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COMPANIES HOUSE 19/07/03

SPRINGWOOD PLC

annual report and accounts
2002

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Directors and Advisers

Directors:	A S Page *(Executive Chairman)* J J King *(Chief Operating Officer)* appointed 17 February 2003 D R Stevenson *(Finance Director)* C R Clegg *(Development Director)* M J Marley *(Commercial Director)* appointed 11 November 2002 A J Hall *(Non-Executive Director)* * R D Pickard *(Non-Executive Director)* * J B Wagstaff *(Non-Executive Director)* * * *Members of Audit and Remuneration Committees*	
Secretary:	M J Marley	
Registered office:	Swithland Hall Swithland Leicestershire LE12 8TD	
Registered number:	122634	
Bankers:	Lloyds TSB Bank PLC Southpoint House Harcourt Way Meridien Business Park Leicester LE3 2WP	
Auditors:	Grant Thornton Registered Auditors Chartered Accountants 8 West Walk Leicester LE1 7NH	
Solicitors:	Moss Solicitors 80 - 81 Woodgate Loughborough Leicestershire LE11 2XE	BPE St James's House St James's Square Cheltenham Gloucestershire GL50 3PR
Financial Advisers and Brokers:	Grant Thornton Corporate Finance Grant Thornton House Melton Street Euston Square London NW1 2EP	KBC Peel Hunt Limited 111 Old Broad Street London EC2N 1PH
Registrars:	Capita IRG plc Bourne House 34 Beckenham Road Beckenham Kent BR3 4TU	

Chairman's Statement

Our market
Following four years of outstanding growth we have experienced difficult market conditions in 2002 which has necessitated a degree of retrenchment and consolidation. However the underlying business of our core brand, Zanzibar, remains strong and competitive. The downturn in trading which, in common with everyone else in the sector, we experienced in the latter half of last year has now been arrested and we are looking for an improvement in trading in the second half of 2003.

We attribute the downturn in our market to an unexpected decline in footfall when for the first time trade did not expand to take up the substantial increase in capacity that has been coming on stream in the past three years with a proliferation of new late licences and existing licences being granted extended hours. The increase in capacity has now peaked and the market is settling down with traditional late night venues reasserting themselves and the new mainly High Street venues losing ground once they have completed their 'honeymoon' trading period.

Trading
Pre tax profits for continuing operations before exceptional items were in line with the pre-close season trading update at £3.0 million, representing a 33% decline on the previous year. This result reflects the difficult market conditions which particularly affected the second half. The result was also affected by 13 venues acquired for redevelopment which did not trade profitably overall in these adverse conditions.

Margins
I have already referred to the proliferation of new businesses which has caused over supply; other side effects have been irresponsible discounting and binge drinking leading to disorder. Our policy has always been to compete selectively when necessary but not to initiate discounting. We continue to post high margins which is indicative of the fact that our marketing is based on facilities, ambience and service and that we are not maintaining volume through excessive discounting. We believe that in the longer term we are building a better quality and more sustainable business.

Board changes
Our operations and administration has been strengthened by the appointment of Jez King (previously an Operations Director of Regent Inns) as Chief Operating Officer and Mike Marley as Commercial Director and shareholders will be invited to confirm their appointment to the Board at the Annual General Meeting. The operational team has been re-structured through the appointment of new, experienced and highly motivated management which has already led to improvements in performance and returns.

Acquisitions and financing
Springwood has also been hampered by a lack of capital to finance the re-development of the acquisitions we made during the year. These 13 northern venues were acquired for redevelopment and when completed they will expand considerably our earning potential. We had intended to finance these acquisitions and developments through a share placing but the collapse in the share market obviated that option. The acquisitions, therefore, have been funded through bank borrowings and ongoing facilities which have recently been re-negotiated with our bankers.

Property for redevelopment and disposal
We are currently holding a substantial amount of property for redevelopment which is loss making but which on conversion at a future stage will transform our profitability. We are also rationalising our property portfolio by disposing of non-core activities and loss making and redundant venues.

Property values

Based on our current trading, the market values of our properties are likely to be below book value of £75 million. However we believe that the income streams deriving from those properties are likely to be restored over the longer term as market economics stabilise and as the development potential of a number of our properties is realised such that their value in use is at or above their current book value.

Dividend

Due to current constraints on capital it would not be prudent to recommend the payment of a dividend this year.

Staff

Staff and management have given loyal service throughout what became an increasingly difficult year and I would like to thank them on your behalf for their hard work, enthusiasm and optimism. In order to take account of the changed market conditions and to make the most of the future opportunities we wish to re-incentivise all staff and we are considering a new scheme to replace existing incentives.

Prospects

The short period of retrenchment has enabled us to take stock of the business, rationalise what we do, take out significant amounts of cost and generally refocus the business. We are now leaner, fitter and more competitive and are earning more from lower sales. Our margins remain amongst the highest in the sector and our primary task is to increase spend per head and attract more people back into our clubs. Competition for the leisure trade has never been higher but we have every confidence in our products and ability to succeed.

Adam S Page
Executive Chairman
14 May 2003

Review of Operations

Trading

2002 opened strongly but trading conditions across the whole sector soon became more difficult and the second half trade deteriorated significantly. We were caught with 13 venues which we have bought over the last two years for redevelopment which were unable to trade profitably in adverse conditions. We have been carrying substantial costs on these properties but we now have a development schedule which will enable most to be converted into profitable venues.

