 2004.

**Prospects**

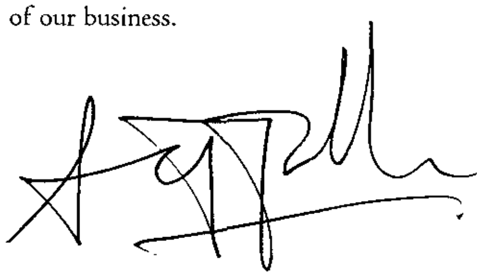
This has been a year of further investment across Fuller's Inns and the Brewery as we continue to add value to our premium quality assets and first class brands, though not at the expense of product quality or service.

We have seen an encouraging uplift in sales from our refurbished managed pubs and bars in the year and believe that we are now starting to emerge from a trading downturn in the City. The increased capital investment planned for the current financial year will be a key driver of future growth.

The performance of our Hotels Division improved in the final quarter and this has been sustained into the new financial year. The Red Lion Hotel in Hillingdon opened this month ahead of schedule. Our hotel estate now comprises 513 rooms, most of which are less than 10 years old. We believe our policy of avoiding short-term discounting has provided a strong platform for the future.

The Beer Company and Tenanted Inns generate excellent cash flows and we are confident that both divisions will continue to deliver steady growth.

We will continue to invest in and grow our business, as well as reviewing acquisition opportunities which would enhance shareholder returns. We are confident that the prospects for Fuller's are good and we are pleased that one of our core strengths is the breadth and balance of our business.



A.G.F. Fuller, CBE
*Chairman*

# THE BOARD OF DIRECTORS
## (AS AT 11 JUNE 2004)

### CHAIRMAN

**1 ANTHONY FULLER**†
*Aged 64. Joined in 1963. Chairman of the Brewers' Society 1986-1989. Master of the Worshipful Company of Brewers 1986-1987. Awarded a CBE in 1990. Currently chairman of the Independent Family Brewers of Britain. Became Non Executive in 2002.*

### EXECUTIVE DIRECTORS

**2 MICHAEL TURNER**
*Chief Executive.*
*Aged 53. Joined in 1978. Initially ran the Wine Division as Wine Director. Became Marketing Director in 1988 and developed the current corporate identity and brand portfolio. A Chartered Accountant with international experience. Became Managing Director in 1992 and Chief Executive in 2002. Currently also vice chairman of the British Beer and Pubs Association.*

**3 TIM TURNER**
*Commercial Director.*
*Aged 54. Joined in 1977. A solicitor who has overall responsibility for property and acquisitions, legal matters and external affairs.*

**4 PAUL CLARKE**
*Finance Director.*
*Aged 58. Joined in 1991 after gaining international experience of the engineering, freight and house-building industries. A Chartered Accountant and economics graduate. Also responsible for the Estates and Systems Departments.*

**5 JOHN ROBERTS**
*Beer and Brands Director.*
*Aged 46. Joined in 1996 having previously held marketing and sales positions with Britvic, United Biscuits and Scottish Courage. A graduate in business studies with responsibility for the Fuller's Beer Company.*

**6 SIMON EMENY**
*Retail Director.*
*Aged 38. Joined in 1996 from Bass plc. Appointed a Director in May 1998. An economics graduate, with responsibility for the Managed and Tenanted Inns and Hotels. A Council Member of the Association of Licensed Multiple Retailers.*

### NON EXECUTIVE DIRECTORS

**7 JAMES ESPEY***#†
*Aged 61. Appointed in May 1998 having previously held senior positions in the Grand Metropolitan and Guinness groups and latterly chairman of Seagram Distillers PLC. Non executive director of A G Barr p.l.c. and non executive chairman of Swallowfield p.l.c. A graduate and PhD in marketing and strategic planning.*

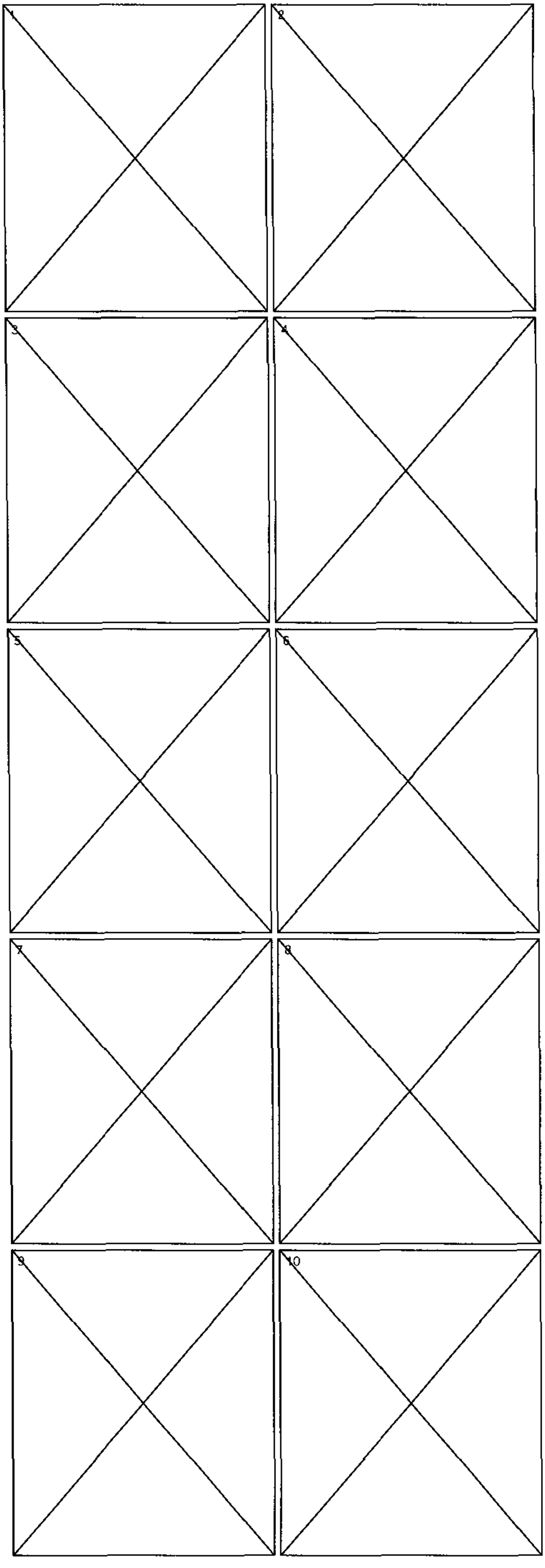
**8 RONALD SPINNEY***#†
*Aged 63. Appointed in April 2000. Senior Non Executive Director and Chairman of the Remuneration Committee. Currently chairman of Hammerson plc, deputy chairman of Rentokil Initial plc, a non executive director of Homestyle Group plc, a director of Kennington Oval Ltd, chairman of Hanover Property Unit Trust Investment Advisory Committee, a director of Hanover Real Estate Management Ltd and a Crown Estate Commissioner. A Chartered Surveyor.*

**9 NICK MACANDREW***#
*Aged 57. Appointed in September 2001. Chairman of the Audit Committee. Chairman of The Save The Children Fund, a director of Wates Group Limited and Framlington Group Limited and formerly chief financial officer of Schroders plc. A Chartered Accountant.*

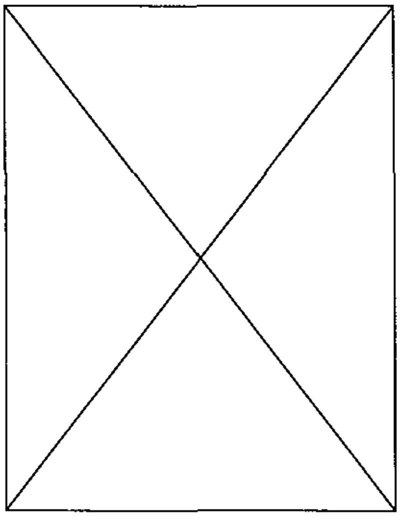
### COMPANY SECRETARY

**10 MARIE GRACIE**
*Aged 38. Joined in 1998 after an offshore appointment. Formerly Company Secretary of Argos PLC. A Chartered Secretary and arts graduate. Also responsible for the Personnel Department.*

* *Member of the Remuneration Committee.*
\# *Member of the Audit Committee.*
† *Member of the Nominations Committee.*



# This has been a year of excellent earnings growth for our shareholders.



This has been a year of excellent earnings growth for our shareholders, highlighting the benefit of having a broadly based business and focusing on quality. We manage the business for the long-term and seek to make decisions that are in the best interests of our shareholders and employees. This strategy continues to deliver consistent growth and ensures that the Company is well placed to meet any challenges it faces.

**Fuller's Inns**

Fuller's Inns had a mixed year. Our tenanted estate and food-led managed pubs performed well, with the latter benefiting from a good summer and further investment in the estate. This, however, was offset by what continued to be a difficult trading environment in the City and Hotels. We have been encouraged by an improvement in trading in the Hotels Division in the final quarter of the year and evidence that confidence is returning to the City.

Turnover for the year was £97.0 million *(2003: £97.0 million)* and profits were £15.3 million *(2003: £16.0 million)*. This included an additional £0.4 million spent on property repairs, in line with our expectations, as we continued to invest in maintaining the high quality of our estate. Cash generation remains strong with EBITDA of £22.3 million *(2003: £22.7 million)*.

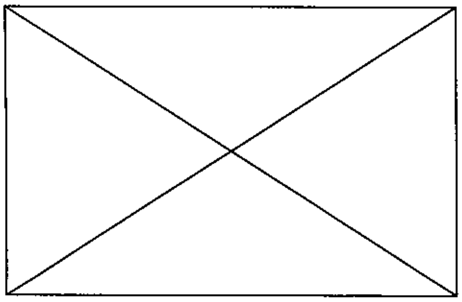
***Managed Pubs and Bars***

We were delighted to be named Managed Pub Company of the Year at the 2004 Publican Awards in recognition of our achievements of providing quality cask ale, food, wine and exceptional customer service.

The strategy for our managed estate remains to acquire and develop high quality assets that present excellent opportunities for cask ale, food and wine. Our pricing strategy is underpinned by the strength and quality of our offering, in particular our focus on freshly prepared food and premium products, thereby avoiding the significant discounting evident across our industry. During the year, acquisitions, investments and training have focused on growing the quality of and contribution from food sales. This is reflected in an 11% increase in food turnover and contributed to a 10% increase in wine sales.

Turnover is up 1% with uninvested like-for-like sales down 2%, mainly as a result of a 5% decline in like-for-like sales in City pubs and bars, where we continued to experience difficult trading conditions. Our like-for-like numbers, prepared on a consistent basis year on year, are based on properties that have been trading for the whole of the year being reported and the previous year and have had less than £50,000 invested in either period. In 2004 73% of our managed estate was represented in our like-for-like comparison.

During the year, we opened four new pubs in excellent locations and



properties, namely The Mill at Elstead, Surrey; The Telegraph in the City of London; the Jolly Farmer in Worplesdon, Surrey, and the Bell in Outwood, Surrey, at a total cost of £5.5 million. Other than The Telegraph, these are all freehold properties. There are currently 116 managed pubs in our estate, including two recent transfers from Tenanted Inns.

We continue to invest in maintaining the high quality of our estate and significantly increased our capital investment programme in the year just ended. We completed 13 major projects in 2004, compared to eight in 2003, with a total spend of £3.4 million. The investment programme resulted in 68 weeks closure time, compared to 20 in 2003, and an additional £0.3 million project repair costs *(£1.0 million in total compared to £0.7 million last year)*. More than a third of these projects, however, were carried out in the fourth quarter of the year just ended and, therefore, the positive impact will not be seen until the current financial year. We have been delighted with the performance of the redeveloped sites, which have shown a 28% increase in turnover since re-opening.

In the current year, we plan to undertake a further 26 major refurbishment projects and spend a total of £5.4 million on the managed estate. We expect a third of this to be expensed as repairs, which will be an increase of £0.8 million on 2004. We are investing in a number of our City outlets, including the Fine Line bars. The Northcote Road Fine Line was the first to be refurbished - it was completed shortly after the year-end and is trading strongly. The Telegraph in the City of London, which opened in July 2003, is exceeding our expectations.

***Tenanted Inns***

The tenanted estate had another good year. Overall profits increased by 5% on turnover up 2% in the year. This reflects a further improvement in the quality of the estate. During the year we completed 17 external redecoration schemes and eight internal redecorations. The average turnover and profit per house increased by 5% and 8% respectively.

The Tenanted estate benefits from the interesting and varied wines sourced by our Wines Division and wine sales were up 16% in the year. We are extremely pleased that the Tenanted Division was also a finalist in the 2004 Publican Awards and a number of individual pubs and tenants continue to be recognised by regional CAMRA Groups as the best in their area.

The total number of tenanted pubs is currently 114 with 49 pubs now converted to the 10-year lease. We have always stated that there is a role for both the 10-year lease and the traditional three-year tenancy in the estate and anticipate that there will be a balance between both types of agreement.

***Fuller's Hotels***

Despite the challenging conditions in the hotels market, our strategy remains focused on quality and maintaining the premium position of our hotels, which we believe will deliver benefits in the medium-term. Although occupancy for the year declined by 6% and RevPar was down 5%, average room rates increased from £67.81 to £68.97.

We also saw a significant improvement on the first half of the year, when occupancy and RevPar were down 10%.

In July 2003, we sold the Pilgrim's Rest in Ashford, for £2.2 million, reflecting our strategy of providing a consistent level of accommodation across the estate. The proceeds from the sale have been re-invested in the new 55-bedroom hotel at the Red Lion in Hillingdon, West London, which I am delighted to say opened, ahead of schedule, on 17 May 2004. This historic 16th Century coaching inn has made a superb addition to the Fuller's Hotels estate. The new hotel at the Red Lion brings the total number in the estate to eight, of which seven are less than 10 years old.

In December, we entered into an agreement with Tesco Stores Limited giving them the option to acquire the site of the 105-bedroom Master Brewer Hotel in Hillingdon for a total cash consideration of £18.5m. The option agreement remains open until December 2006 and in the meantime the Master Brewer continues to trade profitably.

The Internet continues to be a very valuable booking source to Fuller's Hotels, with our own website www.fullershotels.com now generating encouraging commission-free revenue.

**The Fuller's Beer Company**

The Fuller's Beer Company demonstrated another successful year of growth with profits up 14% to £7.8 million *(2003: £6.8 million)*. The strength of our brands and exceptional quality of our beers continued to drive demand with a 4% increase in turnover to £65.5 million *(2003: £62.7 million)* and EBITDA up 13% to £9.2 million *(2003: £8.1 million)*.

Total own beer volumes were up 2% to 195,000 barrels *(2003: 191,000)*, driven by a 9% increase in the off-trade. This included a significant improvement in export volumes, now up 4%, reversing a decline in the first half of the year. Our total free on-trade volumes were up 4% resulting from growth in the popularity of the Fuller's brands. Sales to the free trade now represent over 85% *(2003: 84%)* of the total own beer volumes.

