Springwood Plc

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COMPANIES HOUSE 15/05/99

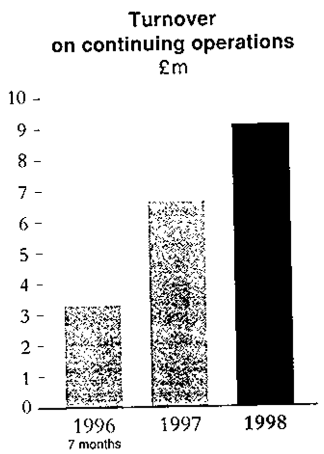
annual report & accounts 1998

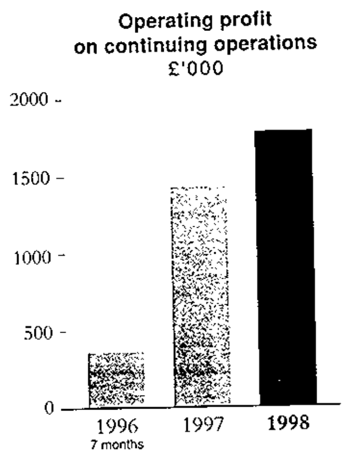
Financial Highlights

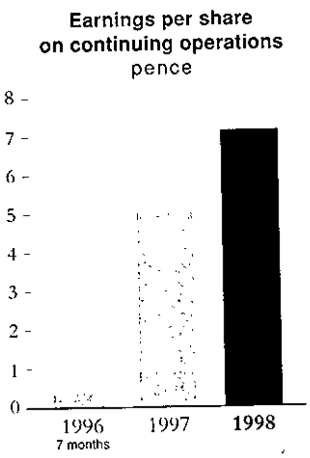
For the year ended 31 December 1998

The strategy for the past 3 years has been to lay the foundation for a focused leisure business that can deliver sustainable growth in profits and earnings per share.

- Turnover on continuing operations **up by 37%** to £9 million
- Operating profit on continuing operations **up by 25%** to £1.8 million
- Earnings per share on continuing operations **up by 41%** to 7.12 pence
- Dividend **increased by 50%** to 1.5 pence per share
- Growth - 3 developments in 1998 and major new developments on stream in 1999





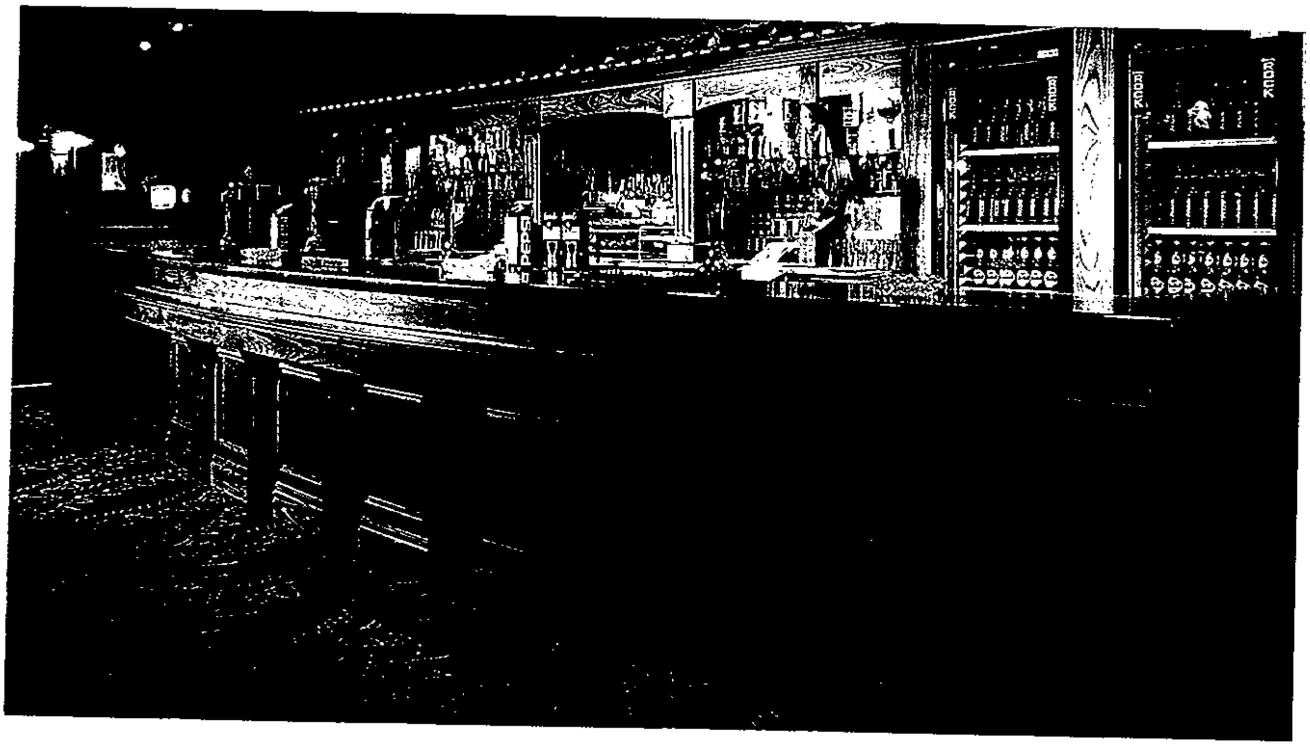


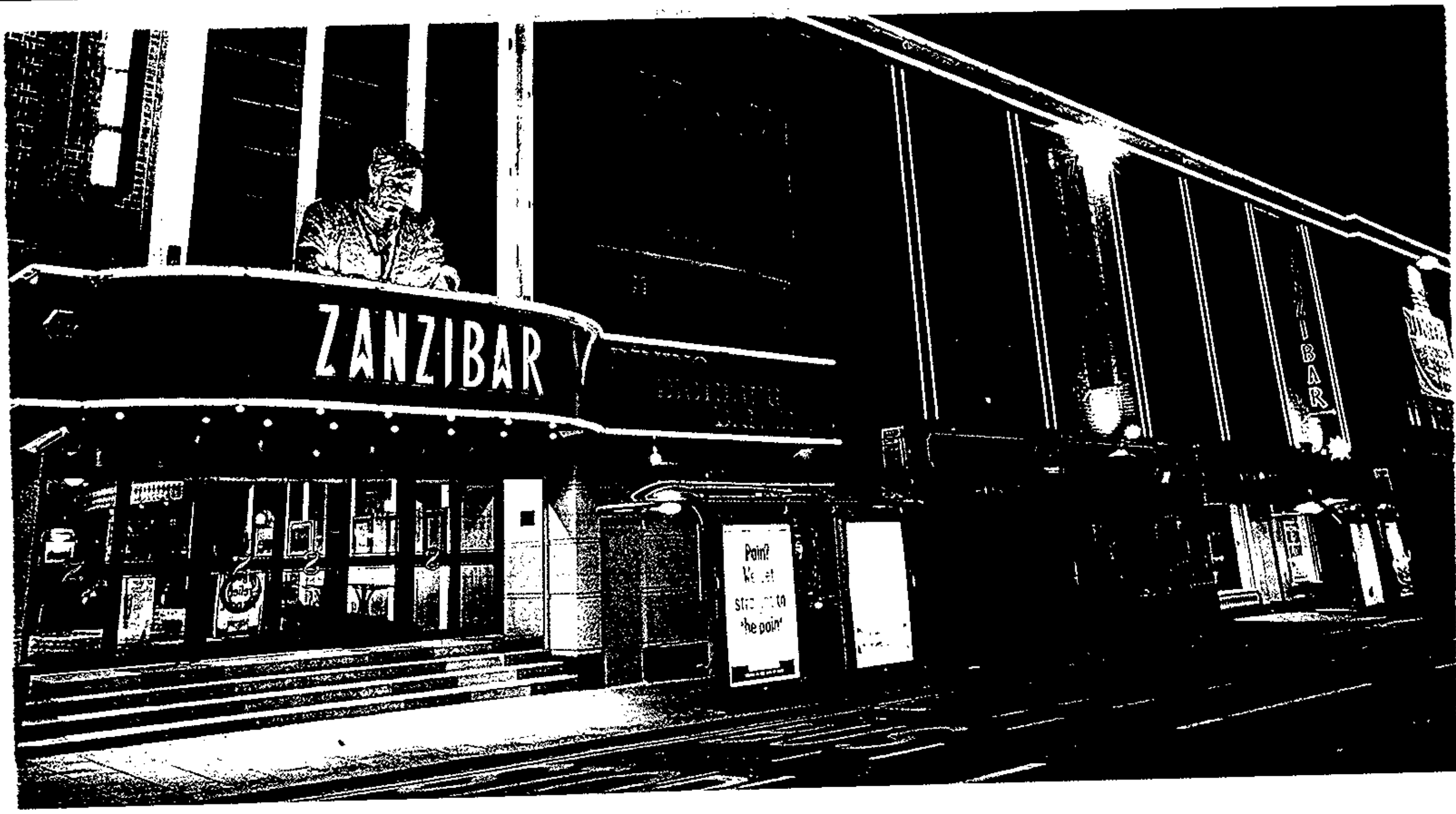
Chairman's Statement

"Springwood has a new impetus and momentum which will deliver strong growth and profits in 1999"

Results

Your Company continued to make progress through 1998 and achieved an improvement in earnings despite the loss associated with the disposal of the residual timber interests and delays in new developments. We are now achieving a substantial increase in sales, up 75% (annualised) already and profitability and we believe that 1999 will show a marked increase in performance and greatly enhanced prospects. The real growth in 1998 was achieved in the final quarter of the year and so had a limited impact on the year's results. There has been much talk in our sector of difficult market conditions and a general downturn in trade, but this has not been our experience although we recognise that the market is becoming more demanding and increasingly expects better value. We perceive our competitors to be the new venue bars occupying expensive High Street sites and older nightclubs that have not met new market expectations. We believe that our operations are competing successfully because they offer better and larger facilities, the right entertainment package, including dancing and competitive pricing.