Property

Properties which are scheduled for conversion include 10 in the North, 2 in the Midlands and 2 in the South. During the year we carried out refurbishments at Leicester Zanzibar and Birmingham Cobarna and sold 5 properties, all of which were loss making or closed.

We are continuing to rationalise our portfolio and we have sold or are in the process of selling underperforming and small venues which do not fit our trading format. We have also sold 2 residential houses and we will sell other non-core properties if we can obtain planning consents for redevelopment.

Zanzibar

We are constantly seeking to refine and update this concept which continues to perform well across the estate, and we have approved plans and licensing for Zanzibars in Blackpool, Blackburn and Barnsley, all in prime locations. The concept competes strongly against the new High Street bars and conventional discotheques and caters for a wider age spectrum. The key to its success is the relaxed yet sophisticated décor and ambience, the varied music policy played at acceptable volumes, the large and *comfortable size with plenty of space for services and* dining and facilities. The concept is now nearly 6 years old but has been updated and refined every year and its appeal has not diminished.

Insurance

In common with all other companies in the sector we have had to accept substantially higher insurance premiums to retain appropriate cover and a further increase is likely to be levied on renewal in June 2003. Our premiums are much less than many of our competitors because we have satisfied our insurers that our standards of administration and operational management are high and comply with all current legislation.

Administration and technology

At the end of the year Jez King joined us as Chief Operating Officer and he is recruiting to strengthen and broaden the management team. He has conducted a root and branch review of all trading operations and head office administration and the results are now beginning to show in further improvements in margins, increased spend per head, reductions in overheads and he is now concentrating on improving customer footfall. All this is happening against a backdrop of difficult market conditions but we do have substantial scope for improvement with a considerable amount of spare capacity to achieve a target of 85% occupancy.

Adam S Page
Executive Chairman
14 May 2003

Review of Finance

Finance
Pre-tax profits for continuing operations before exceptional items for 2002 were £3.0 million (2001: £4.5 million).

Earnings per share by comparing profits before exceptional items was 10.88 pence (2001: 14.91 pence).

Pre-tax profit after exceptional items was £2.1 million (2001: loss £0.8 million).

Exceptional items

	2002 £000	2002 £000	2001 £000	2001 £000
Profit/(loss) on ordinary activities before tax		**2,149**		(772)
Loss on sale and proposed sale of fixed assets	**495**		3,200	
Exceptional items within operating profit	**358**		1,925	
Net interest	**–**		147	
		853		5,272
Profit on ordinary activities before tax and exceptional items		**3,002**		4,500

Exceptional items before tax of £0.9 million (2001: £5.3 million) have been charged to the profit and loss account during the year. These charges are detailed in note 2 to the accounts and for 2002 are summarised as follows:

- charges of £0.5 million relating to loss on sales and proposed sale of fixed assets
- charges of £0.3 million in respect of professional fees incurred in respect of an aborted equity issue during the year
- a provision of £0.1 million in respect of the deficit on the Group's pension scheme.

Cash flow
Net cash flow for 2002 was £1.5 million outflow (2001: £0.5 million outflow).

Pre-funding cash flow before the effects of bank loan draw downs and repayments and other financing was £2.6 million outflow (2001: £11.1 million outflow).

Capital expenditure was £3.6 million (2001: £4.6 million) including costs in respect of the redevelopment of Leicester Zanzibar and Birmingham Cobarna.

Acquisition expenditure for the year totals £4.2 million (2001: £10.9 million). This expenditure relates to the acquisition of Victorian Leisure Limited (£3.4 million), additional costs incurred in respect of the acquisition of Kingfisher Leisure Plc in 2001 (£0.3 million) and the initial deposit in respect of the properties acquired from First Leisure Corporation (£0.4 million). Under the terms of the deferred consideration agreement with First Leisure Corporation there will be further payments of between £3.2 million and £3.7 million.

Disposal proceeds for 2002 were £2.4 million (2001: £0.7 million). Proceeds are in respect of the sale of five properties in Ashford, Coventry, Wolverhampton, Burton on Trent and Leicester.

Bank facility
During the year the bank provided various temporary facilities to fund acquisitions in lieu of a proposed share placing. The Group successfully concluded negotiations with its bankers, Lloyds TSB Bank plc, to replace these temporary facilities with a new ongoing facility in April 2003. The new term loan facility runs through to July 2004.

These negotiations commenced and were agreed in principle prior to 31 December 2002 and as such the bank debt and related disclosure in these financial statements reflect the current agreed facility as if it was in place at 31 December 2002.

We are now negotiating to re-finance our property portfolio and take full advantage of the lowest interest rates for 40 years. We are also looking at various options to put in place the modest amount of development capital that we need to complete our development programme.

Property revaluation

In the annual financial statements for the year ended December 2001 the Group revalued its property assets on an existing use basis.

Property values as at the end of December 2002 are based on the valuations adopted at December 2001 plus subsequent additions less disposals and depreciation in line with the Group's stated policy.

The directors have considered the potential impairment of property values as at December 2002 given the downturn in trading experienced by the Group and the market sector. Whilst it is recognised that there are likely to be current reductions in open market valuations it is considered that the long-term value in use will support current valuations.

Borrowings

Net debt as at 31 December 2002 was £38.1 million (2001: £32.4 million). The increase can be broadly attributed to the acquisition of Victorian Leisure Limited and the properties from First Leisure Corporation which were 100% debt financed.