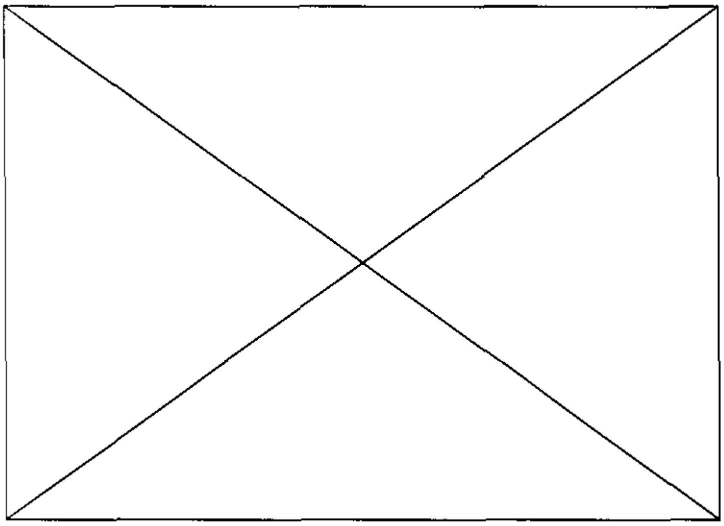
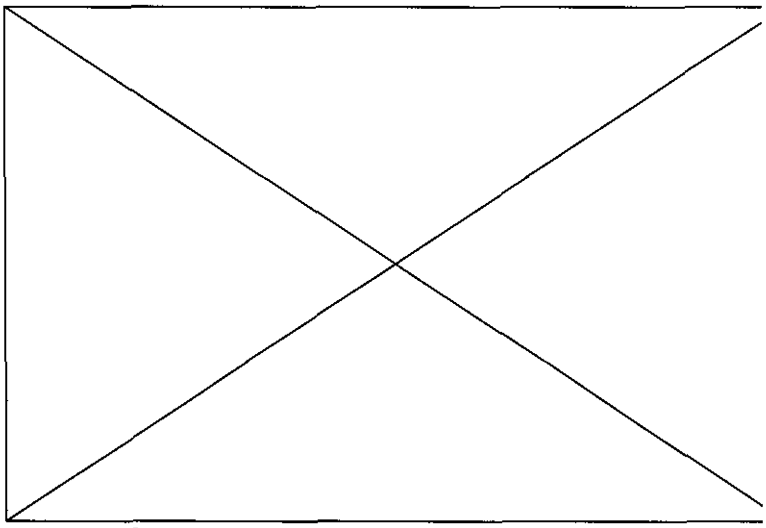
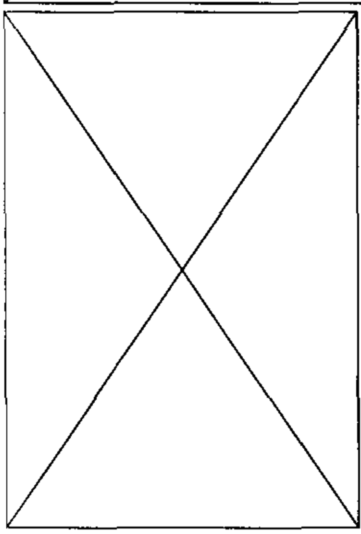
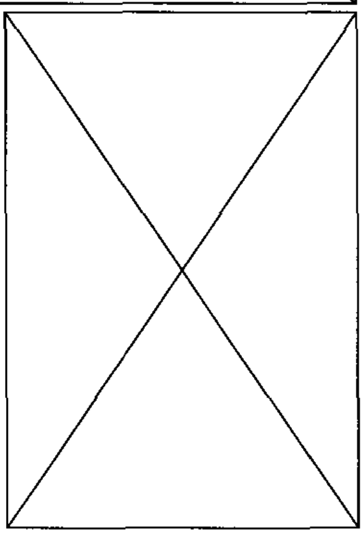
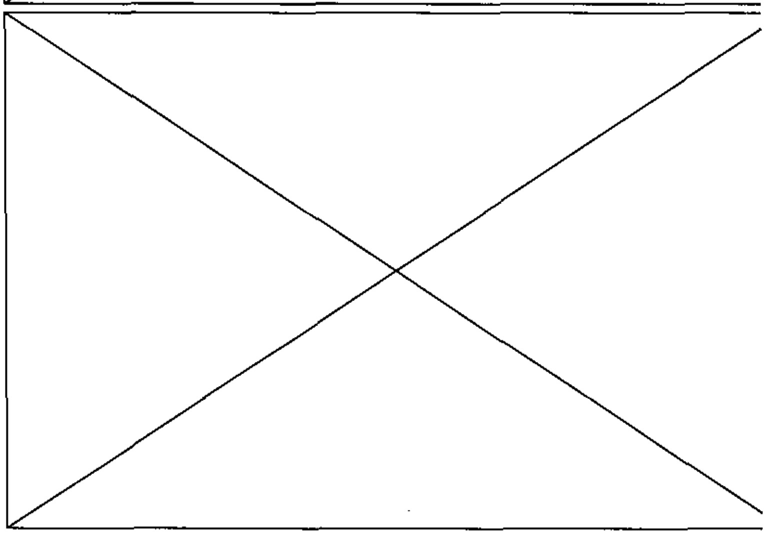
London Pride performed well in the year and is now the leading premium ale in the country, supported by an innovative and extensive marketing campaign. It further increased its market share, reflected by cask ale volumes up 1%, canned volumes up 13% and bottled volumes up 23%. The Rugby World Cup provided an excellent opportunity to promote our flagship beer, including extensive TV, cinema, press and poster advertising. For the second year running, London Pride has been voted the country's most desired cask ale, according to the Publican Newspaper's Desert Island Survey.

We continued to support our other brands with an Autumn Cask Beer Festival in our tied estate and selected free trade outlets featuring Organic Honey Dew, London Porter and 1845 (a silver medal winner at this year's CAMRA Great British Beer Festival). We have also brought back some much loved brands such as India Pale Ale, as part of our guest ale programme that offers a good range of interesting cask ales for our retail estate and selected free trade outlets. The Fuller's Wine Division showed excellent growth in the year with total wine volumes up 5% and a 21% increase in profits.

We have invested further in the Brewery, with the second phase of the fermentation and maturation tank extension completed at a total cost of £1.4 million, which has increased capacity by 25% to 260,000 barrels. In addition, we are in the process of adding to the Brewery site through two acquisitions totalling £2.7 million, one completed last April and the other due to be completed this June, which will increase the area by 11%. Excluding these acquisitions, total capital expenditure in the Brewery this year was £3.2 million *(2003: £2.2 million)*.

**Pride and Passion**

Pride and Passion is a new internal initiative aimed at informing and inspiring our employees to take even greater pride in the beer we brew and the pubs and hotels we run. Its aim is to make every Fuller's employee a Fuller's ambassador. However, it goes much further than this. We believe the passion with which our employees approach their jobs and the pride they have in Fuller's is what differentiates us as a company. We have great brands and an excellent estate, but it is the people that make the biggest difference. Without the commitment and dedication of our employees, we would not be able to continue to deliver consistently good results. The past year has not been easy, especially in some areas of the retail estate. It is testament to the quality of the team that we produced such good results and enter the current year with a

positive outlook and continued determination to excel. My thanks go out to all the employees for all their hard work this year.

**The Future**

Investment has been a key feature of the past year, ranging from the extensive redevelopment programme in the managed estate to the superb new Red Lion Hotel in Hillingdon and the expansion of the Griffin Brewery site in Chiswick. This investment will provide an excellent platform for future growth and help us meet the ever-increasing demand for our beers.

The capital expenditure programme in Managed Pubs and Bars will continue. Based on the improved performance seen at our recently redeveloped pubs, we are confident that this will help add further value to our managed estate. We will continue to focus on the quality of our cask ale, food, wine and service, in order to differentiate Fuller's. We are a premium operator, targeting discerning customers, who choose a Fuller's pub because the name is the synonymous with quality products and exceptional customer service.

Fuller's is not immune to the external factors that can impact our industry, such as the state of economy generally, legislative pressures and intense competition. However, we are well placed with a balanced business, high quality assets, premium brands and, above all, the best people to continue to drive the Company forward with Pride and Passion.

Michael Turner
*Chief Executive*

# DIRECTORS' REPORT

The Directors present their Annual Report together with the audited financial statements for the 52 weeks ended 27 March 2004.

### BUSINESS ACTIVITIES AND DEVELOPMENT

The Chairman's Statement and Chief Executive's Review of Operations on pages 2 to 13 include information about the Group's principal activities, the business and financial performance during the year and indications of likely future developments.

### DIVIDENDS AND PROFIT RETENTIONS

The Directors paid an interim dividend of 5.10 pence on the £1 'A' and 'C' ordinary shares and 0.51 pence on the 10p 'B' ordinary shares on 9 January 2004 and now recommend a final dividend of 12.21 pence on the £1 'A' and 'C' ordinary shares and 1.221 pence on the 10p 'B' ordinary shares. This makes a total of 17.31 pence on the £1 'A' and 'C' ordinary shares and 1.731 pence on the 10p 'B' ordinary shares for the year.

The total dividend on ordinary shares will absorb £3,904,000 which together with £120,000 of cumulative preference dividends paid will leave profit retentions of £9,795,000.

### MARKET VALUE OF LAND AND BUILDINGS

The freehold properties, with the exception of unlicensed premises and the Brewery buildings, were partially revalued on an open market "for existing use" basis, based on a one fifth representative sample, by a firm of professional valuers as at 27 March 1999. Following the introduction of FRS 15, "Tangible Fixed Assets", the Company followed the transitional provisions to retain the existing book value of land and buildings, but not to adopt a policy of revaluation in the future. In 2002 the Directors obtained a representative sample of individual valuations of property within the estate, which disclosed average increases above book value in excess of 30%. Whilst these valuations were informal and may not be wholly representative of the estate, the Directors are confident that the market value of the property within the estate is significantly higher than the carrying value in the financial statements.

### DIRECTORS

A list of current serving Directors and their biographies is given on page 5. P A Clarke, R R Spinney and T J M Turner retire by rotation at the Annual General Meeting and offer themselves for re-election. Mr Clarke and Mr Turner have rolling service contracts of 12 months duration (with effect from 1 June 2004). Further details are given in the Directors' Remuneration Report. Mr Spinney does not have a service contract but has been invited to stay on the Board until March 2006.

### DIRECTORS' INTERESTS

Details of Directors' interests in the share capital of the Company, their share options and allocations under the Long Term Incentive Plan ("LTIP") up to 14 May 2004 are given in the Directors' Remuneration Report.

### EMPLOYEES

The Directors attach a high priority to maintaining communications with all employees and encouraging a common awareness of the financial and economic factors affecting the Group. The communications policy, which is in operation throughout the business, is designed to ensure the successful cascading of information. Annual audits of the policy reveal ongoing improvements in staff satisfaction with the communication process. The Committee formally known as the Joint Consultative Committee, which facilitates meetings between union representatives and management, has been extended to include representatives from all parts of the Brewery site. The Committee includes a number of divisional directors who report on issues and performance in respect of the parts of the business they are responsible for. Directors address the workforce on issues such as the Interim and Preliminary results. The Company issues the award winning "Griffin" magazine, which is sent to all employees and shareholders. Staff may benefit from a Savings Related Share Option Scheme, which serves to encourage staff interest in the Group's performance. A new Share Incentive Plan was also launched during the year.

The Group's recruitment policy is designed to ensure that all applications for employment, including those made by persons covered by the provisions of the Disability Discrimination Act, are given full and fair consideration, in light of the applicants' particular aptitudes and abilities. The Group also has an equal opportunity policy which is designed to ensure that all employees are treated equally in terms of training, career development and promotion etc. Where employees develop a disability during their employment by the Company every effort will be made to continue their employment and arrange for appropriate training, as far as is reasonably practicable.

### POLITICAL AND CHARITABLE DONATIONS

Contributions for charitable purposes amounted to £41,000. No political donations were made.

### FULLER'S AND THE COMMUNITY

Every year, the Company sponsors the London Pride Walk in aid of Help Hammer Cancer. The walk, which starts and finishes at the Brewery, raised £105,000 for this charity in June 2003.

The Company supports a number of local charities. These include Friends of Chiswick House, Old Chiswick Protection Society, Chiswick Pier and its affiliated lifeboat and the Wetland Centre in Barnes. As well as charitable donations through head office, Fuller's pubs raise many thousands of pounds for charities each year through events and functions.

### SUPPLIER PAYMENT POLICY

The Company wishes to confirm that it supports and is listed in the CBI Code of Prompt Payment. Details of the Scheme can either be obtained from the Company Secretary or from the CBI itself. The Company informs and agrees with its suppliers in advance its payment practice and will abide by those terms for all valid transactions. The Company pays UK trade suppliers at the month end following the month of invoice. Overseas suppliers (mostly of wine) are paid between two and three months after the month of invoice, depending on delivery times from the country of origin. The average amount of credit taken from suppliers as at the year end was 48 days *(2003: 44)*.

### RELATED PARTY TRANSACTIONS

Details of related party transactions are given in note 26.

### ENVIRONMENT

The process of brewing beer involves the use of natural products, primarily malted barley, hops, yeast and water. As with all "food" products, beer by nature recycles through the food chain. Surplus materials from the brewing process, e.g. excess yeast, spent grains and trub (a mixture of malt protein material and spent hops) are recycled into cattle feed and other food products. Energy used within the brewing process is recycled as much as possible. The Company continues to meet its responsibilities in respect of the recycling of packaging waste. The Company is committed to complying with the Climate Change Levy as part of a brewing sector agreement with the British Beer and Pubs Association.

Plant purchases and improved related operational procedures have reduced the Company's Energy Efficiency Quotient ("EEQ") which means that the Company is on track to meet its agreed EEQ targets up to the year 2010.

The retail estate business participates in bottle glass recycling schemes.

### PENSIONS

As set out in note 24, the Company accounts for its defined benefit schemes using SSAP 24. The schemes are formally valued by an independent qualified actuary every three years. SSAP 24 requires any surpluses or deficits identified during these valuations to be spread over the average expected remaining working lives of employees. The results of the most recent valuations and the assumptions used are given in note 24. SSAP 24 has been superseded by FRS 17, which was introduced in 2002, but which has yet to be implemented in full by the Company. Amongst other things, FRS 17 requires the schemes to be valued (on a different basis to SSAP 24) as at the year-end date, with any deficit or surplus being shown in the Company's balance sheet and with the movements being recorded in the Statement of Total Recognised Gains and Losses. The Company, in accordance with the transitional provisions of FRS 17, has provided the valuation and potential accounting entries as disclosures only. On the basis of FRS 17, the schemes have a combined gross deficit of £11,308,000 *(2003: £12,514,000)*.

### CHANGES IN FINANCIAL REPORTING STANDARDS

The Company will be required over the next two years to make a number of changes in its accounting policies and financial reporting. In common with other listed companies in the UK, the Group will be adopting International Financial Reporting Standards ("IFRS") when preparing the interim and final accounts for the year ended 1 April 2006 (and restating the comparatives for the year ending 2 April 2005). The published Standards are currently being reviewed to assess their likely impact on the accounts and the reporting process.

Since a number of these Standards have only been published recently, the detailed review process is still at an early stage. The Company has performed a high-level "differences" assessment to determine the key areas to focus on. The Company will be reviewing the Standards in detail, coming to conclusions about their impact and working with the auditors and a peer group within the Industry to reach a consensus on interpretation in some areas.

It is too early at this stage to give precise details of where the numbers will differ. In general the adoption of IFRS, with its focus on the balance sheet and fair values, will increase the volatility of reported net assets and profits. It is likely the biggest differences will arise from the requirement to account for the surplus or deficit on the pension schemes (based on market values at the balance sheet date), to provide for deferred tax on all revaluations and disposals, irrespective of the availability of rollover relief and to reflect the cost of providing share based incentives to employees in the profit and loss account.

When the Company publishes its first interim numbers under IFRS in November 2005, it will present a detailed bridge between the numbers under current UK generally accepted accounting practice and IFRS. This will include a restatement and reconciliation of the opening balance sheet as at 28 March 2004. It is worth noting that there is an increasing degree of convergence between UK Financial Reporting and IFRS, with new UK Standards often mirroring the equivalent International Standards, and hence changes to the accounts will be inevitable. Whenever new Standards are introduced which have a material impact on the reported numbers, the Company will always provide a detailed explanation and reconciliation.

### SHARES

At 14 May 2004 the following disclosable interests of shareholders (other than Directors) had been notified to the Company:

| *Name* | *% 'A' ordinary shares of £1 each* | *Name* | *% 'B' ordinary shares of 10p each* | *Name* | *% 'C' ordinary shares of £1 each* |
|---|---|---|---|---|---|
| AEGON UK plc Group | 4.84 | Sir J H F, Messrs A F and E F Fuller | 11.38 | Sir J H F, Messrs A F and E F Fuller | 22.33 |
| Lattice Group Pension Scheme | 4.14 | J F Russell-Smith Charitable Trust | 7.28 | Sir J H F Fuller | 6.43 |
| Miss A B Earle | 4.12 | J F Russell-Smith and others | 4.40 | Mr H D Williams | 5.82 |
| Solera Holdings BVI | 3.62 | Mrs S B Stuart | 4.36 | Mrs J C Turner | 4.86 |
| Dunarden Limited | 3.01 | Sir J H F Fuller | 4.08 | Miss S M Turner | 3.25 |
| | | Employee Profit Sharing Scheme | 3.76 | | |
| | | Dunarden Limited | 3.42 | | |
| | | Mr R D Inverarity | 3.35 | | |
| | | Mr G F Inverarity | 3.31 | | |
| | | Mr R H F Fuller | 3.29 | | |
| | | Mr H D Williams | 3.07 | | |

### ANNUAL GENERAL MEETING

**Special business**

Details of the special business and other items requiring explanation at this year's Annual General Meeting are included in the circular to shareholders dated 11 June 2004, at the back of which is the Notice of Meeting.

### PURCHASE OF OWN 'A' SHARES

At the Annual General Meeting of the Company held on 17 July 2003, the Company was given authority to purchase up to 1,917,651 'A' ordinary shares. This authority will expire and shareholders will be asked to give a similar authority at the Annual General Meeting to be held on 7 July 2004.

