

# Interim Report

# 04



FOR THE 26 WEEKS TO 25 SEPTEMBER 2004

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## Financial highlights

	26 weeks to Sept 04 £000	26 weeks to Sept 03 £000	Change 04/03 %	52 weeks to Mar 04 £000
Turnover	<b>60,858</b>	57,663	<b>+5.5</b>	111,982
Operating profit*	<b>7,034</b>	6,584	<b>+6.8</b>	12,639
Adjusted profit before tax*	<b>5,081</b>	4,825	<b>+5.3</b>	9,013
Adjusted EBITDA*	<b>10,996</b>	10,426	<b>+5.5</b>	20,186
Profit before tax	<b>4,787</b>	5,003	<b>-4.3</b>	8,884
Adjusted earnings per share*	<b>29.48p</b>	26.37p	<b>+11.8</b>	50.11p
Basic earnings per share	<b>26.92p</b>	27.83p	<b>-3.3</b>	48.95p
Dividend per share	<b>11.40p</b>	10.85p	<b>+5.1</b>	22.50p
Net assets per share	<b>£12.56</b>	£12.06	<b>+4.1</b>	£12.39
Gearing ratio	<b>39.5%</b>	34.6%	<b>+14.2</b>	39.5%

\*Excludes non-operating exceptional items and site review costs.



## Chairman's statement

Turnover for the first half was up 5.5% at £60.9M and adjusted profit before tax was up 5.3% to £5.1M. Adjusted earnings per share were 29.48p, an increase of 11.8%. This increase reflects both this year's improved performance and last year's share buy-backs. Profit before tax after exceptional items and property profits was £4.8M, a decrease of 4.3%. These exceptional items include £0.4M of costs incurred in the period relating to the ongoing review of the Ram Brewery site.

The improvement in underlying performance is particularly pleasing against the background of the strong trading comparatives driven by last summer's excellent weather and the additional regulatory and wage costs incurred in 2004. The Board is therefore confident

in declaring an increased interim dividend, up 5.1% to 11.40p. This will be paid on 10 December 2004 to shareholders on the register on 26 November 2004.

### Managed pubs and inns

Trading over the summer months has been positive, particularly so given that we did not enjoy a repeat of last year's long hot summer. Our managed division has continued to deliver, with turnover up by 6.0% and profits by 4.4%. Like for like turnover was up 1.5% and like for like profits up by 4.6%.

Last year's developments at the Crown, Chertsey and City Gate, Exeter led to a strong performance from inns, which improved profits by 20.9%. Occupancy improved in the first half with a marginal increase from 64.4% to 64.9%. However competition remains intense and REVPAR was down 1.9% at £38.15 in the period.

The retail business has, once more, had to overcome extra legislative costs, in particular the minimum wage, which is now 7.8% higher than it was over the corresponding period last year. Other issues affecting us are licensing, the Disability Act and smoking. Clean air has been an issue for a number of years and Young's has invested heavily in new ventilation systems and providing non-smoking areas in many of our pubs. We have signed up to the Industry Charter in support of a progressive move towards all managed houses providing designated non-smoking areas by 2005.

During the period we invested £3.8M in our managed estate. In addition to this expenditure we also spent £1.1M on property repairs through the revenue account, up £0.3M on last year. Two new pubs were acquired; the White Hart in Sherfield on Loddon and the Lord Nelson in Barnet and two major developments were completed at the Grove in Exmouth and the County Arms in Wandsworth. The Duke's Head in Putney was transferred from tenancy to management at the beginning of the year.

Four pubs were sold, the King's Head in Merton for office development and three leasehold City wine bars, which were no longer making adequate returns, Bill Bentley's Minorities, Columbia Bar and Willy's Wine Bar. These and other property related disposals resulted in a small non-operating exceptional profit in the period.

The total number of pubs was 110 and the number of hotel rooms was 372.

### Tenancies

The tenanted division saw an increase in turnover of 0.3%, despite two high turnover pubs transferring from tenanted to managed.

On a like for like basis, sales increased 0.2% and profits were 3.3% ahead. Two major developments took place during the period; at the Railway Telegraph, Thornton Heath and the Old House at Home, Dorking.