Gearing is 128% (2001: 115%) and interest cover based on the operating profit before exceptional items for the year was 2.2 times (2001: 3.9 times).

The current weighted average interest rate is 7.5% and all borrowings are covered by a series of hedging arrangements which limit exposure to potential interest rate increases to around 8% for the medium term.

Taxation

FRS19-Deferred Tax has been adopted for the accounting period to 31 December 2002. The comparative information has been amended to reflect the change in accounting policy. The result of the adjustment is to increase the deferred tax provision at December 2001 by £3.4 million with a corresponding reduction to the profit and loss account. The tax charge in the profit and loss account for 2002 has increased by £166,000 following the introduction of FRS 19 (2001: increase by £814,000).

The tax charge within the profit and loss account for 2002 is £581,000, which equates to an effective rate of 27.0% against pre-tax profit. The assessment of tax payable for the period is £415,000 equating to an effective tax payable rate of 13.8% against pre-tax profits before exceptional and non-recurring items.

D Stevenson

David Stevenson
Finance Director
14 May 2003

Report of the Directors

The Directors present their report together with financial statements for the year ended 31 December 2002.

Principal activities

The Group operates within the leisure sector as an operator of nightclubs, venue bars, public houses and restaurants. A review of the Group's performance for 2002 and its prospects for 2003 are contained in the Chairman's Statement on pages 2 to 3, and the Reviews of Operations and Finance on pages 4 to 7.

Results and dividends

The consolidated profit for the year after taxation was £1,568,000 (2001: loss £1,736,000).

No dividend is proposed in respect of the year ended 31 December 2002 (2001: 3.0p).

Directors

The membership of the Board during the year, together with subsequent changes is set out below, together with (where relevant) their dates of appointment or resignation.

The beneficial and non-beneficial interests of the Directors and their families in the shares of the Company at 31 December 2002 and 1 January 2002 (or date of appointment if later) were as follows:

	31 December 2002		1 January 2002 (or date of appointment)	
	10p ordinary shares		10p ordinary shares	
	Beneficial	**Non beneficial**	Beneficial	Non beneficial
Executive directors				
A S Page	**8,158,397**	–	8,158,397	–
D R Stevenson	–	–	–	–
C R Clegg	**15,777**	–	15,777	–
N A Dennett (resigned 17 February 2003)	–	–	–	–
M J Marley (appointed 11 November 2002)	*12,000*	–	12,000	–
J J King (appointed 17 February 2003)	–	–	–	–
Non-executive directors				
A J Hall	**141,150**	–	141,150	–
R D Pickard	**35,000**	–	35,000	–
J B Wagstaff	**250,000**	–	250,000	–

In the period up to 14 May 2003 there were no changes to these holdings.

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

A S Page and D R Stevenson retire by rotation, and being eligible, will offer themselves for re-election. J J King and M J Marley were appointed to the Board during the year. In accordance with the Articles of Association, shareholders will be asked to confirm their appointment at the Annual General Meeting.

Brief biographical details of the Company's current Directors are given below.

A S Page, Executive Chairman
A S Page has been responsible for developing substantial leisure companies since 1969, including Grosvenor Leisure Limited and Midsummer Leisure PLC.

J J King, Chief Operating Officer
J J King worked within the retailing divisions of Regent Inns plc and Scottish and Newcastle plc, where he held a number of senior operational positions including Operations Director of Regent Inns Comedy Limited, PALS Leisure Group Limited and Pontins.

D R Stevenson ACMA, Finance Director
D R Stevenson worked for 17 years within the brewing and retailing division of Allied Domecq PLC, where he held a number of senior financial positions including Finance Director of Ansells Limited and Allied Domecq Leisure Limited.

C R Clegg, Development Director
C R Clegg has been involved in the nightclub sector of the leisure industry throughout his career. He has 12 years operational experience with Mecca, and has worked alongside A S Page in the current business since its inception as a private company in 1990.

M J Marley, Commercial Director
M J Marley worked for 15 years within company secretarial roles and property management. He has held previous positions at accountants, Deloitte and Touche and the Inland Revenue. He has been Company Secretary of Springwood Plc for 3 years and has worked alongside A S Page on acquisition and property matters.

A J Hall, Non-Executive Director
A J 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 Ridgeview Limited and is actively involved in these interests. He was appointed a Non-Executive Director of the Company in December 1994. He is a member of both the Remuneration Committee and Audit Committee.

R D Pickard, FRICS, Non-Executive Director
R D Pickard has extensive experience and knowledge of property aspects of the leisure industry. He was previously Managing Director of Colliers Conrad Ritblat Erdman and was largely responsible for taking that organisation to its position as a leading provider of leisure and UK real estate consultancy services. Mr Pickard is currently a director of Thomas Estates Limited and Cliffstone Limited. He was appointed a Non-executive director of the Company in September 2001. He is a member of both the Remuneration Committee and Audit Committee.

J B Wagstaff, Non-Executive Director
J B Wagstaff was founder and Chairman of Pressac Holdings plc and its subsidiaries until his retirement in 1990. He is Chairman of Cheslyn Development Company Limited. He was appointed a Non-Executive Director of the Company in December 1994. He is a member of both the Remuneration Committee and Audit Committee.

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 29 to the financial statements.

Report of the Directors

continued

Substantial shareholders

At 14 May 2003, 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	8,158,397	38.1
Electra Quoted Management Limited	1,025,000	4.8

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. In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with the Group may continue.