During the year the Company purchased a total of 75,000 £1 'A' ordinary shares. The Company's maximum issued ordinary share capital during the year was £22,934,928, which included £13,000,428 £1 'A' ordinary share capital. The 2004 buybacks therefore represented 0.3% of the maximum issued ordinary share capital (0.6% of the Company's issued 'A' ordinary share capital). Taking into account all the buybacks since December 2001, 11.3% of the Company's issued ordinary share capital (16.9% of the 'A' ordinary share capital) has now been bought back. The total cost of the purchases this year was £439,705. The Directors believed that these purchases were in the best interests of shareholders and would increase earnings per share. The shares were duly cancelled.

## DIRECTORS' REPORT (CONTINUED)

The Company will apply for a further authority at the Annual General Meeting on 7 July 2004 to purchase shares up to 15% of the 'A' ordinary share capital at that date.

### PURCHASE OF OWN 'B' SHARES

At the Annual General Meeting of the Company held on 17 July 2003, the Company was given a once-off authority to purchase up to 4,000,000 10p 'B' ordinary shares or up to an aggregate consideration of £2,000,000, whichever was lower.

During the year the Company purchased a total of 2,531,182 10p 'B' ordinary shares. The Company's maximum issued ordinary share capital during the year was £22,934,928 which included £4,000,000 worth of 'B' ordinary shares. The 2004 buyback therefore represented 1.1% of the maximum issued ordinary share capital, (6.3% of the Company's issued 'B' ordinary share capital). The total cost of this purchase was £1,369,857. The Directors believed that this purchase was in the best interests of shareholders. The shares were duly cancelled.

### CORPORATE GOVERNANCE

A full review of Corporate Governance appears on pages 18 and 19.

### 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 and of the Group as at the end of the financial year and of the profit or loss of the Group for the financial year. In preparing these 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; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements.

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

### GOING CONCERN

On the basis of current financial projections and facilities available, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and, accordingly, consider that it is appropriate to adopt the going concern basis in preparing the financial statements.

By Order of the Board

Marie Gracie, FCIS
*Company Secretary*

Griffin Brewery, Chiswick Lane South
Chiswick, London W4 2QB
11 June 2004

# CORPORATE GOVERNANCE REPORT

### A. COMPLIANCE

The Board supports the principles of corporate governance outlined in the Combined Code on Corporate Governance ("the Code"). The Board confirms that the Company complies with the requirements of the Code, and has done so throughout the financial year, with the exception of notice periods in Executive Directors' contracts. Changes in those contracts effected during the financial year mean that the Company will comply with the Code with effect from 1 June 2004. A detailed review of the Revised Combined Code is underway and work to date indicates that the Company already has a high level of compliance with both its principles and provisions.

### B. THE BOARD & BOARD COMMITTEE STRUCTURE

**The Board of Fuller Smith & Turner P.L.C.** comprises the Chairman, five Executive Directors and three independent Non Executive Directors, thus providing an appropriate Board balance. Their biographies appear on page 5. R R Spinney is the Senior Non Executive Director. The Board is responsible to the shareholders for the good standing of the Company, the management of its assets for optimum performance, the strategy for its future development and other matters listed on the schedule of issues reserved for Board approval (which is regularly updated). There are at least six regular meetings a year, in advance of which the Directors are circulated with information enabling them to discharge their duties. Ad hoc meetings are called as necessary.

There is in place a procedure under which the Directors can obtain independent professional advice. The Directors also have access to the advice and services of the Company Secretary.

The Executive Directors have attended a variety of training courses throughout the year and new Directors undertake a thorough induction programme. Additionally the Board visits Company premises on a regular basis.

**The Executive Board Committee** comprises all Executive Directors and meets monthly under the Chairmanship of M J Turner, to deal with all executive business of the Company not specifically reserved for the Main Board, or Board Committees.

**The Audit Committee** meets at least three times a year. Chaired by N R MacAndrew, the Committee comprises all the independent Non Executive Directors. The external auditors attend the meetings and on request, also the Chairman, Chief Executive and Finance Director. The Committee monitors that the Board is observing its responsibilities for ensuring that the Company's financial and accounting systems provide accurate and up to date information on its current financial position, and that this is reflected in the Company's management and statutory financial statements. It also monitors accounting policies, internal controls and compliance procedures. Further responsibilities include the appointment of auditors, auditors' remuneration, monitoring the auditors' provision of non-audit services and associated fees and reaching a general consensus on audit approach. The Committee is conscious of best practice as regards encouraging management to seek third party quotations for the provision of non-audit services. Where it is appropriate, tendering is expected.

Information about the work of **The Remuneration Committee** is given in the Directors' Remuneration Report.

**The Nominations Committee** consists of J S Espey, R R Spinney and A G F Fuller, who acts as Chairman. It is responsible for nominating candidates for appointment as Directors, for approval by the Board.

### C. DIRECTORS' REMUNERATION

This is covered in the Directors' Remuneration Report.

### D. RELATIONS WITH SHAREHOLDERS

The Company is always happy to meet with its institutional shareholders and has held several such meetings over the year. The Board supports the use of the Annual General Meeting to communicate with private investors and the format of the Annual General Meeting is designed with this in mind.

### E. INTERNAL CONTROL

The Audit Committee has reviewed the following statement which has been approved by the Board:

The Board has overall responsibility for the Group's system of internal control and reviewing its effectiveness. The system is designed to provide reasonable but not absolute assurance of:

- the mitigation of risks which might cause the failure of business objectives;
- no material misstatements or losses;
- the safeguarding of assets against unauthorised use or disposition; and
- the maintenance of proper accounting records and the reliability of financial information used within the business or for publication.

The Code contains a requirement that the Board reviews the effectiveness of the Group's system of all aspects of internal control including financial and operational controls, compliance and risk management. The Board confirms that it has established procedures necessary to implement "Internal Control: Guidance for Directors on the Combined Code" (which is known as the Turnbull guidance) for the full financial year. This was achieved through a series of annual risk assessment workshops. These resulted in the Company ranking the risks facing the business, reviewing the associated controls and agreeing the necessary course of action. Monthly meetings are now held in addition to the workshops in order to assess the effectiveness of the controls identified and to confirm the necessary action points.

In addition to these annual workshops and monthly meetings, key elements of the system of internal control include:

- clearly defined levels of responsibility and delegation throughout the Group, together with well structured reporting lines up to the Board;
- the preparation of comprehensive annual budgets for each division, including commentary on key business opportunities and risks, approved by the Executive Directors and further reviewed by the full Board on a consolidated basis;
- an Executive Board review of actual monthly results against budget, together with commentary on significant variances and updates of both profit and cash flow expectations for the year;
- a detailed investment approval process requiring Board authorisation for all major projects;
- detailed post implementation appraisals of major capital expenditure projects; and
- regular reporting of legal and accounting developments to the Board.

The Company employs internal retail business auditors within Fuller's Inns and stock auditors within the Beer Company. In addition, the finance department is charged with responsibility for a rolling programme of independent internal audits, conducted under the supervision of qualified accountants. Reports have been, and will continue to be, made regularly to the Audit Committee. The Company annually reviews the possibility of employing a dedicated internal audit resource. It has again concluded that it is more effective to continue with the current internal audit arrangements described.

The Directors confirm that they have reviewed, in conjunction with the Audit Committee, the effectiveness of the system of internal control in accordance with the procedures set out above and have taken account of material developments since the year end. The review was performed on the basis of the criteria set out in the Guidance for Directors "Internal Control and Financial Reporting".

# DIRECTORS' REMUNERATION REPORT

The principal purpose of this report for the year ended 27 March 2004 is to inform shareholders of Fuller's policy on Directors' Remuneration, as recommended by the Remuneration Committee. The report has been approved and adopted by the Board and has been prepared in accordance with the requirements of the Companies Act 1985 and Schedule 7A thereto, the Directors' Remuneration Report Regulations 2002 ("the Regulations") and the Listing Rules. The information contained in the tables on pages 21, 24 to 27 and the first table on page 28, in the description of non-cash emoluments in section a) and in the options and the Long Term Incentive Plan ("LTIP") performance criteria outlined in sections c) and d), is subject to audit in accordance with the Regulations.

An ordinary resolution will be put to shareholders at the Annual General Meeting on 7 July 2004 inviting them to consider and approve this report.

### REMUNERATION COMMITTEE

Membership of the Committee is restricted to independent, Non Executive Directors and it meets no less than twice a year. Its members are R R Spinney (Chairman), J S Espey and N R MacAndrew. Members of the Committee have no personal financial interest in the Company, other than as shareholders and Directors.

Details of the payments made to Non Executive Directors are set out on page 21.

The Committee appointed and is provided with independent advice from external consultants. Ernst & Young LLP advise in connection with the Company's share option schemes, providing interpretation of the rules and practical guidance thereon. Ernst & Young LLP also act as auditors and tax advisors to the Company. Other advisors are Inbucon Limited, who have advised on updating certain of the Company's share schemes (as set out in the Chairman's letter to shareholders of 11 June 2004) and Nabarro Nathanson who advised the Company on the resultant changes to the Executive Directors' contracts. Neither Inbucon Limited nor Nabarro Nathanson provide any other services to the Company.

The Chairman of the Company, A G F Fuller and Chief Executive, M J Turner, may be invited to attend meetings and advise, as appropriate, on the remuneration and performance of Executive Directors and other related matters, although no Director is present when his or her own position is being considered.

The Committee is advised internally by the Personnel Director/Company Secretary, M L Gracie who also acts as Secretary to the Committee, and a number of other members of the senior management team depending on the issues being considered.

### REMUNERATION POLICY

It is the policy of the Remuneration Committee to provide competitive packages for the Executive Directors, which reflect the Group's performance against financial objectives, reward above average performance and which are designed to attract, retain and motivate high calibre executives. The Committee seeks to structure total benefit packages which align the interests of shareholders and Executive Directors. To this end, in 2002 the Committee commissioned Hewitt, Bacon and Woodrow to undertake an extensive review of all aspects of Directors' remuneration. Resultant changes were fully detailed in last year's version of this report. One key feature of the review was the balance of performance related to non performance related remuneration. It was concluded that a greater proportion of all Executive Directors' remuneration should be performance related. Hence changes were made in respect of bonuses and LTIP and the new Senior Executive Share Option Scheme was introduced. These changes were all designed to increase the proportion of performance related remuneration in Executive Directors' remuneration.

In overall terms the non performance related elements of the Directors' packages remain the most significant. However, in terms of providing motivation to the Executive Directors to improve shareholder value, the recently enhanced performance related elements are the most important.

Executive Directors' remuneration will be the subject of regular review in accordance with this policy in the current and following years. The Committee believes that a successful remuneration policy needs to be flexible so that it can adapt to any future changes in the Company's business environment and in remuneration practice. There were no changes in policy during the financial year.

The various elements of executive remuneration and underlying policy are as follows:

**a) Base Salary and Benefits**

The Committee sets the base salary for each Executive Director by reference to individual and corporate performance, competitive market practice and independent salary survey information. Other non-cash benefits to Executive Directors include private healthcare, in some cases fully expensed company cars, product allowances and in two cases, children's educational assistance. Some of these benefits are also extended to other employees.

**b) Annual Performance Related Bonus**

Executive Directors and senior management participate in the Company's performance related bonus scheme by invitation. All payments under the scheme are discretionary and non-pensionable.

Executives can earn a bonus in part by achieving key strategic objectives within the divisions they are directly responsible for and in part where the Group achieves a growth target in pre-tax pre-exceptional earnings per share. The buying in of shares by the Company is one of the factors which has improved pre-tax pre-exceptional earnings per share and has had a positive impact on the level of bonus paid.

The target for the bonus, which is set in March each year, includes the cost of the bonus itself. The 2004 scheme for Executive Directors provided a bonus opportunity of a maximum of 50 per cent of base salary.

### DIRECTORS' EMOLUMENTS AND OTHER PAYMENTS

The following table shows a breakdown of the remuneration of individual Directors who served in all or part of the year:

| | *Basic salary £000* | *Fees £000* | *Consultancy £000* | *Benefits in kind £000* | *Bonus £000* | *Total 2004 £000* | *Total 2003* £000* |
|---|---|---|---|---|---|---|---|
| A G F FULLER | – | 21 | 41 | 36 | – | **98** | 121 |
| M J TURNER | 195 | – | – | 48 | 96 | **339** | 321 |
| T J M TURNER | 120 | – | – | 33 | 59 | **212** | 226 |
| P A CLARKE | 126 | – | – | 24 | 62 | **212** | 220 |
| R J ROBERTS | 139 | – | – | 15 | 66 | **220** | 231 |
| S EMENY | 174 | – | – | 3 | 47 | **224** | 236 |
| J S ESPEY | – | 25 | – | 1 | – | **26** | 26 |
| R R SPINNEY | – | 28 | – | 1 | – | **29** | 28 |
| N R MACANDREW | – | 28 | – | 1 | – | **29** | 28 |
| TOTAL | 754 | 102 | 41 | 162 | 330 | **1,389** | 1,437 |

** Total payments in 2003 include exceptional payments relating to changes in service contracts.*

**c) Share Option Schemes and the Share Incentive Plan**

The Company encourages Executive Directors, senior management and indeed all employees to acquire and hold Fuller's shares, and believes that equity-based reward programmes align the interests of Directors, and employees in general, with those of shareholders.

The Company has two Inland Revenue approved Executive Share Option Schemes (the "Approved Schemes"). No further grants can be made under the older scheme, which expired in 1998. The continuing scheme incorporates performance targets and restrictions and was approved at the Extraordinary General Meeting in December 1998. Under the Approved Schemes, senior executives and other staff may be issued share options up to the Inland Revenue maximum value of £30,000 at any one time.

Options do not vest unless pre-exceptional earnings per share ("EPS") exceed RPI by at least nine per cent over the three-year vesting period. The performance targets and restrictions are considered to be a realistic test of management performance and were chosen because they are consistent with corporate profit growth objectives and ensure that options only become exercisable against the background of a sustained real increase in the financial performance of the Company.

Minor changes to the Approved Scheme are proposed, as outlined in the Chairman's letter to shareholders dated 11 June 2004. If shareholders approve the resolution the Approved Scheme will allow participants leaving due to retirement on or after reaching age 55 to exercise their options to the extent that performance conditions have been met. The Board would also be given the discretion to amend the Approved Scheme's performance criteria. It intends to use this discretion to tighten the definition of EPS, so that it is clear that only pre-exceptional profits are taken account of in the definition of EPS. Finally if the resolution is approved this would give the Board the flexibility to use treasury shares to satisfy options granted under the Approved Scheme.

The Company also has a Senior Executive Share Option Scheme (the "Senior Scheme") which shareholders approved in July 2003. The maximum benefit granted under the Senior Scheme equates to 20 per cent of salary per annum subject to the discretion of the Remuneration Committee. Participants in the Senior Scheme are limited to senior executives. For options to vest under the Senior Scheme, EPS must exceed RPI by at least nine per cent over a five-year period. If this is achieved 40 per cent of the award will vest. If EPS exceed RPI by more than 21 per cent, 100 per cent of the award will vest. The performance targets and restrictions are considered to be a realistic test of management performance and were chosen because they are consistent with corporate profit growth objectives and ensure that the options only become exercisable against the background of a sustained real increase in the financial performance of the Company. As outlined in the Chairman's letter to shareholders of 11 June 2004, it is proposed to amend the period over which options vest from five to three years to establish a more challenging target, in line with industry standards.

The changes outlined above in respect of the Approved Scheme are also proposed in respect of the Senior Scheme.

For both the Approved Scheme and the Senior Scheme the assessment as to whether the performance conditions have been met is relatively straightforward in that the Remuneration Committee determines whether the performance conditions have been met using the EPS information which is published in the Company's Annual Report and Accounts. However, the level of vesting is confirmed by Ernst & Young LLP, based on EPS calculations provided by the Company.

The Company also operates a Savings Related Share Option Scheme (the "SAYE Scheme") , which is available to all Parent Company employees. Under the SAYE Scheme, options are granted over the Company's £1 'A' ordinary shares at a discount of 20 per cent on the prevailing market price at the time of the grant. Eligible employees may agree to save up to £250 per month over a period of three or five years and then purchase shares at the end of the term. The aim of the SAYE Scheme is to encourage share ownership at all levels of the Company. Performance conditions are not applied to the SAYE Scheme.

All Parent Company employees with five months service as at 1 November 2003, were eligible to receive free £1 'A' ordinary shares at the end of November 2003 through an Inland Revenue Approved Share Incentive Plan (the "SIP"). The amount of shares awarded was based on length of service and base salary. The maximum value of the shares allowable under the SIP in any one year was £3,000. Performance conditions are not applied to the SIP. The SIP replaced the Company's Inland Revenue Approved Profit Sharing Scheme, under which many Company employees still hold shares.