Two tenanted pubs were acquired during the period for a total investment of £1.4M, the Unicorn in Somerton and the Bell near Ilminster. The total number of tenancies in the estate is now 97.

### Brewing and brands

Total production in the first half was up 18.8% at 85,173 barrels. Young's cask ale sales increased by 5.8% in the period compared with a market decline. Contract brewing accounted for 37.1% of the total. Lower margin contract brewing makes an important contribution towards the fixed costs of the brewery while we seek to continue growing our own beer production.

We also continued to enjoy success in beer competitions, winning a silver award for bottle conditioned Special London Ale in CAMRA's Great British Beer Festival in August.

Total free trade has achieved another strong half year performance with growth in every business channel delivering a total sales growth of 8.5%. Our drive brand, Young's Bitter, is at the forefront of this sales growth.

Multiple pub group sales were up 1.5% and wholesale produced another robust performance, up 31.1%, giving us wider geographical representation. Independent free trade has also grown by 9.1%.

Building on this success, we launched our new advertising campaign "This is a Ram's World" in September. Focused on Greater London roadside poster sites and at underground and railway stations, this is our biggest campaign to date. Plans are in place to develop the campaign further in 2005 as we look to increase listings and volumes outside our tied estate.

Take home grew by 4.1% in what is a highly competitive market. In April we introduced Young's Bitter in a 660ml bottle format, a first for Young's, which has had a strong reception and has already achieved listings in Tesco, Sainsbury and Asda. The mainstay of our take home portfolio remains Waggledance, which is already a top 10 take home brand.

Exports have continued their progress, with volumes up 8.2%. The appeal of our beers in Scandinavian markets was recognised with a strong sales performance and silver medals for Pilsner Lager and Double Chocolate Stout in the Stockholm Beer and Whisky Festival.

Own branded sales outside the tied estate, always a testament to the quality of our integrated model, now represent 65.5% of our total own brand production.

### Cockburn & Campbell

Turnover in Cockburn & Campbell, our wines and spirits business was up 5.6%, despite lower sales to our tied estate, as a result of last year's strong summer.

Sales in the free trade were up 26.1%, of which wine showed volume growth of 26.9% through expanded distribution with regional wholesalers and brewers and increased listings in the London on-trade.

### Investment and finance

Our financial strategy is to provide asset backed sustainable dividend growth. Our interim dividend this year has increased by 5.1% to 11.40p, more than double the rate of inflation. Dividend growth can only be achieved by improving earnings and management action has delivered an increase in adjusted earnings per share of 46.2% over the last 5 years.

## Chairman's statement

(continued)

This year we have invested a total of £6.6M in our business, of which £5.8M is on our pubs. Our strong cash flow has permitted this level of investment with only a small increase in net debt in the period. Net debt stands at £56.8M, giving gearing of 39.5% and interest cover of 3.6 times.

Our capital expenditure policy is focused towards enhancing value for shareholders over the long term, either through acquisition of freehold pubs, improving our existing estate or repurchasing shares depending on opportunities. Our treasury policy supports this, with the majority of our borrowings long dated and 70% on fixed interest terms.

### Review of Ram Brewery site

We have continued to progress the review of the Ram Brewery site and incurred fees and costs associated with this project of £0.4M in the period. The bulk of this activity relates to drawing up reports and development plans with a view to determining the potential development value of the site.

The Board has consistently made it clear to shareholders that all activity connected with this review is designed to obtain the necessary facts and figures needed to assess whether the redevelopment of the Ram Brewery site is in the interests of the business and shareholders. Shareholders should note that there is no certainty about what the outcome of this review will be and any decision to proceed with redevelopment would be subject to shareholder approval.

### Outlook

Since the period end, we have acquired two freehold managed pubs, the Penny Black in Leatherhead and the Bell in Fetcham and one freehold tenanted pub, the Two Doves in Bromley.

Looking to the rest of the year, we hope to build on the underlying progress made in the first half. Christmas is an important trading period for Young's and it remains to be seen whether the tough retail environment affects the festive mood in London and particularly the City.

We are, however, confident that our underlying performance continues to move in the right direction and that the actions we are taking to develop the business will deliver long term value for shareholders.