It is the policy of the Group that training, career development and promotion opportunities should be available to all employees.

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 Company at the year end amount to nil days of average supplies for the year as calculated under the prescribed method in Statutory Instrument 2000/571. An alternative figure of 35 (2001: 53) days for the Group which takes account of trading throughout the Group is a more meaningful measure.

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

M J Marley
Secretary

Registered office:
Swithland Hall
Swithland
Leicestershire
LE12 8TD

14 May 2003

Directors' Remuneration Report

The Remuneration Committee consists of the Non-Executive Directors, A J Hall, R D Pickard and J B Wagstaff.

Remuneration policy

The Board recognises that directors' remuneration is of legitimate concern to shareholders. In accordance with Section 241A of the Companies Act 1985, the Board presents the Directors' Remuneration Report for shareholder approval.

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

All Executive Directors enter into a service agreement. For those directors, either in office during the year or serving at the date of this report, the principal terms of their agreements are as follows:

A S Page:

- annual contractual remuneration of £115,000 per annum or such higher amounts (currently agreed as £115,000) as agreed between the Directors and the Remuneration Committee, plus normal benefits.
- participation in annual bonus scheme payable at sole discretion of the Remuneration Committee (bonus of £nil for 2002).

J J King:

- annual contractual remuneration of £100,000 or such higher amount (currently agreed as £100,000) as agreed between the Director and the Remuneration Committee, plus normal benefits.
- participation in annual bonus scheme payable at the sole discretion of the Remuneration Committee.

D R Stevenson:

- annual contractual remuneration of £66,000 or such higher amount (currently agreed as £100,000) as agreed between the Director and the Remuneration Committee, plus normal benefits.
- participation in annual bonus scheme payable at the sole discretion of the Remuneration Committee (bonus of £nil for 2002).

N A Dennett:

- annual contractual remuneration of £68,000 or such higher amount (at date of resignation £68,000) as agreed between the Director and the Remuneration Committee, plus normal benefits.
- participation in annual bonus scheme payable at the sole discretion of the Remuneration Committee (bonus of £nil for 2002).

M J Marley:

- annual contractual remuneration of £45,000 or such higher amount (currently agreed as £60,000) as agreed between the Director and the Remuneration Committee, plus normal benefits.
- participation in annual bonus scheme payable at the sole discretion of the Remuneration Committee (bonus of £nil for 2002).

C R Clegg:

- annual contractual remuneration of £68,000 or such higher amount (currently agreed as £75,000) as agreed between the Director and the Remuneration Committee, plus normal benefits.
- participation in annual bonus scheme payable at the sole discretion of the Remuneration Committee (bonus of £nil for 2002).

Directors' Remuneration Report

continued

The following table gives details of the contract of service of each person who has served as a director of the company since 1 January 2002.

	Date of contract	Notice period (months)	Compensation payable on early termination (part of annual remuneration)
A S Page	1 January 2001	12	Notice period
C R Clegg	1 January 2001	12	Notice period
D R Stevenson	1 January 2001	12	Notice period
N A Dennett	1 January 2001	12	Notice period
M J Marley	11 November 2002	12	Notice period
J J King	9 December 2002	12	Notice period

All of the contracts of service remain in effect until the agreement is terminated by either party. The Group has a policy to limit compensation to a maximum of the notice period. N A Dennett resigned on 17 February 2003. Compensation of £49,000 has been negotiated, agreed and paid on 28 March 2003. This will be recognised in the 2003 financial statements.

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 the executive directors. The bonus of A S Page is calculated as 2% of designated annual profits in excess of agreed targets 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 2002 was £nil (2001: £20,000). In addition annual bonuses have not been paid to D R Stevenson, C R Clegg, N A Dennett and M J Marley as the Group did not achieve designated annual profits targets for the year. Designated profits are based on the Group's budget for the year which is set prior to the start of a financial year and approved by the Board of Directors as a whole.

Long-term incentives principally take the form of the grant of options under the Executive Share Option Scheme and the Unapproved 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.

The remainder of the Directors' Remuneration Report has been audited.

Directors' remuneration

	2002 £	2001 £
Salaries and benefits in kind	**374,208**	434,237
Directors' fees	**36,000**	28,000
	410,208	462,237

The emoluments of the Directors are analysed as follows:

	Salary and fees £	Bonuses £	Benefits £	Total 2002 £	Total 2001 £
Executive Directors					
A S Page	**115,000**	**–**	**11,564**	**126,564**	147,917
C R Clegg	**75,000**	**–**	**8,693**	**83,693**	98,823
D R Stevenson	**70,000**	**–**	**10,490**	**80,490**	87,199
N A Dennett (resigned 17 February 2003)	**68,000**	**–**	**7,701**	**75,701**	82,549
W McGregor (resigned 2001)	**–**	**–**	**–**	**–**	17,749
M J Marley (appointed 11 November 2002)	**6,250**	**–**	**1,510**	**7,760**	–
Non-Executive Directors					
A J Hall	**12,000**	**–**	**–**	**12,000**	12,000
R D Pickard (appointed 3 September 2001)	**12,000**	**–**	**–**	**12,000**	4,000
J B Wagstaff	**12,000**	**–**	**–**	**12,000**	12,000
	370,250	**–**	**39,958**	**410,208**	462,237

Share options

Full details of share option schemes are given in note 21 to the financial statements. Details of options granted to Directors under the share option schemes are given below.