Timber

The sale of the residual timber interests in June has enabled us to focus entirely on leisure, lowered our gearing and provided more funds for reinvestment. Overall the original investment in timber has proved well worthwhile despite the difficulties in returning from loss and restructuring. We have gained a full listing for the leisure business, new capital and new shareholders and made net profits over the whole period that we traded.

Leisure

In the last six months we have opened three new venues with a combined licensed capacity of 7,600 people and all are trading well. We will shortly be completing the purchase of three venues from Rank for redevelopment and other acquisitions are in train. Springwood therefore has a new impetus and momentum which will deliver strong growth and profits in 1999. Our portfolio of property is largely freehold and our gearing is modest at 28%.

Management

Our rapid expansion has necessitated the recruitment of new staff and management to join our highly motivated and extremely competent team whom we thank for their efforts over the past year. In 1999 we are continuing our development of high profile state of the art late night entertainment venues which have an appeal to a wide cross section of the entertainment market.

Prospects

Because of our confidence in our future prospects we are recommending that shareholders approve a dividend of 1.5p per share, a 50 per cent increase, which if approved will be paid on 7 May 1999 to shareholders on the register as at 12 April 1999.

Adam S Page
Executive Chairman
10 March 1999

Review of Operations

The future is full of potential. With the energy, ability and commitment of our staff we will pursue opportunities for growth and expansion with enthusiasm.

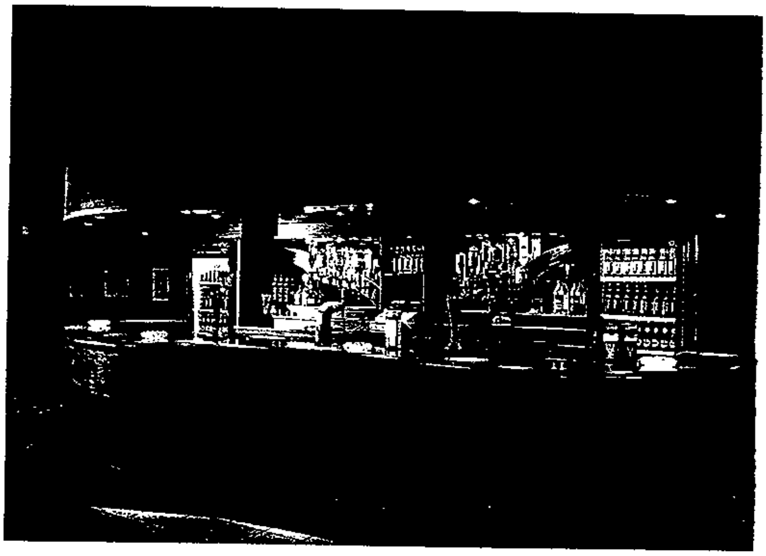
Management and operational structure

1998 was a year of consolidation and reorganisation and included the sale of the residual timber businesses in June and subsequently Springwood has become a focused Leisure business. In anticipation of the new developments opening late in the year and early in 1999, new management and staff were recruited and a new operating structure was introduced enabling the Operations Director Chris Clegg to concentrate on new development and unit launches. This process is continuing into 1999 and we have now acquired Chancery House, Anstey, which will accommodate our general accounting functions, Operational Management and Building Development.

We will now be able to cope well with the anticipated growth this year when we expect our business to double in size and also growth in the foreseeable future. As with all aspects of our overheads, this development will be extremely cost effective and will enable us to achieve greater efficiency. We are installing a new I.T. system which will enhance both administrative and operational control.

Leisure developments

This area of our activity is not generally perceived, nor appreciated, and yet it makes a very significant contribution to the business. We are the only listed operators in our sector who undertake all our developments as main contractor and by doing so we save cost and time and produce units that are well finished



and cost effective. The development of leisure units today is becoming increasingly complex with new standards and specifications and licences which all have to be negotiated and agreed and involve planning, building, fire, public health and licensing regulations. The process of applying for planning and licensing consent and building regulations approval can be a very convoluted and protracted process. Acquisitions and developments account for upwards of 40% of senior management time and in 1998 we spent £5.6m on new units and in 1999 we shall spend significantly more.

Leisure

Springwood is now focusing developments on creating large Zanzibar units with a licensed capacity of up to 2,500 people. They are venues that appeal to a wide cross section of the public and encompass venue bars, live music and nightclubs and operate a trading policy with free admission to 10.30 pm and competitively priced drinks.

Leicester (opened October 1998) and Chesterfield (February 1999) are both very successful and the trading policy has been refined to a point which we believe will make the Zanzibar concept competitive throughout the UK.

We are currently preparing planning applications for two more large Zanzibars and we have contracted to buy 3 nightclubs from Rank. We are also operating 5 other nightclubs, two of which have capacities in excess of 2,000 and they are trading well. We are not seeking to expand our bar operations unless the opportunity arises to acquire units which are making significant and sustainable profits.

Timber

The residual timber business sold in June made a net trading loss due to volatile trading conditions and commodity price fluctuations and there was a loss associated with the Coventry site sold last year. However, over the period of our stewardship the business was turned from loss to overall profit. We considered that the timber market was likely to continue to be volatile and that there was unlikely to be sustainable growth for a small timber business. As explained to shareholders at the time (and approved), retaining the business was not in the longer-term interests of shareholders, and it was therefore sold to me (based on independent valuations) in the absence of any interest from trade buyers.

Financial

1998 was primarily a year in which we invested in future growth and whilst we generated £2.9m we invested £5.6m in new venues, the benefit of which only started to show at the year end. However, we are continuing to pursue a prudent gearing and depreciation policy, keeping borrowings under 50%. Furthermore we do not seek to revalue our venues upwards from cost following redevelopment. We have restricted share issues to limit dilution and we will rely increasingly on our strong cash flow to fund developments. Over 80% of our property portfolio by value is freehold. As growth continues we intend to continue recommending a progressive dividend policy to shareholders.

Adam Page Adam Page

Adam S Page
Executive Chairman

10 March 1999

Directors and Advisers

Directors:	A S Page *(Executive Chairman)* Mrs P A Turner FCCA *(Financial Director)* C R Clegg *(Developments Director)* A J Hall *(Non-executive Director)* * J B Wagstaff *(Non-executive Director)* * * *Members of Audit and Remuneration Committees*	
Secretary:	Mrs P A Turner FCCA	
Registered office:	Swithland Hall Swithland Leicestershire LE12 8TD	
Registered number:	122634	
Bankers:	Lloyds Bank PLC Charnwood House Harcourt Way Meridian Business Park Leicester LE3 2WP	
Auditors:	Grant Thornton Registered Auditors Chartered Accountants 8 West Walk Leicester LE1 7NH	
Solicitors:	Lawrence Graham 190 Strand London WC2R 1JN	Moss Solicitors 80-81 Woodgate Loughborough Leicestershire LE11 2XE
Brokers and Financial Advisers:	Charles Stanley & Co Limited 25 Luke Street London EC2 4AR	
Registrars:	IRG plc Bourne House 34 Beckenham Road Beckenham Kent BR3 4TU	

Report of the Directors

The Directors present their report together with financial statements for the year ended 31 December 1998.

Principal activities and business review

The Group now operates solely within the leisure sector as operators of nightclubs, venue bars and public houses.

The timber merchanting business was sold in 1997 and during 1998 the assets and stock associated with the residual timber businesses were sold. The results of the timber operations have been treated as discontinued in the results for 1998 and 1997 and disclosed in the profit and loss account.

A review of the Group's performance for 1998 and its prospects for 1999 are contained in the Chairman's Statement on page 2 and the Review of Operations on page 4.

Results and dividends

The consolidated profit for the year after taxation was £1,332,266 (1997 : £1,283,767). A final dividend of 1.5p is proposed in respect of the year ended 31 December 1998, which if approved by shareholders will be paid on 7 May 1999 to shareholders registered on 12 April 1999. The cost of dividends will be £317,405, leaving £1,014,861 to be transferred to reserves.

Directors

The present membership of the Board is set out below. All Directors served throughout the year, except C R Clegg who was appointed on 31 March 1998.

The beneficial and non beneficial interests of the Directors and their families in the shares of the Company at 31 December 1998 and 1 January 1998 or their date of appointment were as follows:

		31 December 1998 10p ordinary shares
	Beneficial	**Non beneficial**
A S Page	**8,158,397**	**262,303**
Mrs P A Turner	**16,000**	**–**
C R Clegg	**–**	**–**
A J Hall	**105,000**	**–**
J B Wagstaff	**–**	**250,000**

		1 January 1998 or date of appointment 10p ordinary shares
	Beneficial	Non beneficial
A S Page	8,158,397	362,303
Mrs P A Turner	16,000	–
C R Clegg	–	–
A J Hall	105,000	–
J B Wagstaff	–	250,000

In the period between 1 January 1999 and 1 March 1999 there were no changes to these holdings.

Details of Directors' share option entitlements are given in the Remuneration Report.

Mrs P A Turner retires by rotation, and being eligible, offers herself for re-election.

Brief biographical details of the Company's independent Non Executive Directors are given below.

A J Hall

Mr Hall developed a highly successful family business which was sold to Ferguson Holdings plc of which he was a Director until 1994. Mr Hall is currently a Director of Paragon Labels Limited, Icon Limited and Simon May Limited and is actively involved in these interests.

He was appointed a Non Executive Director of the Company in December 1994.

J B Wagstaff

Founder and Chairman of Pressac Holdings plc and its subsidiaries until his retirement in 1990. Mr Wagstaff is a Director of The British Racing Drivers Club Limited, organisers of the British Grand Prix and owners of Silverstone Circuit, which is one of the largest public entertainment, hospitality and media complexes in Europe. He is chairman of Cheslyn Development Company Limited and a Director of Pilkington Contract Cleaners Limited.