# DIRECTORS' REMUNERATION REPORT (CONTINUED)

### DIRECTORS' SHAREHOLDINGS

| | 27 March 2004 | | 29 March 2003 | |
|---|---|---|---|---|
| | Beneficial | Non beneficial | *Beneficial* | *Non beneficial* |
| **A G F FULLER** | | | | |
| 'A' ordinary £1 | **26,359** | **100,000** | 25,603 | 100,000 |
| 'B' ordinary 10p | **2,038,629** | **3,819,086** | 2,036,020 | 3,801,380 |
| 'C' ordinary £1 | **574,400** | **500,944** | 574,400 | 500,944 |
| 1st preference £1 | **9,676** | **4,839** | 9,679 | 4,839 |
| 2nd preference £1 | **94** | – | 94 | – |
| **M J TURNER** | | | | |
| 'A' ordinary £1 | **118,726** | **111,904** | 117,507 | 111,904 |
| 'B' ordinary 10p | **1,676,981** | **1,539,889** | 1,673,405 | 1,539,889 |
| 'C' ordinary £1 | **398,120** | **298,207** | 398,120 | 298,207 |
| 2nd preference £1 | **22,967** | **45,791** | 22,967 | 45,791 |
| **T J M TURNER** | | | | |
| 'A' ordinary £1 | **88,431** | **111,904** | 87,635 | 111,904 |
| 'B' ordinary 10p | **1,735,228** | **1,539,889** | 1,705,150 | 1,539,889 |
| 'C' ordinary £1 | **502,821** | **298,207** | 502,821 | 298,207 |
| 2nd preference £1 | **22,916** | **45,791** | 22,916 | 45,791 |
| **P A CLARKE** | | | | |
| 'A' ordinary £1 | **8,741** | – | 6,627 | – |
| 'B' ordinary 10p | **43,219** | **249,834** | 41,734 | 249,834 |
| **R J ROBERTS** | | | | |
| 'A' ordinary £1 | **9,310** | – | 8,417 | – |
| 'B' ordinary 10p | **28,345** | – | 26,362 | – |
| **S EMENY** | | | | |
| 'A' ordinary £1 | **8,103** | – | 5,937 | – |
| 'B' ordinary 10p | **42,854** | – | 31,209 | – |
| **J S ESPEY** | | | | |
| 'A' ordinary £1 | **4,000** | – | 4,000 | – |
| **R R SPINNEY** | | | | |
| 'A' ordinary £1 | **500** | – | 500 | – |
| **N R MACANDREW** | | | | |
| 'A' ordinary £1 | **10,000** | – | 10,000 | – |

*There were no changes between 27 March 2004 and 14 May 2004.*

## DIRECTORS' SHARE OPTIONS

| | At 30 March 2003 | Exercised | Lapsed | Issued | At 27 March 2004 | Price at exercise date £ | Exercise price £ | Date from which exercisable | Expiry date | Type | Cost of options under Savings Related Share Option Schemes £ | Cost of options under Executive Share Option Schemes £ |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **M J TURNER** | | | | | | | | | | | | |
| | 2,951 | – | – | – | **2,951** | – | 3.43 | 1/9/05 | 1/3/06 | S | 10,122 | – |
| | 1,552 | – | – | – | **1,552** | – | 4.27 | 1/9/07 | 1/3/08 | S | 6,619 | – |
| | – | – | – | 5,660 | **5,660** | – | 5.30 | 25/6/06 | 25/6/13 | A | – | – |
| | – | – | – | 1,672 | **1,672** | – | 5.50 | 17/7/08 | 17/7/13 | U | – | – |
| | 4,503 | – | – | 7,332 | **11,835** | | | | | | | |
| **T J M TURNER** | | | | | | | | | | | | |
| | 983 | – | – | – | **983** | – | 3.43 | 1/9/05 | 1/3/06 | S | 3,372 | – |
| | 1,607 | – | – | – | **1,607** | – | 4.20 | 1/9/06 | 1/3/07 | S | 6,749 | – |
| | 1,552 | – | – | – | **1,552** | – | 4.27 | 1/9/07 | 1/3/08 | S | 6,619 | – |
| | – | – | – | 5,660 | **5,660** | – | 5.30 | 25/6/06 | 25/6/13 | A | – | – |
| | 4,142 | – | – | 5,660 | **9,802** | | | | | | | |
| **P A CLARKE** | | | | | | | | | | | | |
| | 6,521 | – | – | – | **6,521** | – | 4.60 | 24/12/01 | 23/12/08 | A | – | – |
| | 1,333 | (1,333) | – | – | – | 5.825 | 4.14 | 1/9/03 | 12/9/03 | S | 5,519 | – |
| | 772 | – | – | – | **772** | – | 4.37 | 1/9/04 | 1/3/05 | S | 3,374 | – |
| | – | – | – | 1,567 | **1,567** | – | 4.25 | 1/9/06 | 1/3/07 | S | 6,660 | – |
| | – | – | – | 4,600 | **4,600** | – | 5.50 | 17/7/08 | 17/7/13 | U | – | – |
| | 8,626 | (1,333) | – | 6,167 | **13,460** | | | | | | | |
| **R J ROBERTS** | | | | | | | | | | | | |
| | 5,692 | – | – | – | **5,692** | – | 5.27 | 11/7/99 | 10/7/06 | A | – | 1 |
| | – | – | – | 2,248 | **2,248** | – | 4.25 | 1/9/08 | 1/3/09 | S | 9,554 | – |
| | – | – | – | 4,872 | **4,872** | – | 5.50 | 17/7/08 | 17/7/13 | U | – | – |
| | 5,692 | – | – | 7,120 | **12,812** | | | | | | | |
| **S EMENY** | | | | | | | | | | | | |
| | 1,000 | (1,000) | – | – | – | 5.825 | 4.14 | 1/9/03 | 12/9/03 | S | 4,140 | – |
| | 3,739 | – | – | – | **3,739** | – | 3.43 | 1/9/05 | 1/3/06 | S | 12,825 | – |
| | 5,769 | – | – | – | **5,769** | – | 5.20 | 25/6/05 | 24/6/12 | A | – | – |
| | – | – | – | 899 | **899** | – | 4.25 | 1/9/08 | 1/3/09 | S | 3,821 | – |
| | – | – | – | 5,654 | **5,654** | – | 5.50 | 17/7/08 | 17/7/13 | U | – | – |
| | 10,508 | (1,000) | – | 6,553 | **16,061** | | | | | | | |
| **TOTAL** | 33,471 | (2,333) | – | 32,832 | **63,970** | | | | | | | |

KEY: A - Approved Executive Share Option Scheme; S - Savings Related Share Option Scheme; U - Unapproved Senior Executive Share Option Scheme

### DIRECTORS' OPTIONS ANALYSED BY EXERCISE PRICE (£)

| *Exercise price (£)* | *At 30 March 2003* | *Exercised* | *Lapsed* | *Issued* | *At 27 March 2004* |
|---|---|---|---|---|---|
| 3.43 | 7,673 | – | – | – | **7,673** |
| 4.14 | 2,333 | (2,333) | – | – | **–** |
| 4.20 | 1,607 | – | – | – | **1,607** |
| 4.25 | – | – | – | 4,714 | **4,714** |
| 4.27 | 3,104 | – | – | – | **3,104** |
| 4.37 | 772 | – | – | – | **772** |
| 4.60 | 6,521 | – | – | – | **6,521** |
| 5.20 | 5,769 | – | – | – | **5,769** |
| 5.27 | 5,692 | – | – | – | **5,692** |
| 5.30 | – | – | – | 11,320 | **11,320** |
| 5.50 | – | – | – | 16,798 | **16,798** |
| **TOTAL** | 33,471 | (2,333) | – | 32,832 | **63,970** |

*The market price of the shares at 27 March 2004 was £6.325 and the range during the year was from £4.30 to £6.60.*

Details of all options issued to Executive Directors and exercised by them during the year are given in the table on page 24 and details of all options issued to employees are on pages 46 and 47.

**d) Long Term Incentive Plan ("LTIP")**

Shareholders approved the LTIP in December 1998. The aim of the LTIP is to align the efforts of Directors and senior managers with the Company's objective of creating shareholder value and increasing EPS in the longer term. The performance conditions for the LTIP were chosen accordingly and the inclusion of an EPS based measure also ensures that awards only become exercisable against a background of a sustained real increase in the financial performance of the Company. Grants made before May 2003 are based on EPS, which relates to 50 per cent of the shares in an award; and Total Shareholder Return ("TSR"), which relates to the other 50 per cent of the shares in an award. Grants made after May 2003 are based on EPS only.

For awards based on EPS and TSR, the average growth in EPS is compared with the growth in inflation over the performance period. No EPS payouts are made if the EPS growth fails to exceed the RPI by more than six per cent over the period. The performance period covers three financial years starting from the year of the grant. For the maximum of 50 per cent of the shares to be awarded, EPS would need to exceed the RPI by 50 per cent or more over the period. The TSR of a share in the Company is compared with the TSR of each share in a comparator group of companies over the performance period. No TSR payouts will be made if the Company's TSR is below that of the median company. For the maximum of 50 per cent of the shares to be awarded the Company's TSR would need to be in the upper quartile.

For awards based on EPS only, the average growth in EPS is compared with the growth in inflation over the performance period. No EPS payouts are made if the EPS growth fails to exceed the RPI by at least six per cent over the period. The performance period covers three financial years starting from the date of grant. For a 100 per cent award of shares to be made, EPS would need to exceed the RPI by 21 per cent or more over the period.

For both sets of performance conditions the assessment as to whether these have been met is relatively straightforward. The Remuneration Committee determines whether the EPS performance condition has been met using the EPS information which is published in the Company's Annual Report and Accounts. Ernst & Young LLP confirm the level of vesting of awards based on EPS calculations provided by the Company. Ernst & Young LLP independently calculate the TSR position of the Company in relation to the comparator companies using information supplied by Datastream and refers this to the Committee.

### DIRECTORS' LONG TERM INCENTIVE PLAN ALLOCATION

| | Total held at 30 March 2003 | Granted during year | Vested during year | Matching awards granted | Lapsed during year | Total held at 27 March 2004 | Monetary value of vest* £000 |
|---|---|---|---|---|---|---|---|
| **A G F FULLER** | | | | | | | |
| 'A' ordinary £1 | 9,536 | – | (1,043) | – | (8,493) | – | 5 |
| 'B' ordinary 10p | 23,840 | – | (2,609) | – | (21,231) | – | 1 |
| **M J TURNER** | | | | | | | |
| 'A' ordinary £1 | 26,974 | 11,833 | (1,430) | 715 | (8,106) | **29,986** | 7 |
| 'B' ordinary 10p | 67,436 | 29,584 | (3,576) | 1,788 | (20,264) | **74,968** | 2 |
| **T J M TURNER** | | | | | | | |
| 'A' ordinary £1 | 13,482 | 7,245 | (594) | 297 | (3,366) | **17,064** | 3 |
| 'B' ordinary 10p | 33,706 | 18,113 | (1,485) | 742 | (8,415) | **42,661** | 1 |
| **P A CLARKE** | | | | | | | |
| 'A' ordinary £1 | 12,980 | 7,637 | (594) | 297 | (3,366) | **16,954** | 3 |
| 'B' ordinary 10p | 32,452 | 19,094 | (1,485) | 742 | (8,415) | **42,388** | 1 |
| **R J ROBERTS** | | | | | | | |
| 'A' ordinary £1 | 16,903 | 8,090 | (793) | 396 | (4,497) | **20,099** | 4 |
| 'B' ordinary 10p | 42,261 | 20,226 | (1,983) | 991 | (11,242) | **50,253** | 1 |
| **S EMENY** | | | | | | | |
| 'A' ordinary £1 | 24,642 | 9,388 | (1,324) | 662 | (7,508) | **25,860** | 7 |
| 'B' ordinary 10p | 61,609 | 23,471 | (3,312) | 1,656 | (18,768) | **64,656** | 2 |

** The market price on the date of vesting was £5.20.*

In all cases the grants were calculated by reference to the middle market quotation as at the following dates:

| Date | 'A' ordinary shares £ | 'B' ordinary shares £ |
|---|---|---|
| 17 December 1998 | **4.600** | **0.4600** |
| 6 July 1999 | **5.525** | **0.5525** |
| 20 June 2000 | **4.000** | **0.4000** |
| 27 June 2001 | **5.225** | **0.5225** |
| 24 June 2002 | **5.200** | **0.5200** |
| 25 June 2003 | **5.300** | **0.5300** |

In all cases shares will vest, subject to performance criteria being attained, within 72 days of the publication of results for the last financial year in the performance period.

Where TSR is measured, the Company's performance is compared against a number of other companies from the Brewing and/or Leisure sector. Due to the many changes in the sector, some of the companies previously included in the indices have ceased to exist. The comparator companies for each award are therefore different. Those for the outstanding LTIPs are as follows:

**LTIP 4** Young & Co's Brewery, Hardy & Hansons, Greene King, Enterprise Inns, Scottish & Newcastle, Burtonwood Brewery, JD Wetherspoon, Yates Group, SFI Group, Old English Inns and Belhaven Group.

**LTIP 5** Young & Co's Brewery, Hardy & Hansons, Greene King, Enterprise Inns, Scottish & Newcastle, Burtonwood Brewery, JD Wetherspoon, Yates Group, SFI Group, Belhaven Group and Wolverhampton & Dudley.

Under the LTIP, discretionary annual awards of 'A' and 'B' shares may be granted up to a value representing 70 per cent of a participant's salary in any one year. However, the amount vesting is on a scaled basis depending on the extent to which the performance criteria are met. If shares vest, participants may be invited to re-deposit up to half of their shares (or such lower amount determined by the Committee) for a further three-year period. The Company will then make a matched share award up to the number of shares deposited. Both the deposited shares and the matched share award will be released to the participant in full providing no shares have been sold and the participant is still employed by the Company. Details of the awards and the matched share awards made during the year to Directors are given in the table on page 26.

Minor changes to the LTIP are proposed, as outlined in the Chairman's letter to shareholders dated 11 June 2004. If shareholders approve the resolution the Board will be given the discretion to amend the LTIP's performance criteria. It intends to use this discretion to tighten the definition of EPS, so that it is clear that only pre-exceptional profits are taken account of in the definition of EPS. If shareholders approve the resolution the Board will also be given the flexibility to use treasury shares to satisfy awards granted under the LTIP.

**e) Pensions**

The Executive Directors of the Company who served during the year, with the exception of R J Roberts and S Emeny, are members of the non-contributory defined benefit Directors' Pension Plan.

P A Clarke is affected by the Inland Revenue earnings cap on approved pension benefits but has been promised broadly equivalent benefits to the other Directors in the Directors' Pension Plan. Any benefits on qualifying earnings in excess of the cap will be paid by the Company. There is no pre-funding for such benefits.

S Emeny and R J Roberts are members of the defined benefit main Company Pension Plan on a non-contributory basis. In addition, they receive a contractual salary supplement representing 17.5 per cent of the excess of their base salary over the earnings cap.

In accordance with the requirements of the Listing Authority, Directors' pension entitlements under defined benefit plans are shown below. The Directors' Remuneration Report Regulations 2002 introduced the requirement to disclose similar information but in a different format and not adjusting for inflation.

The following tables provide the information required on both bases. The additional notes are to help shareholders understand the difference between the two.