**John Young**

John Young  
Chairman  
10 November 2004



## Unaudited profit and loss account

For the 26 weeks ended 25 September 2004

	26 weeks to Sept 04 £000	26 weeks to Sept 03 £000	52 weeks to Mar 04 £000
<b>Turnover</b>	<b>60,858</b>	57,663	111,982
Net operating costs before site review costs	<b>(53,824)</b>	(51,079)	(99,343)
<b>Operating profit before site review costs</b>	<b>7,034</b>	6,584	12,639
Site review costs	<b>(412)</b>	–	–
<b>Operating profit after site review costs</b>	<b>6,622</b>	6,584	12,639
Non-operating exceptional items	<b>118</b>	178	(129)
<b>Profit on ordinary activities before interest</b>	<b>6,740</b>	6,762	12,510
Net interest charge	<b>(1,953)</b>	(1,759)	(3,626)
<b>Profit on ordinary activities before tax</b>	<b>4,787</b>	5,003	8,884
Tax on profit on ordinary activities	<b>(1,702)</b>	(1,616)	(3,014)
<b>Profit attributable to ordinary shareholders</b>	<b>3,085</b>	3,387	5,870
Ordinary dividends on equity shares	<b>(1,316)</b>	(1,325)	(2,660)
<b>Retained profit for the financial period</b>	<b>1,769</b>	2,062	3,210
	<b>Pence</b>	Pence	Pence
<b>Basic earnings per 50p ordinary share</b>	<b>26.92</b>	27.83	48.95
Effect of site review costs	<b>3.59</b>	–	–
Effect of non-operating exceptional items	<b>(1.03)</b>	(1.46)	1.16
<b>Adjusted earnings per 50p ordinary share</b>	<b>29.48</b>	26.37	50.11
<b>Diluted basic earnings per 50p ordinary share</b>	<b>26.38</b>	27.55	48.44

The results above are all in respect of continuing operations of the company.

There are no recognised gains and losses other than those disclosed above.

## Unaudited balance sheet

At 25 September 2004

	At Sept 04 £000	At Sept 03 £000	At Mar 04 £000
<b>Fixed assets</b>	<b>212,470</b>	208,971	211,581
<b>Current assets and liabilities</b>			
Stocks	4,048	4,444	4,221
Debtors	8,649	7,768	7,977
Cash	718	–	1,005
	<b>13,415</b>	12,212	13,203
Creditors: amounts falling due within one year	(17,611)	(17,939)	(18,213)
Net current liabilities	(4,196)	(5,727)	(5,010)
<b>Total assets less current liabilities</b>	<b>208,274</b>	203,244	206,571
<b>Creditors: amounts falling due after more than one year</b>	<b>(56,684)</b>	(49,113)	(57,011)
<b>Provisions for liabilities and charges</b>	<b>(7,745)</b>	(7,475)	(7,484)
<b>Net assets</b>	<b>143,845</b>	146,656	142,076
<b>Capital and reserves</b>			
Called-up share capital	6,028	6,378	6,028
Share premium account	1,330	1,352	1,341
Revaluation reserve	87,734	88,094	88,094
Capital redemption reserve	1,808	1,458	1,808
Profit and loss account	46,945	49,374	44,805
<b>Equity shareholders' funds</b>	<b>143,845</b>	146,656	142,076

## Unaudited cash flow statement

For the 26 weeks ended 25 September 2004

	26 weeks to Sept 04 £000	26 weeks to Sept 03 £000	52 weeks to Mar 04 £000
<b>Net cash inflow from operating activities</b>	<b>9,048</b>	8,889	20,178
Interest received	4	9	11
Interest paid	(1,996)	(1,640)	(3,561)
<b>Returns on investments and servicing of finance</b>	<b>(1,992)</b>	(1,631)	(3,550)
<b>Corporation tax paid</b>	<b>(1,551)</b>	(1,173)	(2,453)
Purchases of tangible fixed assets	(6,573)	(5,922)	(12,539)
Sales of tangible fixed assets	1,840	1,049	1,164
<b>Capital expenditure</b>	<b>(4,733)</b>	(4,873)	(11,375)
<b>Equity dividends paid</b>	<b>(1,355)</b>	(1,361)	(2,660)
<b>Cash (outflow)/inflow before financing</b>	<b>(583)</b>	(149)	140
(Decrease)/increase in loan capital	(316)	1,718	9,632
Repurchase of share capital	–	–	(5,728)
(Decrease) in lease finance	(7)	(7)	(14)
<b>Financing</b>	<b>(323)</b>	1,711	3,890
<b>(Decrease)/increase in cash in period</b>	<b>(906)</b>	1,562	4,030