He was appointed a Non Executive Director of the Company in December 1994.

No Director had a material interest in any contract which was significant in relation to the Group's business, either during or at the end of the year, other than as disclosed in note 25 to the financial statements.

Report of the Directors

continued

Substantial shareholders

At 1 March 1999 the following had notified the Company of a disclosable interest in 3% or more of the nominal value of the Company's shares:

	10p ordinary shares	%
A S Page	8,420,700	39.8
Robert Fleming Nominees Limited	2,500,000	11.8
Circle Nominees Limited	770,000	3.6
The Bank of New York (Nominees) Limited	695,739	3.3

Share capital

During the year 35,995 ordinary shares of 10p each were allotted under the terms of the Company's SAYE scheme.

As special business at the Annual General Meeting shareholders are being asked to give authority to the Directors to issue shares. The resolutions as set out in the notice of meeting will authorise the Directors to allot relevant securities for the purpose of section 80 of the Companies Act 1985 up to a maximum aggregate nominal amount of £105.706, representing approximately 5% of the total ordinary share capital in issue at 10 March 1999, and to issue equity securities (as defined in section 94 of the Act) up to a maximum aggregate nominal amount of £105,706, equivalent to approximately 5% of the existing issued ordinary share capital of the Company, for cash without being limited by the restrictions otherwise imposed by the statutory pre-emption provisions set out in section 89(1) of the Act. Both authorities will terminate at the conclusion of the AGM of the Company to be held in 2000 or 15 months after the passing of these resolutions (whichever is the earlier). The Directors have no present intention of exercising any authority given pursuant to section 80 of the Act (other than in connection with any valid exercise of options under the 1997 Approved Executive Share Option Scheme or the 1997 Employee (Savings Related) Share Option Scheme).

At the Annual General Meeting, shareholders will also be asked to approve the terms of an Unapproved Executive Share Option Scheme, details of which are enclosed with these accounts.

Employee involvement

The Group recognises its responsibilities towards keeping employees informed of matters affecting them as employees and the economic factors affecting the performance of the Group. To this end consultations take place at appropriate times with employees.

Disabled employees

The Group recognises its obligations towards disabled people and endeavours to provide employment where possible, having regard to the physical demands of the Group's operations and the abilities of the disabled persons.

Payment policy and average payment period

It is the Group's policy to follow the CBI Code of Practice for Buyers in relation to the payment of its suppliers for the forthcoming year. Copies of, and further information on, the CBI Code can be obtained from the CBI, Centre Point, 103 New Oxford Street, London, WC1A 1DV.

Trade creditors for the holding Company at the year end amount to 22 days of average supplies for the year as calculated under the prescribed method in Statutory Instrument 1998/571. An alternative figure of 40 days for the Group which takes account of trading throughout the Group and the sale of the residual timber business is a more meaningful measure.

Year 2000

Many computer systems which express dates using only the last two digits of the period may malfunction due to the date change to the Year 2000. This risk to the business relates not only to the Group's computer systems, but also to some degree on those of our suppliers.

The Group has reviewed its computer systems for the impact of the Year 2000 date change. A summary of the principal areas of risk and the actions being taken is set out below.

Accounting systems

The Group's accounting systems have been assessed as compliant following implementation of new systems in early 1999.

Point of sale systems

The Group has commissioned a report which indicates that there are no significant Year 2000 issues in this area. Where minor problems have been identified, these are currently being addressed.

Suppliers

The Group contacted all its key suppliers for confirmation of Year 2000 compliance. No significant Year 2000 issues have arisen.

Report of the Directors

continued

Overall

The issue is complex, and no business can guarantee that there will be no Year 2000 problems. However, the Board believes that its plans and the resources allocated are appropriate and adequate to address the issue. The overall cost of dealing with the problem is not anticipated to exceed £40,000, primarily in respect of new computer hardware and software for the Group's accounting systems.

Auditors

Grant Thornton offer themselves for re-appointment as auditors in accordance with section 385 of the Companies Act 1985.

By order of the Board

P A Turner P A Turner

Mrs P A Turner FCCA
Company Secretary

Registered office:
Swithland Hall
Swithland
Leicestershire
LE12 8TD

10 March 1999

Remuneration Report by the Board of Directors

The Remuneration Committee consists of the non-executive Directors, A J Hall and J B Wagstaff.

Remuneration policy

The remuneration packages of the executive Directors are assessed by the Committee having regard to their individual responsibilities and by comparisons made within the leisure industry. Executive remuneration packages are designed to attract, motivate and retain Directors of the calibre necessary to maintain and increase the Group's market share and to reward them for enhancing shareholder value.

The remuneration of the non-executive Directors is approved by the whole Board. Non-executive Directors are not eligible to participate in any of the Company's share schemes. Non-executive Directors do not have service contracts and are not eligible to join any Company pension scheme.

Service contracts

Each of the executive Directors has entered into a service agreement, the principal terms of which are as follows:

A S Page:

- five year fixed term, commencing 23 December 1994 (unexpired term: twelve months at 31 December 1998)
- annual contractual remuneration of £55,000 or such higher amount (currently £75,000) as agreed between Mr Page and the Remuneration Committee, plus normal benefits
- profit related bonus, calculated on a basis to be agreed between Mr Page and the Remuneration Committee.

Mrs P A Turner:

- a term of one year from 1 April 1997 and thereafter until the agreement is terminated by not less than twelve months notice (unexpired term: twelve months)
- annual contractual remuneration of £50,000 or such higher amount (currently £55,000) as agreed between Mrs Turner and the Remuneration Committee, plus normal benefits.

C R Clegg:

- a term of one year from 1 April 1998 and thereafter until the agreement is terminated by not less than twelve months notice (unexpired term: twelve months)
- annual contractual remuneration of £45,000 or such higher amount (currently £52,000) as agreed between Mr Clegg and the Remuneration Committee, plus normal benefits.

The original length of A S Page's contract exceeded that recommended by section B of the Listing Rules. The contract is being renegotiated with the Remuneration Committee.

Bonuses and other incentives

The Remuneration Committee seeks to motivate senior management by a combination of short and long-term incentives.

Short-term incentives principally take the form of bonuses, primarily for A S Page. His bonus is calculated as 2% of designated annual profits in excess of £250,000 subject to the overriding principle that the Group's return on capital has increased compared to the previous year. The bonus earned by A S Page in respect of the year ended 31 December 1998 was £21,965 (1997: £22,519).

Long-term incentives principally take the form of the grant of options under the Executive Share Option Scheme. In granting such options, the Remuneration Committee seeks to ensure that the options will motivate the recipient to contribute to overall increases in shareholder value.

There are no long-term incentive schemes in existence other than share options.

Remuneration Report by the Board of Directors

continued

Directors' remuneration

	1998 £	1997 £
Salaries and benefits in kind	**205,496**	156,873
Directors' fees	**16,000**	16,000
	221,496	172,873

The emoluments of the Directors are analysed as follows:

	Salary and fees £	Benefits £	1998 Total £	1997 Total £
Executive Directors				
A S Page	96,965	6,282	**103,247**	103,501
Mrs P A Turner	53,750	6,112	**59,862**	53,372
C R Clegg (appointed 31 March 1998)	39,000	3,387	**42,387**	–
Non-executive Directors				
A J Hall	8,000	–	**8,000**	8,000
J B Wagstaff	8,000	–	**8,000**	8,000
	205,715	15,781	**221,496**	172,873

Included in the amount of salary and fees for A S Page is an amount of £21,965 (1997: £22,519) in respect of a performance-related bonus for the year ended 31 December 1998.

The emoluments of C R Clegg are calculated from 1 April 1998.

Share options

Full details of share option schemes are given in note 17 to the financial statements.

Details of options granted to Directors under the share option schemes are given below.

	Number of options					
	At 1 January 1998 or date of appointment £	**Granted during the year £**	**At 31 December 1998 £**	**Exercise price £**	**Date from which exercisable £**	**Expiry date £**
Mrs P A Turner						
Executive scheme	38,361	–	38,361	78.2p	July 1999	July 2006
Employee (Savings Related) Scheme	14,444	–	14,444	67.5p	July 1999	December 2000
C R Clegg						
Executive scheme	38,360	–	38,360	78.2p	July 1999	July 2006
Employee (Savings Related) Scheme	5,777	–	5,777	67.5p	July 1999	December 2000

No Directors' options were exercised or lapsed during the year.

The market price of the Company's shares at 31 December 1998 was 76.5p, and the price range during 1998 was 74.0p to 157.5p.

Pension contributions

The Group has no contractual commitment to make pension contributions on behalf of Directors, and none were made in the year.

By order of the Board

J B Wagstaff
Director and Chairman of the Remuneration Committee
10 March 1999

Corporate Governance

Introduction

Following the adoption of the Hampel Committee report on Corporate Governance by the London Stock Exchange, the Directors set out below the following statement on the way in which the principles of corporate governance contained in the Combined Code are applied by the Company.

The Board of Directors

The Board of Directors represents the shareholders' interests in seeking to create a profitable, cash-generative leisure business providing both income returns and capital growth in the share price. The Board is accountable to the shareholders for determining that the Company and its subsidiaries are managed in such a way as to achieve this objective. The Board has a general responsibility to ensure that the Executive Directors are fulfilling their responsibilities. The Board's responsibility is to regularly monitor the effectiveness of its policies and the executive management's decisions in the implementation of their strategies.

In addition to its obligation to improve shareholder value, the Board has a responsibility to the Group's employees and to the communities in which it operates.

These principles and responsibilities are designed to support the successful continuity and future growth of the business.

The Board reviews its composition on a regular basis in the context of the business and its strategies.

The Board as a whole is responsible for the procedure of agreeing to the appointment of its own members and for nominating them for election by the shareholders on first appointment. Thereafter, one third of their number shall retire by rotation. As the Board is small the Company does not have a Nomination Committee as detailed in the Code.