### UK LISTING REQUIREMENTS

This is intended to show the *real* increase in accrued pension and the *real* increase in transfer value during the year. These figures therefore exclude the impact of inflation during the year.

| | *Increase in accrued pension (excluding inflation)*[1] £ | *Total accrued pension at end of period*[2] £ | *Transfer value of increase (net of member contributions)*[3] £ |
|---|---|---|---|
| M J TURNER | 17,159 | 105,943 | 203,986 |
| T J M TURNER | 3,341 | 72,492 | 43,185 |
| P A CLARKE | 6,578 | 62,263 | 111,880 |
| R J ROBERTS | 1,647 | 1,925 | 13,522 |
| S EMENY | 1,647 | 1,925 | 9,352 |

[1] *Increase in accrued pension (excluding inflation) ~ this is the accrued pension at the year-end less the accrued pension at the start of the year adjusted for inflation over the year.*

[2] *Total accrued pension at end of year ~ this is what the Director is entitled to receive as an annual pension based on service to date.*

[3] *Transfer value of increase net of member contributions ~ this is the transfer value of the accrued pension at the end of the year less the transfer value of the accrued pension at the start of the year adjusted for inflation calculated by reference to transfer value factors at the year-end. The transfer values are calculated using the basis in force at the end of the year. Therefore there is no distortion caused by changes in monetary conditions or changes to the transfer basis.*

### DIRECTORS' REMUNERATION REPORT REGULATIONS

This is intended to show the *actual* increase in accrued pension during the year and the *actual* increase in transfer value during the year. These figures are not adjusted for inflation during the year.

| | *Increase in accrued pension*[1] £ | *Total accrued pension at end of period*[2] £ | *Transfer value at start of period*[3] £ | *Transfer value at end of period*[4] £ | *Transfer value equivalent of increase (net of member contributions)*[5] £ |
|---|---|---|---|---|---|
| M J TURNER | 19,577 | 105,943 | 822,399 | 1,259,479 | 437,080 |
| T M J TURNER | 5,224 | 72,492 | 722,963 | 937,198 | 214,235 |
| P A CLARKE | 8,095 | 62,263 | 832,736 | 1,059,006 | 226,270 |
| R J ROBERTS | 1,655 | 1,925 | 1,277 | 15,800 | 14,523 |
| S EMENY | 1,655 | 1,925 | 888 | 10,928 | 10,040 |

[1] *Increase in accrued pension ~ this is the accrued pension at the year-end less the accrued pension at the start of the year (as disclosed last year), without adjustment for inflation.*

[2] *Total accrued pension at end of year ~ this is the same figure as the UK Listing Requirements.*

[3] *Transfer value at start of year ~ this is the transfer value of the accrued pension at the start of the year (as disclosed last year).*

[4] *Transfer value of end of year ~ this is the transfer value of the accrued pension at the end of the year.*

[5] *Transfer value equivalent of increase (net of member contributions) ~ this is the difference between the two transfer values less any member contributions in the year. Unlike the Listing Rules, this shows the difference between the transfer value as published last year and the transfer value at the year-end. The transfer value this year-end will reflect pensionable salary increases since last year, the addition of another year's accrual of benefit and market movements in equities and gilts over the year to which transfer values are referenced.*

### f) Service Contracts

The Company's policy on the duration of Directors' contracts is that Executive Directors should have rolling service contracts terminable on no more than one year's notice served by the Company or Director. Following a phased reduction of notice periods from two years to one year commencing on 1 June 2003, this will be achieved with effect from 1 June 2004. The Company's policy on early termination of contracts is that each Executive Director is entitled to a payment equal to salary and the value of all benefits for the unexpired period of his notice, without any reduction for mitigation. Service contracts reflect this policy and the Remuneration Committee believe that such payments are set at a fair level and that therefore a mitigation clause is unnecessary.

The Company's policy on liquidated damages is that each Executive Director is entitled to liquidated damages of two years' worth of salary and benefits (without any reduction for mitigation) in full and final settlement of all rights he may have under the service agreement in the event of a hostile takeover if, in the following six months, he gives notice to terminate his employment, his employment is terminated with or without notice or he is constructively dismissed as determined by an Employment Tribunal or Court.

Similar damages are payable in the event of a hostile or recommended takeover by or a recommended takeover of the Company, if he is removed from the Board of the Company within six months or if he is not appointed to the board of the holding company within two months or he is then removed within six months of the takeover and following a reconstruction or a business sale if he is constructively dismissed, dismissed without notice or ceases to be or is appointed to the holding company's board within six months.

### SERVICE CONTRACT TABLE

| | *Date of contract* | *Notice period* |
|---|---|---|
| M J TURNER | 1 June 1997 | 12-months* |
| T J M TURNER | 1 June 1997 | 12-months* |
| P A CLARKE | 1 June 1997 | 12-months* |
| R J ROBERTS | 1 June 1997 | 12-months* |
| S EMENY | 13 January 1999 | 12-months* |

* *The notice period has been reducing from 24-months to 12-months on a phased basis which commenced on 1 June 2003 so that, with effect from 1 June 2004, the notice period is 12-months.*

**g) Remuneration Policy for Non Executives**

The remuneration of Non Executives is determined by the Executive Board Committee and consists of fees for their services in connection with the Board as shown on page 21. The Chairman also receives a consultancy fee for additional services and advice provided to the Company.

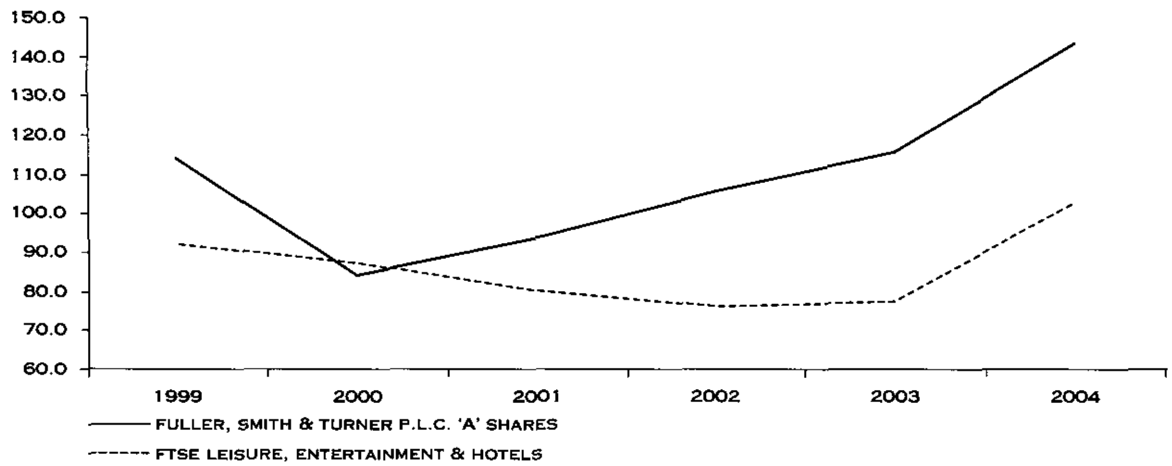
The Non Executives do not have service contracts, are not members of the Company's pension plans (apart from the Chairman who is in receipt of a Company pension) and do not participate in any bonus, share option or other profit or long term incentive scheme. Non Executive Directors' appointments are reviewed at between one to three year intervals.

Non Executive Directors receive non-cash benefits in the form of product allowances and the reimbursement of travel and other business related expenses. The Chairman also benefits from private healthcare, the Company car scheme and accommodation.

**h) Performance Graph**

The graph below shows a comparison of the TSR for the Company's listed 'A' shares for the last five financial years against the TSR for the companies comprised in the Leisure, Entertainment & Hotels Index. The Company is a constituent of this Index and therefore it is an appropriate choice for this report.

TOTAL SHAREHOLDER RETURN




SOURCE: DATASTREAM

On behalf of the Board

R R Spinney
*Chairman, Remuneration Committee*

11 June 2004

# INDEPENDENT AUDITORS' REPORT
## TO THE MEMBERS OF FULLER SMITH & TURNER P.L.C.

We have audited the Group's financial statements for the year ended 27 March 2004 which comprise the Group Profit and Loss Account, Group Balance Sheet, Parent Company Balance Sheet, Group Cash Flow Statement, Group Statement of Total Recognised Gains and Losses, Group Historical Cost Profits and Losses, Accounting Policies and the related notes 1 to 27. These financial statements have been prepared on the basis of the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the Annual Report, including the financial statements which are required to be prepared in accordance with applicable United Kingdom law and accounting standards as set out in the Statement of Directors' Responsibilities in relation to the financial statements.

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards and the Listing Rules of the Financial Services Authority.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the audited part of the Directors' Remuneration Report have been 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 or the Listing Rules regarding Directors' remuneration and transactions with the Group is not disclosed.

We review whether the Corporate Governance Statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

### BASIS OF AUDIT OPINION

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the audited part of the Directors' Remuneration Report 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 and the audited part of the Directors' Remuneration Report.

### OPINION

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 27 March 2004 and of the profit of the Group for the year then ended; and
- the financial statements and the audited part of the Directors' Remuneration Report have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP
*Registered Auditor*, London

Ernst & Young LLP

11 June 2004

# ACCOUNTING POLICIES

### ACCOUNTING CONVENTION

The financial statements are prepared under the historical cost convention, modified by the revaluation of certain land and buildings. They are also prepared in accordance with applicable accounting standards. FRS 17 has been implemented in accordance with the transitional arrangements of the standard and consequently the only impact on these financial statements has been increased disclosure (see note 24).

### CONSOLIDATION

The financial statements represent the operations of the Group for the 52 week period. The Group financial statements comprise the consolidated results of Fuller Smith & Turner P.L.C. and its subsidiary undertakings (all of which are companies).

### TANGIBLE FIXED ASSETS

The Company's accounting policy for freehold and long-leasehold land and buildings is as follows:

- freehold properties have not been revalued since 27 March 1999. The gross value of all previously revalued assets still held at 27 March 2004 has been carried forward from earlier periods, in accordance with the transitional arrangements under FRS 15; and
- freehold and long leasehold buildings are depreciated down to their estimated residual value over their estimated useful economic lives.

Brewery buildings and all other fixed assets are shown at cost net of depreciation.

Depreciation at 2% p.a. on a straight line basis is provided on all freehold and long leasehold buildings. Short leasehold property is amortised within the term of the lease if less than 50 years. All other tangible fixed assets are depreciated evenly at rates varying between 4% and 33⅓% p.a. based on their expected useful lives.

Under FRS 11, "Impairment of fixed assets", asset values are reviewed for impairment if events indicate that the carrying value of the fixed asset may not be recoverable.

### STOCKS

Stocks are valued at the lower of cost and net realisable value. The cost of own beer consists of materials with the addition of relevant overhead expenses.

### DEFERRED TAX

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

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

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

# ACCOUNTING POLICIES (CONTINUED)

### FOREIGN CURRENCIES

Transactions denominated in foreign currencies are recorded at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities are translated at the year end exchange rates and the resulting exchange differences are dealt with in the determination of profit for the financial year.

### PENSION BENEFITS

The Group operates defined benefit pension plans for eligible employees administered by Trustees. Contributions to these schemes are charged to the profit and loss account so as to spread the cost of pensions over the employees' working lives within the Group. The schemes are subject to periodic valuation by a qualified actuary. Variations identified as a result of the valuations are amortised over the average expected remaining working lives of the employees in proportion to their expected payroll costs.

### PURCHASE OF COMPANY SHARES FOR THE LONG TERM INCENTIVE PLAN ("OWN SHARES")

Own shares are held by Computershare Trustees (C.I.) Limited on behalf of employees eligible to receive awards under the Long Term Incentive Plan ("LTIP"). The expected cost of the conditional entitlement is amortised over the period of service to which it relates. Own shares are shown at cost less amounts written off.

### OPERATING LEASES

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

### DERIVATIVES

The Group uses derivative financial instruments to reduce exposure to foreign exchange risk. The Group does not hold or issue derivative financial instruments for speculative purposes.

For a foreign exchange contract to be treated as a hedge, the instrument must be related to actual foreign currency assets or liabilities or to a probable receivable or commitment. It must involve the same currency as the hedged item and must also reduce the risk of foreign currency exchange movements on the Group's operations. Gains and losses arising on these contracts are deferred and recognised in the profit and loss account only when the hedged transaction itself has been reflected in the Group's accounts.

## GROUP PROFIT AND LOSS ACCOUNT
### FOR THE 52 WEEKS ENDED 27 MARCH 2004

| | Note | 52 weeks to 27 March 2004 £000 | 52 weeks to 29 March 2003 £000 |
|---|---|---|---|
| TURNOVER | 1 | **140,322** | 137,643 |
| Operating costs | 2 | **(121,524)** | (119,264) |
| OPERATING PROFIT | | **18,798** | 18,379 |
| Non-operating exceptional profits | 4 | **2,369** | 584 |
| Interest payable (net) | 5 | **(1,940)** | (1,959) |
| PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION | | **19,227** | 17,004 |
| Taxation | 6 | **(5,408)** | (5,326) |
| PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION | | **13,819** | 11,678 |
| Preference dividends | | **(120)** | (120) |
| ATTRIBUTABLE TO EQUITY SHAREHOLDERS | | **13,699** | 11,558 |
| Ordinary dividends | 7 | **(3,904)** | (3,694) |
| RETAINED PROFIT FOR THE FINANCIAL YEAR | | **9,795** | 7,864 |

| EARNINGS PER SHARE<br>PER £1 'A' ORDINARY SHARE OR UNQUOTED £1 'C' ORDINARY SHARE | | Pence | Pence |
|---|---|---|---|
| Basic | 8 | **60.63p** | 48.04p |
| Diluted | 8 | **60.35p** | 47.92p |
| Normalised basis | 8 | **49.84p** | 45.59p |

| EARNINGS PER SHARE<br>PER UNQUOTED 10P 'B' ORDINARY SHARE | | Pence | Pence |
|---|---|---|---|
| Basic | 8 | **6.06p** | 4.80p |
| Diluted | 8 | **6.04p** | 4.79p |
| Normalised basis | 8 | **4.98p** | 4.56p |

# BALANCE SHEETS
## 27 MARCH 2004

| | Note | Group 2004 £000 | Group 2003 £000 | Company 2004 £000 | Company 2003 £000 |
|---|---|---|---|---|---|
| TANGIBLE FIXED ASSETS | 9 | **196,511** | 190,707 | **196,511** | 190,707 |
| FIXED ASSET INVESTMENTS | 10 | **244** | 411 | **421** | 588 |
| | | **196,755** | 191,118 | **196,932** | 191,295 |
| CURRENT ASSETS | | | | | |
| Stocks | 11 | **4,269** | 3,840 | **4,269** | 3,840 |
| Debtors | 12 | **11,462** | 10,528 | **11,462** | 10,528 |
| Investments | 13 | **6,064** | 635 | **6,064** | 635 |
| Cash, at bank and in hand | 25 | **3,909** | 4,403 | **3,909** | 4,403 |
| | | **25,704** | 19,406 | **25,704** | 19,406 |
| CREDITORS: amounts falling due within one year | 14 | **30,964** | 27,962 | **31,112** | 28,109 |
| NET CURRENT LIABILITIES | | **(5,260)** | (8,556) | **(5,408)** | (8,703) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **191,495** | 182,562 | **191,524** | 182,592 |
| CREDITORS: amounts falling due after more than one year | | | | | |
| Debenture stock | 15 | **26,995** | 26,985 | **26,995** | 26,985 |
| PROVISIONS FOR LIABILITIES AND CHARGES | 16 | **4,734** | 4,422 | **4,734** | 4,422 |
| | | **159,766** | 151,155 | **159,795** | 151,185 |

| | Note | Group 2004 £000 | Group 2003 £000 | Company 2004 £000 | Company 2003 £000 |
|---|---|---|---|---|---|
| CAPITAL AND RESERVES | | | | | |
| Called up share capital: | 17 | | | | |
| Equity | | **22,748** | 22,921 | **22,748** | 22,921 |
| Non equity | | **1,600** | 1,600 | **1,600** | 1,600 |
| Share premium account | 19 | **3,820** | 3,350 | **3,820** | 3,350 |
| Revaluation reserve | 19 | **28,993** | 28,303 | **28,993** | 28,303 |
| Capital redemption reserve | 19 | **2,902** | 2,574 | **2,902** | 2,574 |
| Profit and loss account | 19 | **99,703** | 92,407 | **99,732** | 92,437 |
| TOTAL SHAREHOLDERS' FUNDS | 20 | **159,766** | 151,155 | **159,795** | 151,185 |

Approved by the Board and signed on 11 June 2004.

A G F Fuller, CBE
*Chairman*

# GROUP CASH FLOW STATEMENT
## FOR THE 52 WEEKS ENDED 27 MARCH 2004

| | Note | 52 weeks to 27 March 2004 £000 | 52 weeks to 29 March 2003 £000 |
|---|---|---|---|
| **NET CASH INFLOW FROM OPERATING ACTIVITIES** | 25 | **29,228** | 28,597 |
| **RETURNS ON INVESTMENTS AND SERVICING OF FINANCE** | | | |
| Preference dividends paid | | **(120)** | (120) |
| Interest received | | **233** | 216 |
| Interest paid | | **(2,164)** | (2,091) |
| | | **(2,051)** | (1,995) |
| **TAXATION** | | | |
| Corporation tax paid | | **(4,953)** | (4,354) |
| **CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT** | | | |
| Payments to acquire tangible fixed assets | | **(17,235)** | (11,973) |
| Payments to acquire fixed asset investments | | **(137)** | – |
| Receipts from sales of tangible fixed assets | | **5,866** | 1,595 |
| | | **(11,506)** | (10,378) |
| **EQUITY DIVIDENDS PAID** | | **(3,736)** | (3,801) |
| **TOTAL NET CASH INFLOW BEFORE THE USE OF LIQUID RESOURCES AND FINANCING** | | **6,982** | 8,069 |
| **MANAGEMENT OF LIQUID RESOURCES**† | | **(5,429)** | 1,415 |
| **FINANCING** | | | |
| Issue of equity shares | | **625** | 278 |
| Repurchase of equity shares | | **(2,672)** | (10,634) |
| | | **(2,047)** | (10,356) |
| **MOVEMENT IN CASH IN THE YEAR** | 25 | **(494)** | (872) |

† *Management of liquid resources is the movement in current asset investments, namely cash on short term deposit at financial institutions.*

## OTHER PRIMARY STATEMENTS
FOR THE 52 WEEKS ENDED 27 MARCH 2004

### GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no gains or losses in the current or prior year other than those reported in the profit and loss account on page 33.