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

	£000	£000	£000
<b>(Decrease)/increase in cash in period</b>	<b>(906)</b>	1,562	4,030
Decrease/(increase) in debt in period	323	(1,711)	(9,618)
(Increase) in net debt in period	(583)	(149)	(5,588)
Opening net debt	(56,176)	(50,588)	(50,588)
<b>Closing net debt</b>	<b>(56,759)</b>	(50,737)	(56,176)

## Notes to the accounts

### (1) Accounts

The interim accounts have been prepared on the basis of the accounting policies set out in the company's statutory accounts for the 52 weeks ended 27 March 2004. The accounts present information about the company as an individual undertaking. The auditors have neither audited nor reviewed the information contained in this report.

The interim report does not amount to full accounts within the meaning of S.240 of the Companies Act 1985. Full accounts for the 52 weeks ended 27 March 2004, including an unqualified auditors' report, have been delivered to the Registrar of Companies.

### (2) Site review costs

Site review costs comprise costs incurred to date relating to the possible redevelopment of the company's sites in Wandsworth.

### (3) Taxation

Corporation tax has been provided on the profits for the 26 weeks to 25 September 2004 at a rate of 30% (2003: 30%; for the 52 weeks to 27 March 2004: 30%).

### (4) Earnings per share

Earnings per share are calculated by dividing the profit attributable to ordinary shareholders by the weighted average number of ordinary shares in issue.

The weighted average number of ordinary shares in issue, which exclude the investment in own shares, is 11,461,154 (2003: 12,171,717; for the 52 weeks to 27 March 2004: 11,991,159).

Diluted earnings per ordinary share are calculated by adjusting basic earnings per ordinary share to reflect the notional exercise of the weighted average number of ordinary share options outstanding during the period. The resulting weighted average number of ordinary shares is 11,693,822 (2003: 12,293,532; for the 52 weeks to 27 March 2004: 12,116,939).

An adjusted earnings per share figure is presented to eliminate the effect of the non-operating exceptional items and site review costs on basic earnings per share.

### (5) Ordinary dividends on equity shares

	26 weeks to Sept 04 Pence	26 weeks to Sept 03 Pence	52 weeks to Mar 04 Pence
Interim dividend	11.40	10.85	10.85
Final dividend	–	–	11.65
	<b>11.40</b>	10.85	22.50

The trustee of the Ram Brewery Trust has waived its rights in respect of the dividends on the shares held in the trust on behalf of the directors' share option scheme.

### (6) Net cash inflow from operating activities

	26 weeks to Sept 04 £000	26 weeks to Sept 03 £000	52 weeks to Mar 04 £000
Operating profit after site review costs	6,622	6,584	12,639
Depreciation	3,962	3,842	7,547
Movements in working capital			
Stocks	173	(237)	(14)
Debtors	(672)	(830)	(1,039)
Creditors	(1,037)	(470)	1,045
Net cash inflow from operating activities	<b>9,048</b>	8,889	20,178

## Directors, officers and advisers

### Executive directors

John Young, C.B.E.  
Chairman

James Young  
Deputy chairman

Stephen Goodyear  
Chief executive

Christopher Sandland, A.C.M.A., M.Sc.  
Company secretary and personnel

Torquil Sligo-Young  
Information services

Peter Whitehead, F.C.A.  
Finance

Patrick Dardis  
Retail

### Non-executive directors

Brian Palmer  
Roy Summers, O.B.E., D.Univ., F.I. Brew.

### Head brewer

Ken Don, B.Sc. Brewing, Dip. Inst. B.

### Audit committee

Roy Summers (chairman)  
Brian Palmer

### Remuneration committee

Roy Summers (chairman)  
Brian Palmer

### Nomination committee

John Young (chairman)  
Roy Summers  
Brian Palmer

### Auditors

Ernst & Young LLP  
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London SE1 2AF

### Bankers

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Corporate Banking London  
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