The Board intends in due course to appoint a Chief Executive when the business has reached sufficient size to warrant the appointment. Its prevailing policy is for a joint role, based on the particular skills of the individual concerned and the Group's current requirements.

Two of the members of the Board are independent Non Executive Directors and whilst neither one is recognised as senior, they form a powerful voice in influencing the decisions of the Board as a whole.

The Board consists of three Executive Directors, including the Chairman, and two Non Executive Directors, hence in common with many other groups of similar size, does not comply fully with the provision D3.1 of the code, which requires the Audit Committee to consist of at least three independent Non Executive Directors.

The Board believes that the fees paid to the Non Executive Directors and their respective shareholdings are not sufficient to prejudice their judgement and accordingly the Non Executive Directors are considered to be independent.

All Directors are able to take independent advice, at the Company's expense, in the furtherance of their duties, if they deem it appropriate.

Executive Directors, the Executive Chairman included, are employed on contracts which have unexpired terms which do not exceed one year.

Non Executive Directors are appointed and are then subject to re-appointment by rotation by the shareholders in general meeting. The Board does not believe that it should establish term limits. As an alternative to term limits, the whole of the Board will, when a Non Executive Director is up for re-appointment, assess the Director's suitability for re-appointment.

On appointment, Directors are given a comprehensive briefing on the Group's affairs.

Directors' remuneration

The pay and benefits for Executive Directors, including the Chairman, are determined by the Remuneration Committee – a committee comprised entirely of independent Non Executive Directors. For Non Executive Directors, fees and remuneration are determined by the Executive Directors on the advice of the Executive Chairman who will have regard to fees paid by comparable companies. A statement of the Company's remuneration policy in relation to the Directors and the details of their individual remuneration is contained in the report commencing on page 10.

Corporate Governance

continued

Relationships with shareholders

The Executive Chairman and Finance Director are the Group's principal spokespersons with investors, fund managers, the press and other interested parties.

It has been the Company's practice to hold its Annual General Meeting (AGM) at one of its leisure venues to enable shareholders to see at first hand one of the Group's operating units. Voting on specific resolutions is dealt with by a show of hands. Separate resolutions are presented for each substantially separate issue including, *inter alia,* the report and accounts.

The AGM is attended by all the Directors including therefore, the Chairman of the Remuneration and Audit Committees, who is available to discuss matters with the shareholders.

Notice of the AGM is transmitted to shareholders more than 20 working days before the meeting.

Accountability and audit

The Board presents a balanced and understandable assessment of the Group's position and prospects in all interim and price-sensitive reports and reports to regulators as well as in the information required to be presented by statutory requirements. The responsibilities of the Directors as regards the accounts are described on page 14 and that of the auditors on page 15. A statement on going concern is also on page 14.

The Board maintains two standing committees comprising independent Non Executive Directors appointed to the Board. The Remuneration Committee, chaired by Mr J B Wagstaff, determines, in accordance with its terms of reference, the pay and other benefits of the Executive Directors. The Audit Committee, also chaired by Mr J B Wagstaff, reviews the financial accounts and policies, oversees internal controls and compliance and ensures an objective and professional relationship is maintained with the external Auditors.

All Board members have complete access to senior management if required. The Board receives timely advice on all material information about the Company, its subsidiaries, its activities, performance and its projects, particularly including any significant variances from a planned course of progress.

Internal control

The Board of Directors is ultimately responsible for the Group's system of internal control for the financial year and the period up to the date of approval of the financial statements. A review has been undertaken in accordance with the guidance for Directors on internal controls and financial reporting that was issued by the Rutteman Working Group pending publication of new guidance. It should be recognised that such a system can provide only reasonable and not absolute assurance against material misstatement or loss. The key features of the system which have been established are as follows:

- The Directors are responsible for the Group's system of internal control. The Group's organisational structure has clear lines of responsibility
- Management have a clear responsibility for identifying risks facing each of the Group's businesses and for developing systems to mitigate and monitor such risks. Both the Board's Executive Directors and its Non Executive Directors monitor this process.
- There is a comprehensive budgeting system with an annual budget approved by the Directors. Monthly actual results are reported against budget and revised forecasts are prepared regularly. The Group has clearly defined guidelines for capital expenditure, including annual budgets and detailed appraisal and review procedures. The Board has policies including *inter alia* a schedule of matters reserved to the Board covering organisational, operational, financial business control and secretarial issues, which can only be amended by the Board. On certain occasions, the Board will delegate their authority to nominated members of the Board. The Board has also resolved to comply with the Yellow Book, including the model code on Directors' dealings, and the City Code on take-overs and mergers.

The Board has reviewed the effectiveness of the Group's systems of internal financial controls during the financial year. Guidance on compliance for the whole system of controls has not yet been developed. We are awaiting the Turnbull Committee guidance, which is due to be issued in the summer of 1999. The Group operates an internal audit function, and the Board reviews its key findings on a regular basis.

Corporate Governance

continued

Going concern

Company law requires the Company's Directors to consider whether it is appropriate to prepare financial statements on the basis that the Group is a going concern. In considering this matter, the Directors have reviewed the Group's performance for 1998, its budget for 1999 and plan for 2000.

This included consideration of the cash flow implications of the budget and plan including proposed capital expenditure and comparison of these with the Group's borrowing facilities. The Directors see no reason why the Group and the Company should not continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Group's financial statements.

Compliance with the code

The Company has complied throughout the year with the Code provisions set out in Section 1 of the Combined Code with the exception of those listed below. In complying with the Code provision D.2.1 on internal control, the Company has undertaken a review in accordance with the guidance for Directors on internal controls and financial reporting issued by the Rutteman Working Group.

A.2.1 No senior Non Executive Director has been nominated, as this is not considered necessary given that the Board has only 5 members.

A.5.1 No Nomination Committee exists as the Board has only 5 members and therefore such a Committee is not considered necessary.

A.6.1 Non Executive Directors are not appointed for specific terms, but their contribution to the Board is reviewed by the Chairman on a regular basis.

B.1.7 The Executive Chairman currently has a five year fixed term contract (which expires 23 December 1999).

B.3.5 The Board has not considered whether the Remuneration Report should be an agenda item at the Annual General Meeting, but intends to do so.

C.2.1 Except where a poll is called at the Annual General Meeting, an indication of the level of proxies lodged (for and against) on each resolution has not normally been given at the Annual General Meeting.

D.3.1 The Audit Committee consists of only two Non Executive Directors, the total on the Board.

Directors' responsibilities for 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 the Group as at the end of the financial year and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to:

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

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and 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 Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the Board

J B Wagstaff
Independent Non Executive Director

10 March 1999

Report of the Auditors

To the Members of Springwood Plc

We have audited the financial statements on pages 16 to 37 which have been prepared under the accounting policies set out on pages 20 to 21.

Respective responsibilities of directors and auditors

The Directors are responsible for preparing the Annual Report, including as described on page 14, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. 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 audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement on page 14 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Group's corporate governance procedures or its internal controls.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the 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 are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and the Group at 31 December 1998 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton. Grant Thornton

Grant Thornton
Registered Auditors
Chartered Accountants
Leicester

10 March 1999

Consolidated Profit and Loss Account

for the year ended 31 December 1998

	Notes	1998 £	1997 (as restated) £
Turnover	1		
Continuing operations		**9,065,102**	6,619,246
Discontinued operations		**709,838**	7,904,803
		9,774,940	14,524,049
Cost of sales		**(2,428,367)**	(7,566,193)
Gross profit		**7,346,573**	6,957,856
Distribution costs		**(9,078)**	(1,120,327)
Administration expenses		**(5,594,580)**	(4,134,613)
Other operating income		**31,700**	90,527
Operating profit			
Continuing operations		**1,777,324**	1,425,120
Discontinued operations		**(2,709)**	368,323
		1,774,615	1,793,443
Exceptional items			
Loss on sale of discontinued operations	1	**(169,911)**	(141,223)
		1,604,704	1,652,220
Net interest	2	**(202,438)**	(317,257)
Profit on ordinary activities before taxation	1	**1,402,266**	1,334,963
Tax on profit on ordinary activities	4	**(70,000)**	(51,196)
Profit for the financial year	5	**1,332,266**	1,283,767
Dividends	6	**(317,405)**	(211,053)
Retained profit	18	**1,014,861**	1,072,714
Earnings per share	7	**6.31p**	6.11p
Fully diluted earnings per share	7	**6.30p**	5.90p
Earnings per share on continuing operations	7	**7.12p**	5.03p

There were no recognised gains or losses other than the profit for the financial year.

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Balance Sheet

at 31 December 1998

	Notes	1998 £	1997 £
Fixed assets			
Tangible assets	8	**19,740,617**	15,895,858
Investments	9	**100**	100
		19,740,717	15,895,958
Current assets			
Properties held for resale		**54,406**	1,365,438
Stock	10	**196,070**	206,810
Debtors	11	**849,777**	1,514,240
Cash at bank		**471,909**	2,209,843
		1,572,162	5,296,331
Creditors: amounts falling due within one year	12	**(4,574,537)**	(2,270,250)
6% Convertible Debentures 2001	12	**–**	(3,000,024)
Net current (liabilities)/assets		**(3,002,375)**	26,057
Total assets less current liabilities		**16,738,342**	15,922,015
Creditors: amounts falling due after more than one year	13	**(2,405,301)**	(2,619,634)
		14,333,041	13,302,381
Capital and reserves			
Called up share capital	16	**2,114,130**	2,110,530
Share premium account	18	**7,237,216**	7,225,017
Revaluation reserve	18	**41,766**	1,994,931
Profit and loss account	18	**4,939,929**	1,971,903
Shareholders' funds	19	**14,333,041**	13,302,381

Approved by the Board of Directors on 10 March 1999 and signed on its behalf by:

Adam S Page
Executive Chairman

The accompanying accounting policies and notes form an integral part of these financial statements.