	At 1 January 2002	Granted during the year	**At 31 December 2002**	**Exercise price p**	**Date from which exercisable**	**Expiry date**
D R Stevenson						
Executive scheme	21,276	–	21,276	141.0	October 2003	October 2010
Unapproved scheme	28,724	–	28,724	141.0	October 2003	October 2010
Unapproved scheme	22,000	–	22,000	106.5	October 2004	October 2011
C R Clegg						
Executive scheme	38,360	–	38,360	78.2	July 2000	July 2006
Unapproved scheme	100,000	–	100,000	112.5	May 2002	May 2009
Unapproved scheme	70,000	–	70,000	141.0	October 2003	October 2010
Unapproved scheme	30,000	–	30,000	106.5	October 2004	October 2011
N A Dennett						
Executive scheme	21,276	–	21,276	141.0	October 2003	October 2010
Unapproved scheme	28,724	–	28,724	141.0	October 2003	October 2010
Unapproved scheme	10,000	–	10,000	106.5	October 2004	October 2011
M J Marley						
Executive scheme	21,276	–	21,276	141.0	October 2003	October 2010
Unapproved scheme	8,724	–	8,724	141.0	October 2003	October 2010
Unapproved scheme	8,000	–	8,000	106.5	October 2004	October 2011

Directors' Remuneration Report

continued

The market price of the Company's shares at 31 December 2002 was 27p, and the price range during 2002 was 25p to 157p. Following his resignation on 17 February 2003 N A Dennett's share options remain to be exercisable for a period of 6 months from the date of resignation and if not exercised will then lapse and be cancelled.

Non-Executive Directors are not entitled to receive share options.

Comparative performance

Springwood total shareholder return compared to the FTSE leisure sector and all share index.

The above graph shows Springwood's total shareholder return compared to the total shareholder return of the FTSE all share index over the past five years. Total shareholder return is defined as the percentage change over the period in market price, assuming the reinvestment of income and funding of liabilities of the theoretical holding.

The company is a member of the leisure sector and as such, this sector is considered to be the most appropriate comparator.

BY ORDER OF THE BOARD

J B Wagstaff

Non-Executive Director and Chairman of the Remuneration Committee

14 May 2003

Corporate Governance

Corporate governance
The Company is committed to applying the highest principles of corporate governance commensurate with its size. This report describes how it complies with the provisions of the Combined Code.

Compliance with the code
The Company has complied throughout the year with the Code provisions set out in Section 1 of the Combined Code except that:

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

A.5.1 No Nomination Committee exists as the Board has only eight members and therefore such a Committee is not considered necessary. Directors are approved by the Board as a whole following the recommendations of a Committee specifically appointed to consider the requirements of the relevant role.

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.

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. In this context and in anticipation of continued growth the composition of the Board has been strengthened by the appointment of J J King.

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 required by the Combined Code.

The Board has an open mind as to whether or not the roles of Chairman and Chief Executive should be separate. Its prevailing policy would be for a joint role, based on the particular skills of the individual concerned and the Group's current requirements.

Three members of the Board are independent Non-Executive Directors and whilst no single director is recognised as senior, they form a powerful voice in influencing the decisions of the Board as a whole.

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.

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 standing for re-appointment, assess the Director's suitability for re-appointment.

On appointment Directors are given a comprehensive briefing on the Group's affairs and are taken through an induction process.

Corporate Governance
continued

Relationships with shareholders
The Executive Chairman, the Chief Operating Officer, the Finance Director and Financial Advisers are the Group's principal spokespersons with investors, fund managers, the press and other interested parties.

Voting at shareholder meetings on specific resolutions is dealt with by a show of hands, but the Chairman also indicates the balance of proxies received for and against each resolution. 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 are available to discuss matters with the shareholders.

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 financial statements are described on page 17 and that of the auditors on page 18. A statement on going concern is also on page 17.

The Board maintains two standing committees comprised of the independent Non-Executive Directors appointed to the Board. The Remuneration Committee, chaired by 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 J B Wagstaff, reviews the financial accounts and policies and oversees internal controls and compliance. It reviews the independence and objectivity of the external auditors. This includes reviewing the nature and extent of non-audit services supplied by the external auditors to the Group, seeking to balance objectivity and value for money.

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

Internal control
The Board is responsible for maintaining a sound system of internal control to safeguard shareholders' investment and the Group's assets.

The Board continues to monitor the Group's system of internal control covering financial, operational and compliance controls and risk management. As part of this, the Group has established an on-going process for identifying, evaluating and managing the key risks. The system of internal control is designed to provide reasonable, but not absolute, assurance against material misstatement or loss.

Key processes
The key processes used by the Board to review the effectiveness of the system of internal controls include:

- the direct and close supervision by the directors of all key aspects of the business.
- feedback and regular meetings with the managers of individual venues to identify best practice.
- the operation of an internal audit function whose key findings are reviewed on a regular basis.

Key aspects
The key aspects of the system of internal control include the following:

- detailed budgets by trading unit are set in advance of each trading year.
- detailed monthly management accounts (and all related routines) are prepared, and performance compared to budget on a unit by unit basis.
- the Group reviews and monitors developments and trends amongst its competitors and continually refines and updates the Group's operations to compete effectively in the marketplace.
- a strict admissions policy is operated by the Group.
- the Group has health and safety procedures in place and has appointed J J King to be specifically responsible for this area of risk.
- the Group operates a strict incident reporting procedure to cover any injuries, robberies or drugs related matters.