### GROUP HISTORICAL COST PROFITS AND LOSSES

| | *52 weeks to 27 March 2004 £000* | *52 weeks to 29 March 2003 £000* |
|---|---|---|
| Reported profit on ordinary activities before taxation | **19,227** | 17,004 |
| Realisation of property revaluation movements of previous years | **(690)** | 491 |
| Historical cost profit on ordinary activities before taxation | **18,537** | 17,495 |
| Historical cost profit for the year retained after taxation | **9,105** | 8,355 |

# NOTES TO THE FINANCIAL STATEMENTS

| 1. TURNOVER | 2004 £000 | 2003 £000 |
|---|---|---|
| Turnover – continuing operations | **140,322** | 137,643 |

Turnover is the total of external sales, rent and royalties receivable, exclusive of Value Added Tax and includes exports of £1,273,000 *(2003: £1,308,000)*.

| 2. OPERATING COSTS | 2004 £000 | 2003 £000 |
|---|---|---|
| Raw materials and beer duty | **18,542** | 17,603 |
| Change in stocks of finished goods and beer in progress | **530** | 92 |
| Staff costs | **33,658** | 32,992 |
| Repairs to properties | **4,540** | 4,318 |
| Depreciation of owned assets | **8,886** | 8,521 |
| Operating lease rentals – plant and machinery | **759** | 753 |
| – land and buildings | **4,775** | 4,631 |
| Auditors' remuneration | **166** | 174 |
| Other income | **(40)** | (200) |
| Other operating charges including purchases of finished goods | **49,708** | 50,380 |
| | **121,524** | 119,264 |

| A) AUDITORS' REMUNERATION | 2004 £000 | 2003 £000 |
|---|---|---|
| Audit services – statutory audit | **81** | 69 |
| – audit related regulatory reporting | **1** | 1 |
| Further assurance services | **8** | 8 |
| Tax services – compliance | **58** | 58 |
| – advisory | **19** | 38 |
| | **167** | 174 |
| Less: relating to disposal of properties and charged to exceptional non-operating profits | **(1)** | – |
| | **166** | 174 |

| B) STAFF COSTS | 2004 £000 | 2003 £000 |
|---|---|---|
| Wages and salaries | **30,195** | 29,732 |
| Social security | **2,493** | 2,202 |
| Pension benefits | **1,470** | 1,536 |
| | **34,158** | 33,470 |
| Less recharged to repairs | **(500)** | (478) |
| | **33,658** | 32,992 |

**C) AVERAGE NUMBER OF EMPLOYEES**

| The average number of persons employed by the Group (including part-time staff) was as follows: | 2004 Number | 2003 Number |
|---|---|---|
| Fuller's Inns | **1,817** | 1,879 |
| Beer Company | **246** | 240 |
| Central Services | **42** | 41 |
| | **2,105** | 2,160 |

## 2. OPERATING COSTS (CONTINUED)

| D) DIRECTORS' EMOLUMENTS | 2004 £000 | 2003 £000 |
|---|---|---|
| Aggregate emoluments | **1,389** | 1,437 |
| Gains on share options exercised | **4** | 10 |
| Gains on long term incentive plan awards | **37** | 26 |
| Company pension contributions to money purchase schemes | **–** | 36 |

| E) HIGHEST PAID DIRECTOR | 2004 £000 | 2003 £000 |
|---|---|---|
| Aggregate emoluments | **339** | 321 |
| Gains on share options exercised | **–** | 2 |
| Gains on long term incentive plan awards | **9** | 6 |
| Defined benefit scheme, accrued pension at end of year | **106** | 86 |

Further details are provided in the Directors' Remuneration Report and notes on pages 20 to 29.

## 3. SEGMENTAL ANALYSIS

The Group's business segments are Fuller's Inns, which comprises managed pubs and hotels and tenanted pubs, and the Beer Company, which comprises brewing and distribution of beer, wines and spirits.

Full details are given in the Chief Executive's Review of Operations on pages 6 to 13.

| | *Fuller's Inns* 2004 £000 | *Fuller's Inns* 2003 £000 | *Beer Company* 2004 £000 | *Beer Company* 2003 £000 | *Total* 2004 £000 | *Total* 2003 £000 |
|---|---|---|---|---|---|---|
| **TOTAL SALES** | **97,047** | 96,972 | **65,462** | 62,695 | **162,509** | 159,667 |
| Inter-segment sales | – | – | **(22,187)** | (22,024) | **(22,187)** | (22,024) |
| Sales to third parties | **97,047** | 96,972 | **43,275** | 40,671 | **140,322** | 137,643 |
| **SEGMENTAL PROFIT** | **15,300** | 16,010 | **7,773** | 6,840 | **23,073** | 22,850 |
| Net central costs | | | | | **(4,275)** | (4,471) |
| Operating profit | | | | | **18,798** | 18,379 |
| Non-operating exceptional profits | | | | | **2,369** | 584 |
| Interest payable (net) | | | | | **(1,940)** | (1,959) |
| Profit on ordinary activities before taxation | | | | | **19,227** | 17,004 |
| **ASSETS EMPLOYED** | | | | | | |
| Segmental assets | **166,841** | 164,197 | **18,995** | 18,585 | **185,836** | 182,782 |
| Unallocated net liabilities* | | | | | **(26,070)** | (31,627) |
| Total net assets | | | | | **159,766** | 151,155 |

* *Unallocated net liabilities represent the net of dividends, debentures, corporation tax, cash at bank and assets held under central management.*

| 4. NON-OPERATING EXCEPTIONAL ITEMS | *2004* *£000* | *2003* *£000* |
|---|---|---|
| Profit on disposal of properties | **2,369** | 584 |

Non-operating exceptional items generated net cash proceeds of £5,726,000 *(2003: £1,431,000)*.

| 5. NET INTEREST PAYABLE | *2004* *£000* | *2003* *£000* |
|---|---|---|
| Bank loans and overdrafts | **2** | 1 |
| Other interest payable | **2,171** | 2,173 |
| | **2,173** | 2,174 |
| Interest receivable on short term deposits and investments | **(233)** | (215) |
| | **1,940** | 1,959 |

## 6. TAXATION

Corporation tax and deferred tax has been provided as follows:

| | *2004* *£000* | *2003* *£000* |
|---|---|---|
| **TAX ON NORMALISED PROFITS** | | |
| Current tax | | |
| UK corporation tax | **4,955** | 4,719 |
| Tax under/(over)-provided in prior years | **63** | (70) |
| | **5,018** | 4,649 |
| Deferred tax charge | | |
| Origination and reversal of timing differences | **617** | 628 |
| Tax (over)/under-provided in prior years | **(159)** | 56 |
| | **458** | 684 |
| Total tax on normalised profits | **5,476** | 5,333 |
| **TAX ON EXCEPTIONAL PROFITS** | | |
| Current tax charge | **78** | – |
| Deferred tax credit | **(146)** | (7) |
| | **(68)** | (7) |
| Total current tax | **5,096** | 4,649 |
| Total deferred tax | **312** | 677 |
| **TOTAL TAX CHARGE** | **5,408** | 5,326 |
| Effective rate on normalised profits | **32.5%** | 32.5% |

Normalised profits are profits after interest before exceptional non-operating profits.

The deferred tax provision has not been discounted to its present value.

## 6. TAXATION (CONTINUED)

### FACTORS AFFECTING THE CURRENT TAX CHARGE

The tax assessed on the profit on ordinary activities for the year is higher than the standard rate of corporation tax in the UK of 30% *(2003: 30%)*.

The differences are reconciled below:

| | *2004 £000* | *2003 £000* |
|---|---|---|
| Profit on ordinary activities before tax | **19,227** | 17,004 |
| Tax at current UK corporation tax rate of 30% *(2003: 30%)* | **5,768** | 5,101 |
| Items not deductible for tax purposes: | | |
| Property impairment and other exceptional losses | **(779)** | (182) |
| Other | **477** | 421 |
| Capital allowances in excess of depreciation | **(343)** | (691) |
| Other timing differences | **(90)** | 70 |
| Tax under/(over)-provided in previous years | **63** | (70) |
| | **5,096** | 4,649 |

### FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

Based on current capital expenditure plans, the Group expects to be able to continue to claim capital allowances in excess of depreciation in future years but at a lower level than the current year.

No provision has been made for deferred tax on gains recognised revaluing property to its market value or on the sale of properties where potentially taxable gains have been rolled over into replacement assets. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total amount unprovided is estimated at £8.1 million *(2003: £7.8 million)*. At present, it is not envisaged that any such tax will become payable in the foreseeable future.

The Company has capital losses of £1.5 million *(2003: £2.1 million)* which are available indefinitely for offset against future capital gains. Deferred tax assets have not been recognised in respect of these losses because at present it is unclear whether suitable gains will arise in the foreseeable future to utilise these losses.

| 7. ORDINARY DIVIDENDS | *2004 Pence* | *2003 Pence* | *2004 £000* | *2003 £000* |
|---|---|---|---|---|
| Interim – paid | **5.10p** | 4.75p | **1,149** | 1,134 |
| Final – proposed | **12.21p** | 11.37p | **2,755** | 2,560 |
| | **17.31p** | 16.12p | **3,904** | 3,694 |

The pence figures above are for the £1 'A' ordinary shares and unquoted £1 'C' ordinary shares. The unquoted 10p 'B' shares carry dividend rights of 1/10 of those applicable to the £1 'A' ordinary shares. Own shares held in the Fuller, Smith & Turner P.L.C. Employee Share Trust 1998 do not qualify for dividends as the trustees have waived their rights.

| 8. EARNINGS PER SHARE | 2004 £000 | 2003 £000 |
|---|---|---|
| Profit attributable to equity shareholders | **13,699** | 11,558 |
| Non-operating exceptional items net of tax | **(2,437)** | (591) |
| Normalised earnings attributable to equity shareholders | **11,262** | 10,967 |

| | *Number* | *Number* |
|---|---|---|
| Weighted average share capital | **22,595,000** | 24,057,000 |
| Dilutive outstanding options | **106,000** | 64,000 |
| Adjusted weighted average share capital | **22,701,000** | 24,121,000 |

| EARNINGS PER SHARE PER £1 'A' ORDINARY SHARE OR UNQUOTED £1 'C' ORDINARY SHARE | *Pence* | *Pence* |
|---|---|---|
| Basic | **60.63p** | 48.04p |
| Diluted | **60.35p** | 47.92p |
| Normalised basis | **49.84p** | 45.59p |

| EARNINGS PER SHARE PER UNQUOTED 10P 'B' ORDINARY SHARE | *Pence* | *Pence* |
|---|---|---|
| Basic | **6.06p** | 4.80p |
| Diluted | **6.04p** | 4.79p |
| Normalised basis | **4.98p** | 4.56p |

The calculation is based on earnings (after deducting preference dividends) and on the weighted average ordinary share capital. Normalised earnings exclude all exceptional non-operating profits. A normalised basis earnings per share is given to show the underlying performance of the Company. The movement in the exceptional items can often distort the basic number.

| 9. TANGIBLE FIXED ASSETS | *Freehold & leasehold properties £000* | *Plant machinery & vehicles £000* | *Containers fixtures & fittings £000* | *Total £000* |
|---|---|---|---|---|
| **GROUP & COMPANY** | | | | |
| Cost or valuation at 30 March 2003* | 157,414 | 20,356 | 67,586 | 245,356 |
| Additions | 8,818 | 1,979 | 7,483 | 18,280 |
| Disposals | (3,046) | (1,422) | (3,850) | (8,318) |
| **COST OR VALUATION AT 27 MARCH 2004** | **163,186** | **20,913** | **71,219** | **255,318** |
| Depreciation at 30 March 2003 | 7,744 | 11,253 | 35,652 | 54,649 |
| Charge for the year | 1,250 | 1,381 | 6,255 | 8,886 |
| Relating to disposals | (88) | (1,389) | (3,251) | (4,728) |
| **DEPRECIATION AT 27 MARCH 2004** | **8,906** | **11,245** | **38,656** | **58,807** |
| **NET BOOK VALUE AT 27 MARCH 2004** | **154,280** | **9,668** | **32,563** | **196,511** |
| Net book value at 29 March 2003* | 149,670 | 9,103 | 31,934 | 190,707 |

* *Brought forward balances have been restated to include capital work in progress previously shown separately. This has added £1,149,000 to freehold and leasehold property, £556,000 to plant, machinery and vehicles and £302,000 to containers, fixtures and fittings.*

Accumulated depreciation at 30 March 2003 includes impairment charges in prior years.

## 9. TANGIBLE FIXED ASSETS (CONTINUED)

Until March 1999 freehold licensed properties were valued on an open-market value for existing use basis in accordance with the Appraisal and Valuation Manual of the Royal Institute of Chartered Surveyors. A sample of these properties was revalued as at 27 March 1999 by Gardham, Bowerman and Bocock, Chartered Surveyors. The results of the sample valuations were applied by the Directors, where appropriate to freehold licensed premises. Net surpluses arising on revaluation were taken to the revaluation reserve.

Valuations of fixed assets at March 1999 have been carried forward without amendment apart from additions at cost, disposals or reductions in value under FRS 11, "Impairment of fixed assets". The current basis of valuation of fixed assets is as described in the Accounting Policies on page 31.

In accordance with FRS 11, any potential write downs in valuation of fixed assets and exceptional operating charges have been calculated using forecast cash flows for the properties in question. The discount rate applied of 7% is based upon the Group's weighted average cost of capital with appropriate adjustments for the risks associated with the relevant unit.

| GROUP & COMPANY | *2004 £000* | *2003 £000* |
|---|---|---|
| Land and buildings at cost or valuation comprise: | | |
| Properties last revalued in 1999 (date from which valuations frozen) | **98,935** | 100,640 |
| Properties last revalued in 1990 | **2,824** | 2,742 |
| Properties stated at cost (or earliest ascribed value)* | **61,427** | 54,032 |
| | **163,186** | 157,414 |

Items included above at open market value have an historic cost of £52,869,000 *(2003: £55,256,000)*, therefore the total historic cost of freehold and leasehold properties is £114,296,000 *(2003: £109,288,000*)*. The depreciation charge for the year would have been reduced by £76,000 *(2003: £75,000)* if it had been on historic cost.

** Brought forward balances have been restated to include capital work in progress previously shown separately. This has added £1,149,000 to properties stated at cost.*

| | *Gross 2004 £000* | *Net 2004 £000* | *Gross 2003 £000* | *Net 2003 £000* |
|---|---|---|---|---|
| Leaseholds included under properties are as follows: | | | | |
| Long leaseholds | **6,058** | **5,601** | 6,055 | 5,635 |
| Short leaseholds with less than 50 years unexpired | **15,923** | **10,061** | 15,215 | 10,643 |
| | **21,981** | **15,662** | 21,270 | 16,278 |

## 10. FIXED ASSET INVESTMENTS

| | *Own shares £000* | *Total £000* |
|---|---|---|
| **GROUP** | | |
| Cost at 30 March 2003 | 792 | 792 |
| Additions | 137 | 137 |
| Allocations under Long Term Incentive Plans | (41) | (41) |
| **COST AT 27 MARCH 2004** | **888** | **888** |
| Provision at 30 March 2003 | 381 | 381 |
| Amounts charged in the year | 311 | 311 |
| Allocations under Long Term Incentive Plans | (48) | (48) |
| **PROVISION AT 27 MARCH 2004** | **644** | **644** |
| **NET BOOK VALUE AT 27 MARCH 2004** | **244** | **244** |
| Net book value at 29 March 2003 | 411 | 411 |

| 10. FIXED ASSET INVESTMENTS (CONTINUED) | *Subsidiary undertakings* *£000* | *Own shares* *£000* | *Total* *£000* |
|---|---|---|---|
| **COMPANY** | | | |
| Cost at 30 March 2003 | 354 | 792 | 1,146 |
| Additions | – | 137 | 137 |
| Allocations under Long Term Incentive Plans | – | (41) | (41) |
| **COST AT 27 MARCH 2004** | **354** | **888** | **1,242** |
| Provision at 30 March 2003 | 177 | 381 | 558 |
| Amounts charged in the year | – | 311 | 311 |
| Allocations under Long Term Incentive Plans | – | (48) | (48) |
| **PROVISION AT 27 MARCH 2004** | **177** | **644** | **821** |
| **NET BOOK VALUE AT 27 MARCH 2004** | **177** | **244** | **421** |
| Net book value at 29 March 2003 | 177 | 411 | 588 |

Investment in own shares comprises 155,946 £1 'A' ordinary shares and 329,829 10p 'B' ordinary shares, which are held in trust. The market value of the shares held at 27 March 2004 was £1,195,000 *(2003: £766,000)*.