Company Balance Sheet

at 31 December 1998

	Notes	1998 £	1997 £
Fixed assets			
Tangible assets	8	–	1,510,011
Investments	9	**8,001,070**	8,001,070
		8,001,070	9,511,081
Current assets			
Properties held for resale		**54,406**	1,365,438
Stock	10	–	60,620
Debtors	11	**6,541,458**	6,518,414
Cash at bank		**52,235**	871,337
		6,648,099	8,815,809
Creditors: amounts falling due within one year	12	**(766,644)**	(975,604)
6% Convertible Debentures 2001	12	–	(3,000,024)
Net current assets		**5,881,455**	4,840,181
Total assets less current liabilities		**13,882,525**	14,351,262
Creditors: amounts falling due after more than one year	13	**(36,300)**	(36,300)
		13,846,225	14,314,962
Capital and reserves			
Called up share capital	16	**2,114,130**	2,110,530
Share premium account	18	**7,237,216**	7,225,017
Revaluation reserve	18	**41,766**	1,994,931
Profit and loss account	18	**4,453,113**	2,984,484
Shareholders' funds		**13,846,225**	14,314,962

Approved by the Board of Directors on 10 March 1999 and signed on its behalf by:

Adam S Page
Executive Chairman

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 1998

	1998 £	1997 £
Net cash inflow/(outflow) from:		
Operating activities	2,918,655	2,437,760
Returns on investments and servicing of finance	(288,615)	(408,471)
Corporation tax	(87,339)	178,339
Capital expenditure and financial investment	(5,612,710)	(2,773,158)
Disposals	2,923,059	1,838,540
Equity dividends paid	(211,339)	(125,489)
Financing	(3,115,224)	929,748
(Decrease)/increase in cash	(3,473,513)	2,077,269

The above cash flow statement is further analysed at Note 20 to these financial statements.

Statement of Historical Cost Profits

for the year ended 31 December 1998

	1998 £	1997 £
Profit on ordinary activities before taxation	1,402,266	1,334,963
Realisation of revaluation gains of previous years	1,953,165	767,899
Historical cost profit on ordinary activities before taxation	3,355,431	2,102,862
Historical cost profit retained	2,968,026	1,840,613

Accounting Policies

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention, except that certain freehold land and buildings are shown at their revalued amounts.

The principal accounting policies of the Group have remained unchanged from the previous year, except for the treatment of goodwill following the issue of FRS 10. The calculation of earnings per share has also been amended following the issue of FRS 14.

Basis of consolidation

The Group financial statements consolidate those of the Company and of its subsidiary undertakings drawn up to 31 December 1998. The results of subsidiary undertakings acquired during a year are included from the effective date of acquisition. Profits or losses on intra-Group transactions are eliminated in full. On acquisition of a subsidiary, all of the subsidiary's assets and liabilities which exist at the date of acquisition are recorded at their fair values reflecting their condition at that date.

Goodwill arising on consolidation, representing the excess of the fair value of the consideration given over the fair value of the identifiable net assets acquired on acquisitions prior to 31 December 1997, has been written off to reserves immediately on acquisition. Such goodwill will be charged or credited to the profit and loss account on any subsequent disposal of the business to which it relates. In future, goodwill arising on consolidation will be capitalised and amortised over its expected useful life.

Turnover

Turnover represents amounts charged to customers in the ordinary course of business, excluding value added tax.

Depreciation

Depreciation is calculated to write down the cost of all tangible fixed assets, other than freehold land and buildings, by annual instalments over their expected useful lives.

No depreciation is provided on freehold buildings used in the leisure business as it is the Group's policy to maintain those assets in a continual state of sound repair in order to preserve their value as trading sites. The useful economic lives of these assets are thus so long and residual values so high that any depreciation would not be material. Residual values are based on prices prevailing at the date of acquisition or subsequent refurbishment. Provision is made in the profit and loss account for any permanent diminution in value.

Other assets are generally depreciated using the following rates:

Leasehold land	: period of lease
Equipment and fixtures and fittings	: Between 10% and 20% straight line
Vehicles	: 25% reducing balance

Properties held for resale

Properties held for resale are stated at the lower of their carrying value at the date of transfer from fixed assets to current assets, or net realisable value.

Stock

Stock is stated at the lower of cost and net realisable value.

Deferred expenditure

Within the leisure business, pre-opening costs (other than interest) incurred in the preparation of sites for use in the business are treated as deferred expenditure and included under that heading within debtors. Accumulation of such costs ceases when the relevant site commences trading, and the relevant costs are then amortised over a period of one year.

Capitalised interest

Interest on borrowings in respect of new leisure venues undergoing development is capitalised up to the date when the relevant venue commences trading.

Deferred taxation

Deferred tax is provided using the rates estimated to arise when the timing differences reverse and is accounted for to the extent that it is probable that a liability or asset will crystallise. Unprovided deferred tax is disclosed as a contingent liability.

Debit balances arising in respect of advance corporation tax are carried forward to the extent that they are expected to be recoverable.

Accounting Policies

continued

Leased assets

Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful lives. The interest element of leasing payments represents a constant proportion of the capital balance outstanding and is charged to the profit and loss account over the period of the lease.

All other leases are regarded as operating leases and the payments made under them are charged to the profit and loss account on a straight line basis over the lease term.

Pension costs

Defined contribution scheme

The pension costs (which relate to discontinued operations) charged against profits represent the amount of the contributions payable to the scheme in respect of the accounting period.

Defined benefit scheme

The pension costs (which relate to discontinued operations) charged against profits are based on actuarial methods and assumptions designed to spread the anticipated pension costs over the service lives of the employees in the scheme, so as to ensure that the regular pension costs represents a substantially level percentage of the current and expected future pensionable payroll.

Foreign exchange

Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated at the rate of exchange ruling at the date of the transaction. Exchange differences are dealt with in the profit and loss account. All such differences related to the residual timber business sold on 12 June 1998.

Grants

Grants received in respect of capital expenditure are credited to a deferred income account and are released to the profit and loss account in line with the depreciation policy adopted for the relevant asset.

Notes to the Financial Statements

for the year ended 31 December 1998

1 Turnover and profit on ordinary activities before taxation

Analyses of turnover, operating contribution and net assets by class of business and between continuing and discontinued operations are given below:

Year ended 31 December 1998

	Timber (Discontinued)	Leisure (Continuing)	Total
	£	£	£
Turnover	709,838	9,065,102	**9,774,940**
Cost of sales	(316,008)	(2,112,359)	**(2,428,367)**
Gross profit	393,830	6,952,743	**7,346,573**
Distribution costs	(9,078)	–	**(9,078)**
Administration expenses	(388,781)	(4,687,675)	**(5,076,456)**
Other operating income	31,700	–	**31,700**
Operating contribution	27,671	2,265,068	**2,292,739**
Common administration expenses			**(518,124)**
Operating profit			**1,774,615**
Net assets	–	14,333,041	**14,333,041**

The operating loss on discontinued operations of £2,709 is after charging £30,380 of common costs.

Year ended 31 December 1997

	Timber (Discontinued)	Leisure (Continuing)	Total
	£	£	£
Turnover	7,904,803	6,619,246	**14,524,049**
Cost of sales	(5,995,363)	(1,570,830)	**(7,566,193)**
Gross profit	1,909,440	5,048,416	**6,957,856**
Distribution costs	(1,120,327)	–	**(1,120,327)**
Administration expenses	(298,925)	(3,445,445)	**(3,744,370)**
Other operating income	90,527	–	**90,527**
Operating contribution	580,715	1,602,971	**2,183,686**
Common administration expenses			**(390,243)**
Operating profit			**1,793,443**
Net assets	341,076	12,961,305	**13,302,381**

The profit on discontinued operations of £368,323 is after charging £212,392 of common costs.

Notes to the Financial Statements

continued

1 Turnover and profit on ordinary activities before taxation *(continued)*

The results of discontinued operations in 1998 are those of the timber mill and truss division to the date of sale on 12 June 1998.

The results of discontinued operations in 1997 represent the results of the mill and truss division, together with the results of the timber merchanting division to the date of sale in August 1997.

The loss on sale of discontinued operations in 1998 relates to the loss arising on the disposal of the mill and truss division and of a property previously used in the timber merchanting business. The loss represents the difference between proceeds and the carrying value of the disposed assets. The loss on sale of discontinued operations in 1997 relates to the loss arising on the disposal of a property within the timber merchanting division.

The sale of assets in 1998 affects profits and cash flows as follows:

	Loss	Cash
	£	£
Sale of fixed assets	158,879	1,306,421
Sale of stock	11,032	1,448,530
Sale of deferred expenditure	–	168,108
Redemption of 6% Convertible Debentures 2001	–	(3,000,024)
	169,911	**(76,965)**

Turnover and operating profit arise wholly within the United Kingdom.

Profit on ordinary activities before taxation is stated after:

	1998	1997
	£	£
Depreciation:		
Tangible fixed assets, owned	**388,828**	353,245
Tangible fixed assets, leased	–	28,117
Auditors' remuneration:		
Audit services	**23,500**	26,000
Non audit services	**41,900**	30,697
Operating lease rentals:		
Plant and machinery	–	44,151
Other	**96,242**	67,461

Other operating income consists of rent receivable.

Notes to the Financial Statements

continued

2 Net interest

	1998	1997
	£	£
On bank overdraft and loans	**300,436**	260,066
On other loans	**85,020**	183,094
Finance lease charges	**–**	4,049
	385,456	447,209
Interest receivable	**(96,841)**	(38,738)
	288,615	408,471
Finance costs capitalised in the year	**(86,177)**	(91,214)
	202,438	317,257

Capitalised interest is treated for tax purposes as an allowable deduction for corporation tax.