- the Group prepares detailed cash flow forecasts which are updated regularly in the light of trading performance.
- there is a very limited authority for the approval of expenditure at trading unit level. All substantial expenditure is reviewed by Head Office personnel and cheques are only issued from Head Office after receipt of appropriate evidence.
- the Group has an internal audit function which, *inter alia*, reviews the various controls in place to ensure the completeness of income and the accurate recording of expenditure.
- takings of individual units are reconciled on a daily basis to EPOS cash registers and other records.
- margins of individual units are reviewed on a regular basis.
- the Group has detailed controls relating to the appointment, monitoring and payment of staff.
- there is close Board control over all elements of capital expenditure.
- the Group's borrowing exposure is monitored by the Board and suitable interest rate protection obtained by use of appropriate financial derivatives. (note 17)

The Board believes that its systems of internal control are appropriate for the size and nature of its operations, and will continue to review potential improvements to the system on a regular basis.

Assessment of business risk

Business risk is identified and assessed by the Board through discussion with area managers and strategic monitoring of competitors and market conditions. Specific risks include new licensing laws, rising costs of all insurance, the changing face of high streets in town and city centres, and legislation regarding door security staff. A separate committee of Executive Directors review and report developments to the main Board, together with developing appropriate strategies and controls to manage these areas.

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 2002, its budget for 2003 and plan for 2004. 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 Group has successfully renegotiated its existing banking facilities during the last three months. In order to reflect the relatively depressed market conditions, loan repayment dates have been extended . These revised terms have been reflected in the financial statements as the bank had agreed in principle to revised facilities by 31 December 2002. Based on the revised facilities the Directors believe that Group and the Company should 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.

Directors' responsibilities for the financial statements

Company law in the United Kingdom 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.

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

M J Marley
Company Secretary
14 May 2003

Report of the Independent Auditors

to the members of Springwood Plc

We have audited the financial statements of Springwood Plc for the year ended 31 December 2002, which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses, note of historical cost profits and losses, statement of principal accounting policies and notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

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

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and United Kingdom auditing Standards.

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

We review whether the Corporate Governance statement on page 15 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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

Basis of opinion

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

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

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 as at 31 December 2002 and of the profit of the Group for the year then ended, and
- the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985.

Grant Thornton

Grant Thornton
Registered Auditors
Chartered Accountants
Leicester
14 May 2003

Note:

The maintenance and integrity of the Springwood Plc web sites are the responsibility of the directors. The work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web sites. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

Consolidated Profit and Loss Account

for the year ended 31 December 2002

	Note	Before exceptional items 2002 £000	Exceptional items (note 2) 2002 £000	2002 £000	2001 £000 (Restated)
Turnover	1				
Continuing operations		**28,750**	-	**28,750**	26,623
Acquisitions		**3,618**	-	**3,618**	-
		32,368	-	**32,368**	26,623
Cost of sales		**(6,110)**	-	**(6,110)**	(5,260)
Gross profit		**26,258**	-	**26,258**	21,363
Administrative expenses					
Recurring		**(20,795)**	-	**(20,795)**	(15,292)
Exceptional items	2	-	**(358)**	**(358)**	(1,925)
		(20,795)	**(358)**	**(21,153)**	(17,217)
Operating profit					
Continuing operations		**5,093**	**(358)**	**4,735**	4,146
Acquisitions		**370**	-	**370**	-
		5,463	**(358)**	**5,105**	4,146
Loss on sale and proposed sale of fixed assets	2	-	**(495)**	**(495)**	(3,200)
Net interest	3	**(2,461)**	-	**(2,461)**	(1,718)
Profit/(loss) on ordinary activities before taxation	1	**3,002**	**(853)**	**2,149**	(772)
Tax on profit on ordinary activities	5	**(673)**	**92**	**(581)**	(964)
Profit/(loss) for the financial year		**2,329**	**(761)**	**1,568**	(1,736)
Dividends	7	-	-	-	(642)
Retained profit/(loss)	22	**2,329**	**(761)**	**1,568**	(2,378)
Earnings/(loss) per share					
Basic	8			**7.33p**	(8.12)p
Diluted	8			**7.33p**	-
Earnings per share before exceptional items					
Basic	8	**10.88**			14.91p
Diluted	8	**10.88**			14.83p

The statement of principal accounting policies and notes 1 to 30 form an integral part of these financial statements.

Consolidated Balance Sheet

at 31 December 2002

	Note	2002 £000	2001 £000 (Restated)
Fixed assets			
Intangible assets	9	**1,530**	906
Tangible assets	10	**74,873**	67,182
		76,403	68,088
Current assets			
Properties held for resale	12	**36**	54
Stock	12	**527**	508
Debtors	13	**1,950**	1,628
Cash at bank		**1,910**	1,748
		4,423	3,938
Creditors: amounts falling due within one year	14	**(16,074)**	(14,848)
Net current liabilities		**(11,651)**	(10,910)
Total assets less current liabilities		**64,752**	57,178
Creditors: amounts falling due after more than one year	15	**(29,374)**	(25,447)
Provisions for liabilities and charges	18	**(5,538)**	(3,459)
		29,840	28,272
Capital and reserves			
Called up share capital	20	**2,140**	2,140
Share premium account	22	**7,456**	7,456
Revaluation reserve	22	**16,439**	16,543
Profit and loss account	22	**3,805**	2,133
Shareholders' funds	23	**29,840**	28,272

Approved by the Board of Directors on 14 May 2003 and signed on its behalf by:

A S Page
Director

The statement of principal accounting policies and notes 1 to 30 form an integral part of these financial statements.