The trust has waived the right to dividends on shares which it holds.

| *Principal subsidiary undertaking* | *Holding* | *Proportion held* | *Nature of business* |
|---|---|---|---|
| Griffin Catering Services Limited | Ordinary | 100% (indirect) | Managed houses service company |

The above company is registered and operates in England and Wales.

The Company has a number of other non-trading, wholly owned subsidiaries which are not disclosed here as they do not affect the Group's results or assets.

| 11. STOCKS | *Group* *2004* *£000* | *Group* *2003* *£000* | *Company* *2004* *£000* | *Company* *2003* *£000* |
|---|---|---|---|---|
| Raw materials, beer in progress | **654** | 695 | **654** | 695 |
| Beer, wines and spirits | **2,524** | 1,925 | **2,524** | 1,925 |
| Stock at retail outlets | **1,091** | 1,220 | **1,091** | 1,220 |
| | **4,269** | 3,840 | **4,269** | 3,840 |

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

| 12. DEBTORS | Group 2004 £000 | Group 2003 £000 | Company 2004 £000 | Company 2003 £000 |
|---|---|---|---|---|
| Trade debtors | **8,451** | 7,562 | **8,451** | 7,562 |
| Other debtors | **604** | 1,180 | **604** | 1,180 |
| Prepayments and accrued income | **2,407** | 1,786 | **2,407** | 1,786 |
| | **11,462** | 10,528 | **11,462** | 10,528 |

Amounts falling due after more than one year included in other debtors above are:

| | | | | |
|---|---|---|---|---|
| Loans to customers | **387** | 534 | **387** | 534 |

Included within prepayments and accrued income for the Company and Group is £470,000 *(2003: £nil)* in respect of pension contribution payments made in advance of their recognition in the profit and loss account.

| 13. CURRENT ASSET INVESTMENTS | Group 2004 £000 | Group 2003 £000 | Company 2004 £000 | Company 2003 £000 |
|---|---|---|---|---|
| Deposits at financial institutions | **6,064** | 635 | **6,064** | 635 |

| 14. CREDITORS FALLING DUE WITHIN ONE YEAR | Group 2004 £000 | Group 2003 £000 | Company 2004 £000 | Company 2003 £000 |
|---|---|---|---|---|
| Trade creditors | **10,705** | 9,408 | **10,705** | 9,408 |
| Amounts due to subsidiary undertakings | – | – | **148** | 147 |
| Corporation tax | **2,724** | 2,585 | **2,724** | 2,585 |
| Other tax and social security | **5,330** | 4,515 | **5,330** | 4,515 |
| Other creditors | **3,918** | 3,262 | **3,918** | 3,262 |
| Accruals | **5,533** | 5,606 | **5,533** | 5,606 |
| Outstanding dividend | **2,754** | 2,586 | **2,754** | 2,586 |
| | **30,964** | 27,962 | **31,112** | 28,109 |

| 15. CREDITORS FALLING DUE AFTER MORE THAN ONE YEAR | Group 2004 £000 | Group 2003 £000 | Company 2004 £000 | Company 2003 £000 |
|---|---|---|---|---|
| Debenture stock: | | | | |
| 11.50% 1st Mortgage Debenture Stock 2010 | **1,250** | 1,250 | **1,250** | 1,250 |
| 10.70% 1st Mortgage Debenture Stock 2023 | **6,000** | 6,000 | **6,000** | 6,000 |
| 6.875% Debenture Stock 2028 (1st floating charge) | **19,865** | 19,860 | **19,865** | 19,860 |
| Less issue costs | **(120)** | (125) | **(120)** | (125) |
| | **26,995** | 26,985 | **26,995** | 26,985 |

Analysis of repayments:

| | | | | |
|---|---|---|---|---|
| Debenture stock repayable after five years | **26,995** | 26,985 | **26,995** | 26,985 |

The debenture stocks are secured on specified fixed and floating assets of the Company.

| 16. PROVISIONS FOR LIABILITIES AND CHARGES | *March 2003 £000* | *Utilised £000* | *Charged in accounts £000* | *March 2004 £000* |
|---|---|---|---|---|
| **GROUP & COMPANY** | | | | |
| Deferred taxation | 4,422 | – | 312 | **4,734** |

| ANALYSIS OF DEFERRED TAXATION | *2004 £000* | *2003 £000* |
|---|---|---|
| **GROUP & COMPANY** | | |
| Accelerated capital allowances | **5,013** | 4,679 |
| Other timing differences | **(279)** | (257) |
| | **4,734** | 4,422 |

| 17. SHARE CAPITAL | *First 6% cumulative preference share of £1 each* | *Second 8% cumulative preference share of £1 each* | *'A' & 'C' ordinary shares of £1 each* | *'B' ordinary share of 10p each* | *Total* |
|---|---|---|---|---|---|
| **AUTHORISED SHARE CAPITAL:** | | | | | |
| **NUMBER AUTHORISED** | *Number 000s* | *Number 000s* | *Number 000s* | *Number 000s* | ***Number 000s*** |
| **AT 2003 AND 2004** | **400** | **1,200** | **25,000** | **50,000** | **76,600** |
| **MONETARY AMOUNT** | *£000* | *£000* | *£000* | *£000* | ***£000*** |
| **AT 2003 AND 2004** | **400** | **1,200** | **25,000** | **5,000** | **31,600** |
| **ISSUED AND FULLY PAID:** | | | | | |
| **NUMBER IN ISSUE** | *Number 000s* | *Number 000s* | *Number 000s* | *Number 000s* | ***Number 000s*** |
| At 2003 | 400 | 1,200 | 18,921 | 40,000 | 60,521 |
| Share options exercised | – | – | 155 | – | 155 |
| Shares repurchased and cancelled | – | – | (75) | (2,531) | (2,606) |
| **AT 2004** | **400** | **1,200** | **19,001** | **37,469** | **58,070** |
| **MONETARY AMOUNT** | *£000* | *£000* | *£000* | *£000* | *£000* |
| At 2003 | 400 | 1,200 | 18,921 | 4,000 | 24,521 |
| Share options exercised | – | – | 155 | – | 155 |
| Shares repurchased and cancelled | – | – | (75) | (253) | (328) |
| **AT 2004** | **400** | **1,200** | **19,001** | **3,747** | **24,348** |

During the year under the terms of the Savings Related Share Option Scheme, 94,322 £1 'A' ordinary shares were issued at an average price of £3.85 and under the terms of the Executive Share Option Schemes, 61,034 £1 'A' ordinary shares were issued at an average price of £4.31. The shares issued under these option schemes resulted in a cash inflow of £625,000 *(2003: £278,000)*, of which £470,000 *(2003: £206,000)* is represented by a movement in the share premium account.

Between April 2003 and March 2004 the Company repurchased and cancelled 75,000 £1 'A' ordinary shares at an average price of £5.79 and 2,531,182 10p 'B' ordinary shares at a price of 53.85p. The nominal value of the shares cancelled has been credited to the capital redemption reserve.

## 17. SHARE CAPITAL (CONTINUED)

| EQUITY SHARE CAPITAL | 2004 £000 | 2003 £000 |
|---|---|---|
| 'A' ordinary shares of £1 each | **12,995** | 12,784 |
| 'B' ordinary shares of 10p each | **3,747** | 4,000 |
| 'C' ordinary shares of £1 each | **6,006** | 6,137 |
| | **22,748** | 22,921 |

| NON-EQUITY SHARE CAPITAL | 2004 £000 | 2003 £000 |
|---|---|---|
| First 6% cumulative preference shares of £1 each | **400** | 400 |
| Second 8% cumulative preference shares of £1 each | **1,200** | 1,200 |
| | **1,600** | 1,600 |

The first 6% cumulative preference shares of £1 each are entitled to first payment of: a fixed cumulative dividend; and on winding up a return on paid capital plus arrears of dividends. The second 8% cumulative preference shares of £1 each are entitled to second payment of: a fixed cumulative dividend; and on winding up a return of capital paid up (plus a premium calculated by reference to an average quoted price on the Stock Exchange for the previous six months) plus arrears of dividends.

The ordinary shareholders are entitled to be paid a dividend out of any surplus profits and to participate in surplus assets on winding up in proportion to the nominal value of each class of share ('B' ordinary shares have 1/10 of the nominal value of 'A' and 'C' ordinary shares). All classes of ordinary shares carry one vote each.

Preference shareholders may only vote in limited circumstances principally on winding up, alteration of class rights or on unpaid preference dividends.

## 18. SHARE OPTIONS

Share options have been granted to employees under Executive Share Option Schemes.

Outstanding options which are capable of being exercised between three and ten years from date of issue (five and ten years in the case of unapproved options), and their exercise prices are as follows:

| *Exercisable in/between* | *Number of 'A' ordinary shares under option* | *Exercise price £* |
|---|---|---|
| 2004 and 2006 | **10,867** | **5.27** |
| 2004 and 2008 | **40,156** | **4.60** |
| 2004 and 2009 | **5,429** | **5.53** |
| 2004 and 2010 | **6,250** | **4.00** |
| 2004 and 2011 | **56,381** | **5.23** |
| 2005 and 2012 | **26,920** | **5.20** |
| 2006 and 2013 | **97,441** | **5.30** |
| 2008 and 2013* | **16,798** | **5.50** |

* *Unapproved scheme.*

### 18. SHARE OPTIONS (CONTINUED)

Share options have been granted to employees under the Savings Related Share Option Scheme.

Outstanding options are as follows:

| *Exercisable at* | *Number of 'A' ordinary shares under option* | *Exercise price £* |
|---|---|---|
| September 2004 | **19,307** | **4.20** |
| September 2004 | **24,768** | **4.37** |
| September 2005 | **51,931** | **3.43** |
| September 2005 | **33,857** | **4.27** |
| September 2006 | **39,997** | **4.20** |
| September 2006 | **60,521** | **4.25** |
| September 2007 | **45,300** | **4.27** |
| September 2008 | **39,471** | **4.25** |

The market value of the shares at 27 March 2004 was £6.325.

Options under the Savings Related Share Option Scheme are granted at a discount of 20% to the prevailing market price. The Company has taken advantage of the exemption for such schemes in UITF Abstract 17 and not recorded any charge in respect of such grants.

| **19. RESERVES** | *Share premium account £000* | *Revaluation reserve £000* | *Capital redemption reserve £000* | *Profit and loss account £000* |
|---|---|---|---|---|
| **GROUP** | | | | |
| At 30 March 2003 | 3,350 | 28,303 | 2,574 | 92,407 |
| Premium on shares issued in the year | 470 | – | – | – |
| Shares repurchased and cancelled in the year | – | – | 328 | (1,809) |
| Amount realised on property disposals | – | 690 | – | (690) |
| Retained profit for the year | – | – | – | 9,795 |
| **AT 27 MARCH 2004** | **3,820** | **28,993** | **2,902** | **99,703** |
| **COMPANY** | | | | |
| At 30 March 2003 | 3,350 | 28,303 | 2,574 | 92,437 |
| Premium on shares issued in the year | 470 | – | – | – |
| Shares repurchased and cancelled in the year | – | – | 328 | (1,809) |
| Amount realised on property disposals | – | 690 | – | (690) |
| Retained profit for the year | – | – | – | 9,794 |
| **AT 27 MARCH 2004** | **3,820** | **28,993** | **2,902** | **99,732** |

| 20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS | 2004 £000 | 2003 £000 |
|---|---|---|
| Shareholders' funds brought forward | **151,155** | 154,517 |
| Profit on ordinary activities after taxation | **13,819** | 11,678 |
| Dividends – preference | **(120)** | (120) |
| – ordinary | **(3,904)** | (3,694) |
| New share capital subscribed | **625** | 278 |
| Shares repurchased and cancelled | **(1,809)** | (11,504) |
| Net movement in shareholders' funds | **8,611** | (3,362) |
| **SHAREHOLDERS' FUNDS AT THE END OF THE YEAR** | **159,766** | 151,155 |

| | | |
|---|---|---|
| Shareholders' funds comprise: | | |
| Equity interests | **158,166** | 149,555 |
| Non-equity interests | **1,600** | 1,600 |
| | **159,766** | 151,155 |

Non-equity interests reflect the cost of the non-redeemable cumulative preference shares.

### 21. PROFIT ATTRIBUTABLE TO MEMBERS OF THE PARENT COMPANY

As permitted by Section 230 of the Companies Act 1985 a separate profit and loss account has not been prepared. The profit dealt with in the financial statements of the Parent Company was £13,818,000 *(2003: £11,677,000)*. There was no dividend from subsidiary companies during the current year *(2003: £nil)*.

| 22. GUARANTEES AND FUTURE COMMITMENTS | Group 2004 £000 | Group 2003 £000 | Company 2004 £000 | Company 2003 £000 |
|---|---|---|---|---|
| Capital commitments – authorised, contracted but not provided for | **634** | 4,476 | **634** | 4,476 |

The Company has accepted various duty deferment bonds in connection with Customs and Excise. The total outstanding commitment at 27 March 2004 was £20,000 *(2003: £20,000)*.

### 23. OPERATING LEASE COMMITMENTS

At 27 March 2004 the Group was committed to making the following payments during the next year in respect of operating leases:

| | Land & buildings 2004 £000 | Land & buildings 2003 £000 | Other 2004 £000 | Other 2003 £000 |
|---|---|---|---|---|
| Leases which expire: | | | | |
| Within one year | **66** | 31 | **167** | 206 |
| Between two and five years | **430** | 502 | **313** | 276 |
| After five years | **4,642** | 4,233 | **–** | 106 |
| | **5,138** | 4,766 | **480** | 588 |

## 24. PENSION COMMITMENTS

The Group operates two defined benefit pension schemes, both of which are funded by the payment of contributions to separately administered trust funds. The contributions to these schemes are determined with the advice of an independent qualified actuary.

### A) SSAP 24 DISCLOSURES

The Company accounts for its pension schemes using SSAP 24, as set out in the accounting policy note on page 32. The amounts charged to the profit and loss account are based on the periodic valuations by the actuary. The most recent valuation of the Principal Scheme was at July 2002. The projected unit method was used and the main assumptions were that the investment return would be 7% per annum, that salary increases would average 3.5% per annum and that pensions in payment would increase on average at 2.5% per annum. As at the valuation date the market value of the assets was £10.63 million. The actuarial value of these assets represented 79% of the value of the benefits accruing to members after allowing for expected future increases in earnings. The Group is paying additional contributions to meet Minimum Funding requirements in the period required by the appropriate legislation. The cash contribution rate for this scheme during the year was 10% of pensionable salaries per annum to July 2003 and 14.5% thereafter.

The most recent valuation of the Senior Staff Scheme was at July 2001. The attained age method was used and the main assumptions were that the investment return would be 7% per annum, that salary increases would average 5% per annum and that pensions would increase on average at 3% per annum. As at the valuation date the market value of the assets was £9.46 million. The actuarial value of these assets represented 91% of the value of the benefits accruing to members after allowing for future expected increases in earnings. The Group is paying additional contributions to meet Minimum Funding requirements in the period required by the appropriate legislation. The cash contribution rate for this scheme throughout the year was 90% of pensionable salaries, rising to 136% for the year ending March 2005.

The total amount charged to the profit and loss account in the year for these schemes was £1,189,000 *(2003: £1,233,000)*. This represented 12% *(2003: 13%)* of pensionable salaries.