3 Employees

Staff costs during the year were as follows:

	1998	1997
	£	£
Wages and salaries	**2,144,928**	2,621,995
Social security costs	**140,142**	213,021
Other pension costs		
Defined contribution scheme	**4,025**	14,820
	2,289,095	2,849,836

In-house development wages of £109,585 (1997: £157,405) and related social security costs of £10,934 (1997: £15,740) have been capitalised in respect of capital works within the leisure business.

Also included in the above are wages and salaries costs of £Nil (1997: £13,789) and social security costs of £Nil (1997: £1,379) which have been capitalised in respect of capital works within the timber businesses.

The average number of employees of the Group by category during the year was as follows:

	1998	1997
	Number	Number
Leisure business	**335**	279
Timber businesses	**12**	69
	347	348

The above numbers of employees in the leisure business includes 258 part time employees (1997: 249).

Directors' emoluments' information and details regarding Directors' remuneration, share options and pensions are given in the Remuneration Report on pages 10 and 11.

Notes to the Financial Statements

continued

4 Taxation

The tax charge is based on the profit for the year and represents:

	1998	1997
	£	£
Corporation tax @ 31% (1997: 31.5%)	**70,000**	51,196

The tax charge for the year represents an effective rate of 5.0% (1997: 3.8%), due to the non-provision of deferred taxation principally due to the continued investment by the leisure business in assets qualifying for capital allowances, the expectation that realised capital gains will be mitigated in full by future capital expenditure, and the utilisation of trading losses in the timber business.

5 Profit for the financial year

The Company has taken advantage of section 230 of the Companies Act 1985 and has not included its own profit and loss account in these financial statements. The consolidated profit for the financial year includes a loss of £167,131 (1997 profit: £51,987) which is dealt with in the financial statements of the Company.

6 Dividends

	1998	1997
	£	£
Final proposed ordinary dividend of 1.5p per share (1997: 1p)	**317,405**	211,053

7 Earnings per share

The calculation of the basic earnings per share is based on the earnings attributable to ordinary shareholders divided by the weighted average number of shares in issue during the year.

The calculation of diluted earnings per share is based on the basic earnings per share, adjusted to allow for the issue of shares and the post tax effect of dividends and interest, on the assumed conversion of all dilutive options and other dilutive potential ordinary shares.

Reconciliations of the earnings and weighted average number of shares used in the calculations are set out below:

	1998			1997		
	Earnings £	**Weighted average number of shares**	**Per share amount pence**	Earnings £	Weighted average number of shares	Per share amount pence
Earnings attributable to ordinary shareholders	**1,332,266**	**21,128,458**	**6.31**	1,283,767	21,011,604	6.11
Dilutive effect of securities						
Options	–	**10,222**		–	28,750	
Convertible debentures	–	–		180,000	3,773,615	
Diluted earnings per share						
Adjusted earnings	**1,332,266**	**21,138,680**	**6.30**	1,463,767	24,813,969	5.90

Notes to the Financial Statements

continued

7 Earnings per share *(continued)*

An adjusted earnings per share has also been presented, based on continuing operations and excluding the effects (positive and negative) of the timber business. This basis has been used to enable shareholders to assess historic earnings per share performance on a basis consistent with circumstances which will prevail in the future.

The adjustments required are as follows:

	1998 Earnings £	1998 Weighted average number of shares	1998 Per share amount pence	1997 Earnings £	1997 Weighted average number of shares	1997 Per share amount pence
Basic Earnings per share	**1,332,266**	**21,128,458**	**6.31**	1,283,767	21,011,604	6.11
Operating result attributable to discontinued operations	**2,709**	**–**		(368,323)	–	
Loss on sale of discontinued operations	**169,911**	**–**		141,223	–	
Taxation	**–**	**–**		–	–	
Basic earnings per share on continuing operations	**1,504,886**	**21,128,458**	**7.12**	1,056,667	21,011,604	5.03

8 Tangible fixed assets

The Group

	Freehold land and buildings £	Short leasehold land and buildings £	Plant and equipment £	Fixtures and fittings £	Vehicles £	Total £
Cost or valuation						
At 1 January 1998	13,313,567	209,184	1,007,894	2,967,730	239,261	17,737,636
Additions	2,991,185	1,332,148	–	1,335,743	72,073	5,731,149
Disposals	(1,226,045)	(76,099)	(1,007,894)	(2,798)	(151,120)	(2,463,956)
At 31 December 1998	**15,084,707**	**1,465,233**	**–**	**4,300,675**	**160,214**	**21,004,829**
Depreciation						
At 1 January 1998	91,407	67,871	671,294	883,593	127,613	1,841,778
Charge for the year	1,723	1,145	22,240	320,845	42,875	388,828
Disposals	(93,130)	(69,016)	(693,534)	(141)	(110,573)	(966,394)
At 31 December 1998	**–**	**–**	**–**	**1,204,297**	**59,915**	**1,264,212**
Net book amount at 31 December 1998	**15,084,707**	**1,465,233**	**–**	**3,096,378**	**100,299**	**19,740,617**
Net book amount at 31 December 1997	13,222,160	141,313	336,600	2,084,137	111,648	15,895,858

Notes to the Financial Statements

continued

8 Tangible fixed assets *(continued)*

Disposals of fixed assets relate almost entirely to assets sold as part of the disposal of the mill and truss businesses during the year.

Included in freehold land and buildings above is capitalised interest on development projects as follows:

	1998	1997
	£	£
At 1 January 1998	**108,776**	17,562
Additions	**86,177**	91,214
At 31 December 1998	**194,953**	108,776

The Company

	Freehold land and buildings	Short leasehold land and buildings	Plant and equipment	Vehicles	Total
	£	£	£	£	£
Cost or valuation					
At 1 January 1998	1,226,045	76,099	1,007,894	118,999	2,429,037
Additions	–	–	–	9,250	9,250
Disposals	(1,226,045)	(76,099)	(1,007,894)	(128,249)	(2,438,287)
At 31 December 1998	–	–	–	–	–
Depreciation					
At 1 January 1998	91,407	67,871	671,294	88,454	919,026
Charge for the year	1,723	1,145	22,240	7,222	32,330
Disposals	(93,130)	(69,016)	(693,534)	(95,676)	(951,356)
At 31 December 1998	–	–	–	–	–
Net book amount at 31 December 1998	–	–	–	–	–
Net book amount at 31 December 1997	1,134,638	8,228	336,600	30,545	1,510,011

Notes to the Financial Statements

continued

8 Tangible fixed assets *(continued)*

The gross amount of leasehold land and buildings on which depreciation is being provided by the Group is £1,465,233.

The figures stated above for cost or valuation include valuations as follows:

The Group	Freehold land and buildings		Leasehold land and buildings	
	1998	1997	**1998**	1997
	£	£	**£**	£
At cost	**15,084,707**	12,113,567	**1,465,233**	209,184
At 1989 valuation	**–**	1,200,000	**–**	–
	15,084,707	13,313,567	**1,465,233**	209,184

The Company	Freehold land and buildings		Leasehold land and buildings	
	1998	1997	**1998**	1997
	£	£	**£**	£
At cost	**–**	26,045	**–**	76,099
At 1989 valuation	**–**	1,200,000	**–**	–
	–	1,226,045	**–**	76,099

If freehold and leasehold land and buildings had not been revalued, they would have been included on the historical cost basis at the following amounts:

The Group	Freehold land and buildings		Leasehold land and buildings	
	1998	1997	**1998**	1997
	£	£	**£**	£
Cost	**15,084,707**	12,362,911	**1,465,233**	209,184
Accumulated depreciation	**–**	(218,110)	**–**	(67,871)
	15,084,707	12,144,801	**1,465,233**	141,313

The Company	Freehold land and buildings		Leasehold land and buildings	
	1998	1997	**1998**	1997
	£	£	**£**	£
Cost	**–**	275,389	**–**	76,099
Accumulated depreciation	**–**	(218,110)	**–**	(67,871)
	–	57,279	**–**	8,228

Notes to the Financial Statements

continued

9 Fixed asset investments

			The Company	The Group
	Subsidiary undertakings	Other	Total	Other
	£	£	£	£
Cost at 1 January 1998 and 31 December 1998	**8,030,602**	**100**	**8,030,702**	**100**
Provision at 1 January 1998 and 31 December 1998	**29,632**	**–**	**29,632**	**–**
Net book amount at 31 December 1998	**8,000,970**	**100**	**8,001,070**	**100**
Net book amount at 31 December 1997	8,000,970	100	8,001,070	100

At 31 December 1998 the Company held the entire issued ordinary share capital of the following companies. All are dormant with the exception of Springwood Leisure Limited which operates the leisure business.

Springwood Leisure Limited
J O Walker (Retail) Limited
J O Walker (Wallboards) Limited
J O Walker (Wood Products) Limited
J O Walker (Eastern) Limited
Nene Saw Mills Limited

At 31 December 1998 Springwood Leisure Limited held the entire ordinary share capital of the following companies. All of these are dormant.

ASP Leisure Limited
Spondon Furniture Centre Limited
Swithland Holdings Limited
Swithland Investments Limited
Woodacres Trading Limited

Other investments comprise a trade investment.