Company Balance Sheet

at 31 December 2002

	Note	2002 £000	2001 £000
Fixed assets			
Tangible assets	10	**440**	440
Investments	11	**17,643**	17,643
		18,083	18,083
Current assets			
Properties held for resale	12	**36**	54
Debtors	13	**3,257**	6,469
Cash at bank		**126**	154
		3,419	6,677
Creditors: amounts falling due within one year	14	**(722)**	(2,776)
Net current assets		**2,697**	3,901
Total assets less current liabilities		**20,780**	21,984
Creditors: amounts falling due after more than one year	15	**(8,973)**	(9,661)
Provisions for liabilities and charges	18	**-**	(16)
		11,807	12,307
Capital and reserves			
Called up share capital	20	**2,140**	2,140
Share premium account	22	**7,456**	7,456
Revaluation reserve	22	**203**	203
Profit and loss account	22	**2,008**	2,508
Shareholders' funds		**11,807**	12,307

Approved by the Board of Directors on 14 May 2003 and signed on its behalf by:

A S Page
Director

The statement of principal accounting policies and notes 1 to 30 form an integral part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2002

	Note	2002 £000	2001 £000
Net cash inflow from operating activities	24a	**5,438**	5,874
Returns on investments and servicing of finance			
Interest paid		**(2,461)**	(1,718)
Taxation		**48**	-
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(3,550)**	(4,556)
Sale of tangible fixed assets		**2,410**	661
Net cash outflow from capital expenditure and financial investment		**(1,140)**	(3,895)
Acquisitions and disposals			
Purchase of new business units	25	**(4,155)**	(10,864)
Net cash/(borrowings) from purchase of subsidiary undertaking		**353**	(15)
Net cash outflow from acquisitions and disposals		**(3,802)**	(10,879)
Equity dividends paid		**(642)**	(531)
Financing			
Bank loans received		**6,353**	25,000
Bank loans repaid		**(5,227)**	(14,512)
Capital element of finance lease rentals		**(31)**	-
Issue of shares		**-**	145
Net cash inflow from financing		**1,095**	10,633
Decrease in cash	24b	**(1,464)**	(516)

The statement of principal accounting policies and notes 1 to 30 form an integral part of these financial statements.

Other Primary Statements

for the year ended 31 December 2002

Statement of Total Recognised Gains and Losses

	2002 £000	2001 £000 (Restated)
Profit/(loss) for the financial year	1,568	(1,736)
Surplus on revaluation of properties	-	16,501
Total gains and losses recognised for the year	1,568	14,765
Prior year adjustment (see note 19)	(3,443)	-
Total gains and losses recognised since last financial statements	(1,875)	14,765

Note of Historical Cost Profits and Losses

	2002 £000	2001 £000 (Restated)
Profit/(loss) on ordinary activities before tax	2,149	(772)
Difference between historical cost depreciation and depreciation charge based on revalued amounts	104	-
Historical cost profit/(loss) before taxation	2,253	(772)
Historical cost profit/(loss) retained	1,672	(2,378)

The statement of principal accounting policies and notes 1 to 30 form an integral part of these financial statements.

Statement of Principal Accounting Policies

The financial statements have been prepared in accordance with applicable accounting standards up to and including FRS19-Deferred Tax, and under the historical cost convention as modified by the revaluation of freehold and leasehold properties. The principal accounting policies represent the most appropriate in accordance with FRS 18-Accounting Policies. The principal accounting policies of the Group have remained unchanged from the previous year, except for the adoption of FRS 19-Deferred Tax. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly.

Basis of consolidation

The Group financial statements consolidate those of the Company and of its subsidiary undertakings drawn up to 31 December. 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. Acquisitions of subsidiaries are dealt with by the acquisition method of accounting.

Goodwill

Goodwill arising on consolidation, representing the excess of the fair value of the consideration given over the fair values of the identifiable net assets acquired, is capitalised and is amortised on a straight line basis over its estimated useful economic life.

As a matter of accounting policy, purchased goodwill first accounted for in accounting periods ending before 23 December 1998, the implementation date of FRS 10, was eliminated from the financial statements by immediate write-off on acquisition against reserves. Such goodwill will be charged or credited to the profit and loss account on the subsequent disposal of the business to which it relates.

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 by annual instalments over their expected useful economic lives.

Depreciation has been provided on freehold buildings used by the Group in accordance with FRS 15-Tangible Fixed Assets. 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 impairment in value.

Assets are generally depreciated using the following rates:

Freehold buildings	:	2% straight line
Leasehold buildings	:	period of lease
Fixtures and fittings	:	*Between 10% and 20% straight line*
Vehicles	:	25% reducing balance

Fixed asset investment

Investments are included at cost less amounts written off.

Financial instruments

The Group uses derivative financial instruments to manage exposures to fluctuations in interest rates. Discounts or premiums on financial instruments designated to manage such fluctuations are reflected as adjustments to interest payable. Financial assets *are recognised in the balance sheet at the lower of cost and net realisable value. Provision is made for diminution in value where* appropriate. Income and expenditure arising on financial instruments is recognised on the accruals basis and credited or charged to the profit and loss account in the financial period to which it relates.