### B) FRS 17 DISCLOSURES

The Company has yet to adopt FRS 17 in full and the disclosures set out below are given in accordance with the transitional provisions of the Standard. The periodic valuations have been updated to 27 March 2004 by the independent qualified actuary. The value of the schemes' liabilities has been determined by the actuary based on the results of the most recent actuarial valuations updated to the balance sheet date and the following assumptions (the same for both schemes):

| | *2004*<br>*% per annum* | *2003*<br>*% per annum* | *2002*<br>*% per annum* |
|---|---|---|---|
| Rate of increase in salaries | **3.4%** | 3.0% | 4.2% |
| Rate of increase in pensions in payment | **2.9%** | 2.5% | 2.5% |
| Rate of revaluation of pensions in deferment | **2.9%** | 2.5% | 2.7% |
| Inflation assumption | **2.9%** | 2.5% | 2.7% |
| Discount rate | **5.7%** | 5.5% | 5.9% |

### 24. PENSION COMMITMENTS (CONTINUED)

The expected long term rates of return and the assets of the schemes as at 27 March 2004:

| | *Expected long term return rate 2004* | *Value as at March 2004 £000* | *Expected long term return rate 2003* | *Value as at March 2003 £000* | *Expected long term return rate 2002* | *Value as at March 2002 £000* |
|---|---|---|---|---|---|---|
| Equities | **7.00%** | **17,370** | 7.00% | 12,551 | 7.40% | 17,251 |
| Bonds – Government | **4.70%** | **1,137** | 4.50% | 1,338 | – | – |
| Bonds – Corporate | **5.70%** | **698** | 5.00% | 1,190 | 5.20% | 2,761 |
| Property | **7.00%** | **1,121** | 7.00% | 549 | 7.40% | 517 |
| Cash | **4.00%** | **181** | 4.00% | 601 | 5.20% | 440 |
| Insurance policies | **5.30%** | **817** | 5.30% | 788 | 5.92% | 830 |
| TOTAL MARKET VALUE OF ASSETS | | **21,324** | | 17,017 | | 21,799 |
| Present value of schemes' liabilities | | **(32,632)** | | (29,531) | | (28,297) |
| Net deficit in the schemes | | **(11,308)** | | (12,514) | | (6,498) |
| Related deferred tax asset | | **3,392** | | 3,754 | | 1,949 |
| NET PENSION LIABILITY | | **(7,916)** | | (8,760) | | (4,549) |

| IMPACT ON NET ASSETS | *2004 £000* | *2003 £000* |
|---|---|---|
| Net assets before pension assets and liabilities | **159,766** | 151,155 |
| Pension prepayment under SSAP 24 | **(470)** | – |
| Net pension liability under FRS 17 | **(7,916)** | (8,760) |
| NET ASSETS AFTER PENSIONS | **151,380** | 142,395 |

| IMPACT ON RESERVES | *2004 £000* | *2003 £000* |
|---|---|---|
| Profit and loss reserve excluding pensions | **99,703** | 92,407 |
| Pension prepayment under SSAP 24 | **(470)** | – |
| Net pension liability under FRS 17 | **(7,916)** | (8,760) |
| PROFIT AND LOSS RESERVE AFTER PENSIONS | **91,317** | 83,647 |

The following disclosures are given for information only and reflect amounts which would have been charged to the profit and loss account and statement of total recognised gains and losses had FRS 17 been implemented in full in the current period.

| ANALYSIS OF THE AMOUNT CHARGEABLE TO OPERATING PROFIT | *2004 £000* | *2003 £000* |
|---|---|---|
| Current service cost | **919** | 929 |
| Past service cost | – | – |
| TOTAL OPERATING CHARGE | **919** | 929 |

| ANALYSIS OF THE AMOUNT CHARGEABLE TO OTHER FINANCE INCOME | *2004 £000* | *2003 £000* |
|---|---|---|
| Expected return on pension scheme assets | **1,103** | 1,532 |
| Interest on pension scheme liabilities | **(1,624)** | (1,661) |
| NET RETURN | **(521)** | (129) |

## 24. PENSION COMMITMENTS (CONTINUED)

| AMOUNT RECOGNISABLE IN THE STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES ("STRGL") | 2004 £000 | 2003 £000 |
|---|---|---|
| Actual return less expected return on pension scheme assets | **2,460** | (6,374) |
| Experience gains/(losses) arising on the scheme liabilities | **438** | (715) |
| Changes in assumptions underlying the present value of the scheme liabilities | **(1,965)** | 995 |
| **ACTUARIAL GAIN/(LOSS) RECOGNISED IN STRGL** | **933** | (6,094) |

| MOVEMENT IN DEFICIT IN THE YEAR | 2004 £000 | 2003 £000 |
|---|---|---|
| Deficit in schemes at beginning of the year | **(12,514)** | (6,498) |
| Movement in the year: | | |
| Current service cost | **(919)** | (929) |
| Past service cost | **–** | – |
| Contributions | **1,713** | 1,136 |
| Other finance cost | **(521)** | (129) |
| Actuarial gain/(loss) in STRGL | **933** | (6,094) |
| **DEFICIT IN SCHEMES AT END OF THE YEAR** | **(11,308)** | (12,514) |

| HISTORY OF EXPERIENCE GAINS AND LOSSES | 2004 | 2003 |
|---|---|---|
| Difference between actual and expected returns on assets (£000) | **2,460** | (6,374) |
| *% of scheme assets* | **11.5%** | *(37.5%)* |
| Experience gains and losses on liabilities (£000) | **438** | (715) |
| *% of scheme liabilities* | **1.3%** | *(2.4%)* |
| Total amount recognised in STRGL (£000) | **933** | (6,094) |
| *% of scheme liabilities* | **2.9%** | *(20.6%)* |

## 25. CASH FLOW STATEMENT

| | 2004 £000 | 2003 £000 |
|---|---|---|
| **RECONCILIATION OF OPERATING PROFIT TO NET INFLOW FROM OPERATING ACTIVITIES** | | |
| Operating profit | **18,798** | 18,379 |
| Depreciation | **8,886** | 8,521 |
| Loss on disposal of tangible fixed assets | **60** | 50 |
| **EARNINGS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION** | **27,744** | 26,950 |
| **(INCREASE)/DECREASE IN WORKING CAPITAL** | | |
| Stocks | **(429)** | (2) |
| Debtors | **(904)** | 890 |
| Creditors | **2,817** | 759 |
| **NET CASH INFLOW FROM OPERATING ACTIVITIES** | **29,228** | 28,597 |

### 25. CASH FLOW STATEMENT (CONTINUED)

| RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT | 2004 £000 | 2003 £000 |
|---|---|---|
| Movement in cash in the year | **(494)** | (872) |
| Cash outflow/(inflow) from the movement in liquid resources | **5,429** | (1,415) |
| Amortisation of issue costs | **(10)** | (11) |
| Movement in net debt in the year | **4,925** | (2,298) |
| Net debt at beginning of the year | **(21,947)** | (19,649) |
| Net debt at end of the year | **(17,022)** | (21,947) |

| ANALYSIS OF NET DEBT | March 2003 £000 | Cash flow £000 | Other non-cash movements £000 | March 2004 £000 |
|---|---|---|---|---|
| Cash, at bank and in hand | 4,403 | (494) | – | **3,909** |
| Debenture stock | (26,985) | – | (10) | **(26,995)** |
| Current asset investments | 635 | 5,429 | – | **6,064** |
| TOTAL | (21,947) | 4,935 | (10) | **(17,022)** |

### 26. RELATED PARTY TRANSACTIONS

During the year, the Company paid £67,000 *(2003: £65,000)* rent on a property leased from Hammerson plc on an arm's length basis. R R Spinney, a Non Executive Director of the Company, is the Chairman of Hammerson plc. The lease was entered into prior to Mr Spinney joining the Board of Fuller's.

### 27. FINANCIAL INSTRUMENTS

The Group's financial instruments include debentures, preference shares, cash, short and long term deposits and forward foreign exchange contracts. The main purpose of the financial instruments is to finance the Group's operations. The Group has various other financial instruments such as trade debtors and trade creditors, arising directly from its operations, which have not been included in the following numerical disclosures other than those due after more than one year or required for foreign currency disclosures.

It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are interest rate risk, liquidity risk and foreign currency risk. The policies for managing these are regularly reviewed and agreed by the Board.

**Interest Rate Risk**

The Group's only significant interest bearing liabilities are debentures and preference shares, both of which carry fixed rates. The Group's uncommitted overdraft facility carries a variable rate of interest, but is seldom used and hence any bank interest payable is not material to the Group.

The Group receives interest at variable rates from its cash deposits. The interest receivable varies according to the size and duration of deposit. The Group seeks to maximise returns whilst retaining sufficient funds to meet operational needs. Such returns do not form a significant part of the Group's funding and hence variations in the interest rate do not represent a risk to the Group.

**Liquidity Risk**

It is the Group's policy to finance its business by means of internally generated funds and to finance capital projects by means of long term fixed rate borrowings. Additional short term flexibility is achieved through the use of overdraft facilities. As at the year end the Group had an undrawn facility of £5 million *(2003: £5 million)*. This facility is reviewed annually in January.

## 27. FINANCIAL INSTRUMENTS (CONTINUED)

### Foreign Currency Risk

The Group has transactional currency exposures principally in US dollars, Euros and Australian dollars. Such exposures arise from sales or purchases in currencies other than Sterling. Group policy requires that all purchases and sales are covered by forward purchase or sale of appropriate currency. Occasionally currency is purchased in anticipation of future purchase orders: such purchases can only be made with Executive Board approval. In both cases the amounts involved are small, and at any time the Group's currency exposure is minimal.

At 27 March 2004 the Group had forward contracts open to sell US$398,000, to buy €310,000 and to buy AUD110,000. These have a Sterling equivalent of £219,000, £209,000 and £45,000 respectively *(2003: open contracts with a Sterling equivalent of £246,000)* and a net gain of £3,000 *(2003: loss of £1,000)* when comparing the contractual rates with the year-end exchange rates.

As at 27 March 2004 the only material foreign currency assets or liabilities were the following bank deposits:

| | 2004 £000 | *2003 £000* |
|---|---|---|
| Euros | **179** | 455 |
| US dollars | **59** | 97 |
| Australian dollars | **57** | 3 |

### Interest Rate Profile

All of the Group's debentures carry interest at a fixed rate.

| | 2004 | *2003* |
|---|---|---|
| Weighted average interest rate (%) | **7.94** | 7.94 |
| Weighted average period for which rate is fixed (years) | **22.1** | 23.1 |

The Group's cash at bank and short term deposits of £10.0 million *(2003: £5.0 million)* earn interest at variable rates based on LIBOR. Loans to customers are interest-free. The average interest rate for preference shares, which are not redeemable, is 7.5%.

### Fair Values of Financial Assets and Liabilities

Set out below is a comparison by category of book values and fair values of all the Group's financial assets and liabilities.

| | Book value 2004 £000 | Fair value 2004 £000 | *Book value 2003 £000* | *Fair value 2003 £000* |
|---|---|---|---|---|
| Deposits at financial institutions | **6,064** | **6,064** | 635 | 635 |
| Cash | **3,909** | **3,909** | 4,403 | 4,403 |
| Loans to customers | **407** | **407** | 589 | 589 |
| Preference shares | **(1,600)** | **(1,812)** | (1,600) | (1,808) |
| Debenture stock | **(26,995)** | **(30,212)** | (26,985) | (28,399) |

Market values have been used to determine the fair value of deposits at financial institutions, the quoted debenture and preference shares. The fair value of all other items has been calculated by calculating the expected future cash flows at prevailing interest rates.

### Maturity of Financial Liabilities

The maturity profile of the debentures is given in note 15. The preference shares are irredeemable.

### Hedges

Gains and losses on instruments used for hedging are not recognised until the exposure that is being hedged is itself recognised. There were no material unrecognised gains or losses on financial instruments used for hedging at 27 March 2004 or 29 March 2003.

# FIVE YEARS' PROGRESS

| PROFIT AND LOSS | 2000[3] £m | 2001 £m | 2002 £m | 2003 £m | 2004 £m |
|---|---|---|---|---|---|
| TURNOVER | 142.4 | 128.1 | 132.4 | 137.6 | **140.3** |
| Operating profit[1] | 16.2 | 16.8 | 16.7 | 18.4 | **18.8** |
| Interest payable (net) | (1.4) | (1.2) | (1.8) | (2.0) | **(1.9)** |
| NORMALISED PROFIT | 14.8 | 15.6 | 14.9 | 16.4 | **16.9** |
| Exceptional profit/(loss)[2] | (1.1) | 3.7 | (5.1) | 0.6 | **2.3** |
| PRE-TAX PROFIT | 13.7 | 19.3 | 9.8 | 17.0 | **19.2** |
| Taxation | (4.2) | (5.0) | (4.0) | (5.3) | **(5.4)** |
| Preference dividends | (0.1) | (0.1) | (0.1) | (0.1) | **(0.1)** |
| EARNINGS | 9.4 | 14.2 | 5.7 | 11.6 | **13.7** |
| Ordinary dividends | (3.4) | (3.6) | (3.8) | (3.7) | **(3.9)** |
| Retained for investment in the business | 6.0 | 10.6 | 1.9 | 7.9 | **9.8** |

| ASSETS EMPLOYED | | | | | |
|---|---|---|---|---|---|
| Fixed assets | 166.1 | 179.5 | 188.8 | 191.1 | **196.7** |
| Stocks | 4.3 | 4.0 | 3.8 | 3.8 | **4.3** |
| Debtors | 13.0 | 10.6 | 11.5 | 10.5 | **11.5** |
| Cash and current asset investments | 13.2 | 16.5 | 7.3 | 5.1 | **10.0** |
| | 196.6 | 210.6 | 211.4 | 210.5 | **222.5** |
| Current liabilities | (23.4) | (27.5) | (26.2) | (27.9) | **(31.0)** |
| | 173.2 | 183.1 | 185.2 | 182.6 | **191.5** |
| Long term finance | (27.0) | (27.0) | (27.0) | (27.0) | **(27.0)** |
| Provisions for liabilities and charges | (1.7) | (3.7) | (3.7) | (4.4) | **(4.7)** |
| NET ASSETS EMPLOYED | 144.5 | 152.4 | 154.5 | 151.2 | **159.8** |

| | 2000[3] | 2001 | 2002 | 2003 | 2004 |
|---|---|---|---|---|---|
| PER £1 'A' ORDINARY SHARE | | | | | |
| Normalised earnings | 40.73p | 42.69p | 40.07p | 45.59p | **49.84p** |
| Basic earnings | 37.62p | 56.82p | 22.90p | 48.04p | **60.63p** |
| Dividends | 13.41p | 14.38p | 15.17p | 16.12p | **17.31p** |
| Net assets | £5.69 | £5.97 | £6.04 | £6.52 | **£6.95** |
| GEARING RATIO | 9.5% | 6.9% | 12.7% | 14.5% | **10.7%** |
| GROSS CAPITAL EXPENDITURE (£ MILLION) | 23.3 | 30.2 | 26.2 | 12.0 | **18.3** |
| AVERAGE NUMBER OF EMPLOYEES | 2,344 | 2,037 | 2,067 | 2,160 | **2,105** |

[1] *Operating profit is shown before exceptional costs in 2000 and 2002 (£2.6 million and £1.4 million respectively).*

[2] *All exceptional profits and losses including those reported in [1] above and profits/(losses) on sales of assets and businesses.*

[3] *Prior to the introduction of FRS 19. Numbers have not been restated.*

## DIRECTORS AND ADVISERS
### AS AT 11 JUNE 2004

**PRESIDENT**

J F Russell-Smith

**DIRECTORS**

A G F Fuller, CBE, Chairman *
M J Turner, FCA, Chief Executive
T J M Turner
P A Clarke, FCA
R J Roberts
J S Espey*
S Emeny
R R Spinney*
N R MacAndrew, FCA*

** Non-Executive*

**SECRETARY AND REGISTERED OFFICE**

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Griffin Brewery
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Registered Number 241882

**AUDITORS**

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London SE1 2AF

**STOCKBROKERS**

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**REGISTRARS**

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Investor Services PLC
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The Pavilions
Bridgwater Road
Bristol BS99 7NH
Tel: 0870 702 0003

## SHAREHOLDERS' INFORMATION

### 2004 DIARY

**11 June**
Record Date

**1 July**
Preference dividends payable

**7 July**
Annual General Meeting

Hock Cellar, Griffin Brewery

**12 July**
Final dividend payable

**26 November**
Interim results announcement

### 2005 DIARY

**January**
Preference dividends payable

Interim dividend payable

**May**
Preliminary results announcement

### SHAREHOLDER PRIVILEGES

Shareholders owning more than £100 equivalent of nominal stock can buy beer, wine and spirits from the Brewery Store in Chiswick at preferential prices.

For full details contact Lewis Ragbourn on 020 8996 2054.

### REDESIGNATION OF 'C' SHARES

'C' shares can be redesignated as 'A' shares within 30 days of the preliminary and interim announcements. Contact the Company Secretariat for further details on 020 8996 2115.

### SHAREGIFT

The Orr Mackintosh Foundation operates a charity share donation scheme for shareholders with small parcels of shares whose value makes it uneconomic to sell them. If you have a small number of shares and would like to donate them to charity, details of the scheme can be found on the Sharegift website www.sharegift.org, or by contacting the Company Secretariat on 020 8996 2115.