10 Stock

	The Group		The Company	
	1998	1997	**1998**	1997
	£	£	£	£
Goods for resale:				
Timber business	**–**	60,620	–	60,620
Leisure business	**196,070**	146,190	–	–
	196,070	206,810	–	60,620

Notes to the Financial Statements

continued

11 Debtors

	The Group		The Company	
	1998	1997	1998	1997
	£	£	£	£
Trade debtors	28,079	415,824	28,079	415,824
Amounts owed by subsidiary undertakings	–	–	6,383,502	5,401,139
Deferred expenditure	208,496	215,704	–	168,108
Taxation	27,770	63,738	420	84,454
Other debtors	153,799	406,030	89,997	405,907
Prepayments	431,633	412,944	39,460	42,982
	849,777	1,514,240	6,541,458	6,518,414

12 Creditors: amounts falling due within one year

	The Group		The Company	
	1998	1997	1998	1997
	£	£	£	£
Bank loans and overdraft	2,235,579	416,666	–	–
Trade creditors	1,476,731	1,097,785	34,863	166,881
Amounts owed to subsidiary undertakings	–	–	379,638	379,638
Corporation tax	17,165	70,472	–	52,763
Social security and other taxes	58,666	168,026	–	47,798
Proposed dividends	317,119	211,053	317,119	211,053
Other creditors and accruals	469,277	306,248	35,024	117,471
	4,574,537	2,270,250	766,644	975,604
6% Convertible Debentures 2001 (unsecured)	–	3,000,024	–	3,000,024
	4,574,537	5,270,274	766,644	3,975,628

Notes to the Financial Statements

continued

13 Creditors: amounts falling due after more than one year

	The Group		The Company	
	1998	1997	**1998**	1997
	£	£	**£**	£
Bank loans	**2,125,001**	2,583,334	**–**	–
6% Debentures (unsecured)	**36,300**	36,300	**36,300**	36,300
Deferred income: Grants	**244,000**	–	**–**	–
	2,405,301	2,619,634	**36,300**	36,300

The bank loans and overdraft are secured by a fixed charge over freehold property and by a fixed first charge and floating charge over all the assets of the Group.

There are two bank loans, the first of which is for £2,000,000 and is repayable in equal quarterly capital instalments of £83,333 from March 1998 to December 2003. Interest is payable quarterly at 9.3%. The second is for £1,000,000 and is repayable in equal quarterly capital instalments of £41,667 from October 1998 to July 2004. Interest is payable quarterly at 9.03%.

The 6% unsecured Debentures are repayable upon the Company giving one year's notice of the intention to repay. It is not the current intention of the Directors to serve such notice.

The grant received is in respect of the development of a leisure venue by Springwood Leisure Limited.

14 Borrowings

Borrowings are repayable as follows:

	The Group		The Company	
	1998	1997	**1998**	1997
	£	£	**£**	£
Within one year				
Bank overdraft	**1,735,579**	–	**–**	–
Bank loans	**500,000**	416,666	**–**	–
6% Convertible Debentures 2001	**–**	3,000,024	**–**	3,000,024
After one and within two years				
Bank loans	**500,000**	500,000	**–**	–
After two and within five years				
Bank loans	**1,500,000**	1,499,994	**–**	–
After five years				
Bank loans	**125,001**	583,340	**–**	–
6% debentures	**36,300**	36,300	**36,300**	36,300
	4,396,880	6,036,324	**36,300**	3,036,324

Notes to the Financial Statements

continued

15 Deferred taxation

Deferred tax provided and not provided in the financial statements is set out below. The amounts unprovided represent contingent liabilities at the balance sheet date and are calculated using a tax rate of 31% (1997: 31%).

	The Group		The Company	
	1998	1997	**1998**	1997
	£	£	**£**	£
Amount provided				
Accelerated capital allowances	–	–	–	–
Other timing differences	–	110,000	–	110,000
Losses	–	(110,000)	–	(110,000)
	–	–	–	–
Unprovided				
Realised capital gains	**585,000**	585,000	**106,000**	106,000
Accelerated capital allowances	**925,000**	743,000	–	86,000
Other timing differences	–	27,000	–	27,000
Recoverable advance corporation tax	–	(104,410)	–	–
	1,510,000	1,250,590	**106,000**	219,000
Unrealised capital gains	**99,000**	350,000	–	220,000

The realised capital gains noted above are in respect of the gains arising on sales of property. The Directors anticipate that the capital gains will be mitigated in full by relevant capital expenditure in the leisure business, and accordingly no provision is required.

The unrealised capital gains noted above are in respect of the taxation which would be payable were the properties owned by the Group and the Company to be disposed of at their carrying value. No provision has been made because, in the opinion of the Directors, either these assets are unlikely to be disposed of in the foreseeable future or any gain arising will be rolled over into new qualifying expenditure.

16 Called up share capital

	1998	1997
	£	£
Authorised		
31,568,140 ordinary shares of 10p each	**3,156,814**	3,156,814
Allotted, called up and fully paid		
21,141,298 (1997: 21,105,303) ordinary shares of 10p each	**2,114,130**	2,110,530

During the year 35,995 shares were issued for a consideration of £24,297 under the terms of the Company's SAYE scheme.

Notes to the Financial Statements

continued

17 Share options

Options have been granted for 10p ordinary shares as follows:

	Number of shares	Subscription price per share	Period of option
Executive	189,240	78.2p	July 1999 to July 2006
Employee (Savings Related)	34,373	67.5p	July 1999 to December 2000

The market price of the Company's shares at 31 December 1998 was 76.5p, and the price range during 1998 was 74.0p to 157.5p.

The Executive Share Option Scheme is open to selected employees and full time Directors of the Company. Other employees may be included at the discretion of the Board or Remuneration Committee.

The Employee (Savings Related) Share Option Scheme is open to all employees and full time Directors of the Company with at least two year's service with the Company. Other employees may be included at the discretion of the Board or Remuneration Committee.

18 Reserves

The Group

	Share premium account	Revaluation reserve	Profit and loss account
	£	£	£
At 1 January 1998	7,225,017	1,994,931	1,971,903
Premium on allotments during the year	20,697	–	–
Other costs	(8,498)	–	–
Realised on disposal	–	(1,953,165)	1,953,165
Retained profit for the year	–	–	1,014,861
At 31 December 1998	**7,237,216**	**41,766**	**4,939,929**

The cumulative amount of goodwill arising from acquisitions in current and prior years which has been written off to Group reserves is £3,142,661 (1997: £3,142,661).

The Company

	Share premium account	Revaluation reserve	Profit and loss account
	£	£	£
At 1 January 1998	7,225,017	1,994,931	2,984,484
Premium on allotments during the year	20,697	–	–
Other costs	(8,498)	–	–
Realised on disposal	–	(1,953,165)	1,953,165
Retained loss for the year	–	–	(484,536)
At 31 December 1998	**7,237,216**	**41,766**	**4,453,113**

Notes to the Financial Statements

continued

19 Reconciliation of movements in shareholders' funds

The Group	1998	1997
	£	£
Profit for the financial year	1,332,266	1,283,767
Dividends	(317,405)	(211,053)
	1,014,861	1,072,714
Issue of shares in the year	24,297	186,860
Other costs	(8,498)	–
Net increase in shareholders' funds	1,030,660	1,259,574
Shareholders' funds at 1 January 1998	13,302,381	12,042,807
Shareholders' funds at 31 December 1998	14,333,041	13,302,381

20 Notes to the cash flow statement

a) The constituents of the cash flow statement may be further analysed as follows:

Net cash inflow from operating activities	1998	1997
	£	£
Operating profit	1,774,615	1,793,443
Depreciation	388,828	381,362
(Increase)/decrease in stock	(137,790)	93,282
Decrease/(increase) in debtors	460,387	1,918,641
Increase/(decrease) in creditors	432,615	(1,748,968)
Net cash inflow	2,918,655	2,437,760
Returns on investments and servicing of finance		
Interest received	96,841	38,738
Interest paid	(385,456)	(443,160)
Interest element of finance lease payments	–	(4,049)
Net cash outflow	(288,615)	(408,471)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(5,644,972)	(3,717,789)
Sale of tangible fixed assets	32,262	944,631
Net cash outflow	(5,612,710)	(2,773,158)
Disposals		
Sale of timber businesses	2,923,059	1,838,540

Notes to the Financial Statements

continued

20 Notes to the cash flow statement *(continued)*

	1998 £	1997 £
Financing		
Capital grant received	**244,000**	–
Bank loan received	**–**	1,000,000
Debentures repaid	**(3,000,024)**	
Repayment of bank loan	**(374,999)**	–
Capital element of finance lease rentals	**–**	(77,112)
Issue of shares	**24,297**	6,860
Other share expenses	**(8,498)**	–
Net cash (outflow)/inflow	**(3,115,224)**	929,748

b) Reconciliation of net cash flow to movement in net debt

	1998 £	1997 £
(Decrease)/increase in cash in the year	**(3,473,513)**	2,077,269
Cash outflow/(inflow) from financing	**3,375,023**	(922,888)
Change in net debt resulting from cash flows	**(98,490)**	1,154,381
Net debt at 1 January 1998	**(3,826,481)**	(4,980,862)
Net debt at 31 December 1998	**(3,924,971)**	(3,826,481)

c) Analysis of changes in net debt

	At 1 January 1998 £	Cash flow £	At 31 December 1998 £
Cash at bank and in hand	**2,209,843**	(1,737,934)	**471,909**
Overdraft	–	(1,735,579)	**(1,735,579)**
Debt	**(6,036,324)**	3,375,023	**(2,661,301)**
	(3,826,481)	(98,490)	**(3,924,971)**

Notes to the Financial Statements

continued

21 Operating lease commitments

The Group and the Company

Operating lease payments amounting to £124,624 (1997: £85,647) for the Group and £Nil (1997: £14,047) for the Company are due within one year. The leases to which these amounts relate expire as follows:

	Land and buildings		Other	
	1998	1997	**1998**	1997
The Group	£	£	£	£
Within one year	**6,024**	–	–	–
Between one and five years	**8,500**	8,500	–	5,047
In five years or more	**110,100**	72,100	–	–
	124,624	80,600	–	5,047
The Company				
Between one and five years	–	–	–	5,047
In five years or more	–	9,000	–	–
	–	9,000	–	5,047

22 Capital commitments

In the normal course of business the Group is continually developing new leisure venues. As the Group acts as its own main contractor, capital expenditure can be suspended at short notice and therefore the Group has no material capital commitments.

23 Contingent liabilities

There were contingent liabilities at 31 December 1998 and 31 December 1997 in respect of unprovided deferred taxation (see note 15).

The Company has given an unlimited guarantee in respect of the bank borrowings of Springwood Leisure Limited. At 31 December 1998 the liability under the guarantee amounted to £3,521,232 (1997: £2,060,107).

Notes to the Financial Statements

continued

24 Pension schemes

During the year, the Group has operated one Group Personal pension scheme which operated for the benefit of employees of the timber business. The assets of the scheme are administered by an insurance company independent from the Group. Contributions to the scheme made by the Group during the year are set out in note 3.

In addition to the above the Group operated a defined benefit scheme for the benefit of employees in the timber business which was closed to members on 5 April 1996.

The assets of this scheme are administered by a trustee in a fund independent of those of the Group. The pension costs are assessed in accordance with the advice of a qualified actuary using a discontinuance method. The assumptions that have the most significant effect on the results of the valuation are:

- The asset has been valued as the surrender value of the insurance policy.
- The liabilities have been discounted at a rate of interest which is equivalent to an initial rate of interest based on the yield on 15 year government stock at the valuation date and a reinvestment interest rate of 7% per annum.
- At retirement, pensions will be provided by purchasing immediate annuities on rates calculated on the basis of interest at the rate described above and the PA(90) mortality table with a 2 year age reduction.

The last actuarial valuation was at 30 June 1997. The market value of the scheme's assets as assessed by the actuary as at 30 June 1997 was £5,801,000. The actuarial value of those assets was sufficient to cover 100% of the benefits that had accrued to members being the estimated cost, as at 30 June 1997, of buying out members' benefit entitlements by non profit deferred annuity insurance policies.

25 Transactions with related parties

The Group has made the following payments to A S Page and parties related to him:

	1998	1997
	£	£
Interest on £3,000,024 convertible debentures	80,383	180,000
Rent and other property costs	8,500	8,500
	88,883	188,500

The £3,000,024 convertible debentures were redeemed by the Company on 12 June 1998. On that date the Group sold the residual timber business to Mr A S Page and Wisbech Timber Limited, a Company controlled by him. In accordance with Stock Exchange rules, full details were provided to shareholders to enable them to approve the disposal.

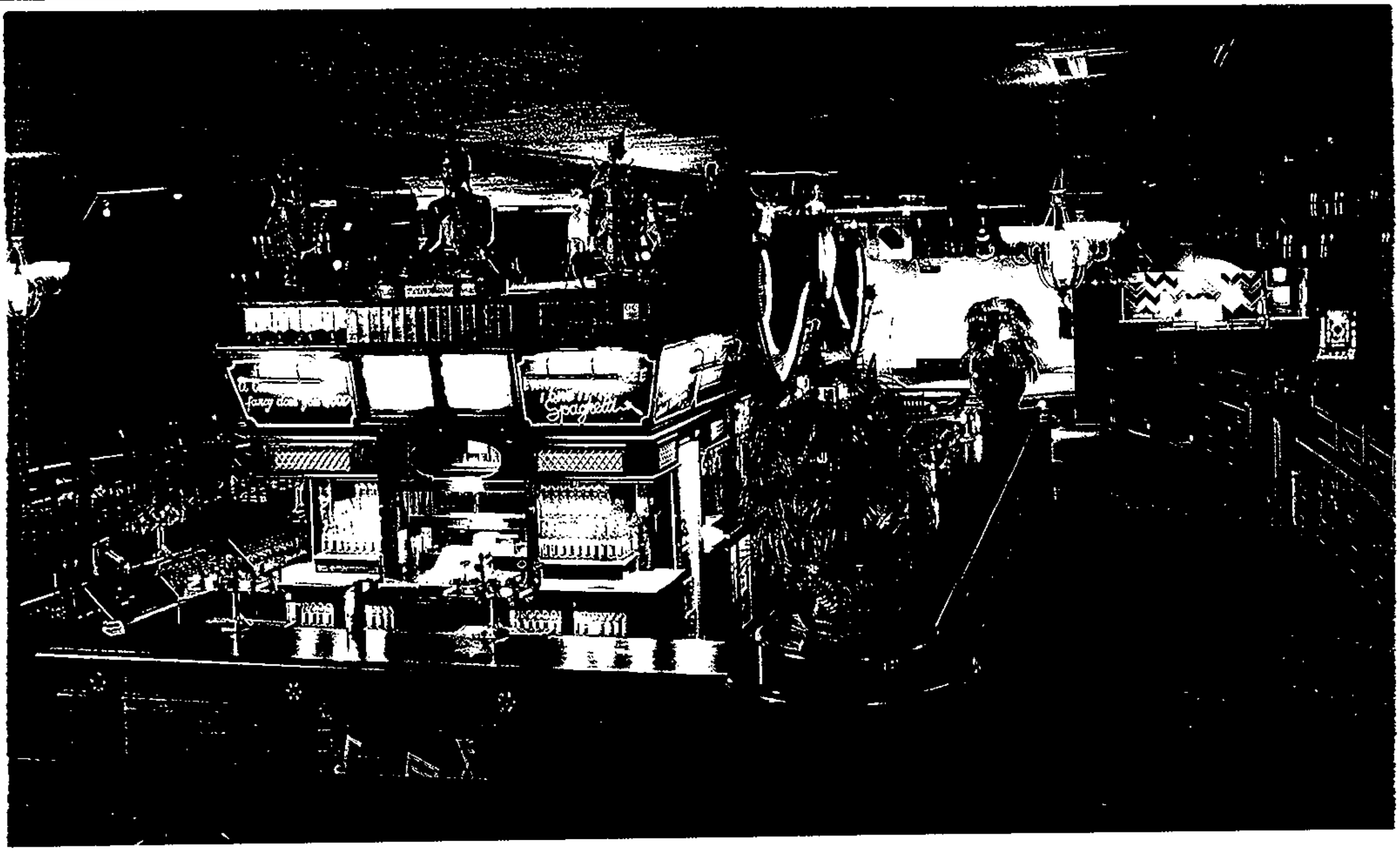
Subsequent to the sale the Group continued to provide certain management and other services to Wisbech Timber Limited on normal commercial terms. The amount of expenses recharged in respect of this was £143,568. These services ceased in September 1998.

The level of rent and other property costs has been set by the Non Executive Directors based on independent professional advice.

At 31 December 1998 the Group and Company were owed £2,446 by Wisbech Timber Limited.

26 Post balance sheet events

In February 1999, the Group entered into an agreement with Rank Group plc to purchase three leisure venues (one freehold, two leasehold) for a total consideration of £2.25 million. The acquisition is likely to complete formally in April 1999. The Directors anticipate committing further sums (currently estimated as £1.35million) to the upgrading of these venues. In March 1999, the Group purchased a freehold property for development for £1million and a freehold property to accommodate its administrative functions for £220,000. New borrowings of approximately £4 million will be assumed to fund these and other developments.



Springwood venues and offices

Zanzibar – Stockton-on-Tees. 2500 capacity, venue bar & nightclub (to be converted).

Zanzibar – Chesterfield. 2600 capacity, venue bar and nightclub.

Zanzibar – Newcastle-under-Lyme. 2000 capacity, venue bar and nightclub.

Zanzibar – Leicester. 2500 capacity, roller rink and nightclub.

Zanzibar – Newport, South Wales. 2000 capacity, venue bar and nightclub.

Zanzibar – Nuneaton. 800 capacity, venue bar and nightclub.

Roxy – Sheffield. 2500 capacity, nightclub.

The Tower – Edgbaston, Birmingham. 2000 capacity, nightclub/function complex (contract completing April 1999).

Colosseum/Zeus – Stafford. 1800 capacity, twin scene discotheque.

The Stockyard – Ashby de la Zouch. 1000 capacity, nightclub/restaurant/bar complex.

Fatty Arbuckles – Coventry. 1150 capacity, twin scene nightclub.

The Savoy – Anstey, Leicestershire. Pub/function room.

The Three Cranes – Leicester. City centre pub/24 beds.

The Redback Bar – Nottingham. City centre bar.

Spondon Snooker Club – Spondon, Derbyshire. Snooker club/function room.

Nightclub – Wolverhampton. 850 capacity, held for redevelopment.

Billy's Boozer – Newcastle-under-Lyme. Feeder bar for Zanzibar.

Crazy Horse – Nuneaton. 500 capacity, held for redevelopment.

Nightclub Development – Midlands. 2500 capacity, bought for development.

Swithland Hall – Leicestershire. Head Office.

Chancery House – Anstey, Leicestershire. Accounts and operations office.

Springwood Plc

Form of Proxy

I/We...

Please insert full name(s) and address(es) in block letters

....

of...

....

being (a) member(s) of Springwood Plc hereby appoint the Chairman of the Meeting, or (see note 2)

....

as my/our Proxy to vote for me/us on my/our behalf as indicated below at the Annual General Meeting of the Company to be held on 20 April 1999 and at any adjournment thereof.

Resolutions

Resolutions	For	Against
1. To approve the Report and Accounts.		
2. To confirm payment of a dividend of 1.5p per ordinary share		
3. To re-elect Mrs P A Turner who retires by rotation in accordance with the Company's present Articles of Association		
4. To re-appoint Grant Thornton as the auditors of the Company.		
6. To approve the Springwood Plc 1999 Unapproved Executive Share Option Scheme		
7. To permit the Directors to allot relevant securities.		
8. To permit the Directors to allot equity securities for cash.		

Dated this ....day of 1999

Signature ....

Notes

1. Please indicate by placing "X" in the boxes provided how you wish your votes to be cast. Otherwise your Proxy will vote or abstain as he thinks fit.
2. If another Proxy is preferred please insert the name of your Proxy and delete the words "the Chairman of the Meeting" and initial the alteration.
3. In the case of joint holders, the vote of the senior holder who tenders a vote will be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register.
4. If the Appointer is a Corporation, the Proxy must be under its Common Seal or signed by an officer or attorney duly authorised in writing.
5. The Proxy must be lodged with the Company's Registrars, IRG plc, Bourne House, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than forty-eight hours before the time of the meeting.

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2

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