Properties held for resale
Properties held for resale consist of sites held exclusively for resale and 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.

Capitalised interest
Interest on borrowings in respect of new leisure venues undergoing development is capitalised up to the date when the relevant venue is available for use.

Deferred taxation
Deferred tax is recognised on all timing differences where the transactions or events that give the company an obligation to pay more tax in the future, or a right to pay less tax in the future, have occurred by the balance sheet date. Deferred tax assets are recognised when it is more likely than not that they will be recovered. Deferred tax is measured using rates of tax that have been enacted or substantially enacted by the balance sheet date.

Leased assets
Assets held under finance leases and hire purchase contracts are capitalised in the balance sheet and depreciated over their expected useful economic 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 benefit scheme
The pension costs 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. Variations from regular cost are spread over the remaining service lives of current employees in the scheme. Where there are no remaining service lives, costs are recognised immediately.

The Group has included the disclosures required by FRS17 - Retirement Benefits in accordance with the transitional arrangements.

Grants
Grants received in respect of capital expenditure are credited to a deferred income account. Where the terms of the grant permit recovery by the Grant Authority in the event of certain conditions being met, the grant is retained within deferred income until such time as the conditions for repayment no longer apply.

Notes to the Accounts

1 Turnover and profit/(loss) on ordinary activities before taxation

Turnover and profit/(loss) on ordinary activities before taxation arise wholly within the United Kingdom from the Group's principal activity being the operation of night clubs, venue bars, public houses and restaurants.

Profit/(loss) on ordinary activities before taxation is stated after:

	2002 £000	2001 £000
Amortisation of goodwill	**65**	25
Depreciation:		
Tangible fixed assets	**1,842**	1,507
Auditors' remuneration:		
Audit services	**40**	41
Non audit services	**92**	64
Operating lease rentals:		
Land and buildings	**1,633**	819

2002

In addition to the auditors' remuneration shown above, the auditors were paid £28,000 in connection with acquisitions in the year which are included within the calculation of goodwill. The non audit services include £30,000 in respect of an aborted equity fund raising included within exceptional items. The remaining non audit services relate primarily to the submission and agreement of the Group's corporation tax position.

The cost of sales and administrative expenses of Victorian Leisure Limited and the First Leisure Properties, the acquisitions in the year, included in the 2002 consolidated results before exceptional items were £724,000 and £2,524,000 respectively.

2001

In addition to the auditors' remuneration shown above, the auditors were paid £59,000 in connection with the acquisition of Kingfisher Leisure plc.

2 Exceptional items

2002

The exceptional items in 2002 can be further analysed as follows:

	£000
Professional fees in respect of aborted equity fund raising	**258**
Provision for pension scheme deficit	**100**
	358
Loss on sale and proposed sale of fixed assets	**495**
	853
Tax effect of exceptional items noted above	**(92)**
Retained loss for the year relating to exceptional items	**761**

The tax impact of the exceptional items is low as certain costs do not attract tax relief.

2 **Exceptional items** *continued*

2001

The Group's results for 2001 were affected by a number of exceptional items, relating to the revaluation of properties, the acquisition of Kingfisher Leisure plc and the closure of Independent Insurance.

	£000	£000
Reversal of previous impairment provision against shareholding in Kingfisher Leisure plc	1,599	
Redundancy and reorganisation provision following acquisition of Kingfisher Leisure plc	(609)	
Acquisitions		990
Insolvency of Independent Insurance	(416)	
Unrealised losses on property valuations below cost in respect of properties to be retained	(2,499)	
Continuing operations		(2,915)
		(1,925)
Losses on property valuations below cost in respect of properties for resale	(2,807)	
Losses on properties sold in the year	(393)	
		(3,200)
Interest on loans to finance initial stake in Kingfisher Leisure plc (to the date of full acquisition)		(147)
		(5,272)
Tax effect of exceptional items noted above		350
Retained loss for the year relating to exceptional items		(4,922)

The tax impact of the exceptional items was low as many of these items (such as property provisions) are non-taxable.

3 **Net interest**

	2002	2001
	£000	£000
On bank overdraft and loans	**2,459**	1,752
On other loans	**2**	2
	2,461	1,754
Finance costs capitalised in the year	**–**	(36)
	2,461	1,718

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

4 **Employees**

Staff costs during the year were as follows:

	2002	2001
	£000	£000
Wages and salaries	**6,445**	5,508
Social security costs	**601**	439
	7,046	5,947

In-house development wages of £235,000 (2001: £300,000) including related social security costs have been capitalised in respect of capital works within the leisure business. As the Group acts as a main contractor on all development projects (and no architects or quantity surveyors are instructed) certain employees are specifically employed for this work and their costs are capitalised.

Notes to the Accounts

continued

4 Employees *continued*

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

	2002 Number	2001 Number
	1,024	950

The above numbers of employees includes 801 part time employees (2001: 746). Part time employees are defined as those working less than 30 hours per week.

Directors' emoluments' information and details regarding Directors' remuneration, share options and pensions are given in the Directors' Remuneration Report on pages 11 to 14.

5 Taxation

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

	Before exceptional items 2002 £000	Exceptional items (note 2) 2002 £000	2002 £000	2001 £000 (Restated)
Current year				
Corporation tax at 30% (2001: 30%)	**415**	**–**	**415**	200
Deferred tax (note 18)	**552**	**–**	**552**	814
Adjustments in respect of prior year				
Deferred tax (note 18)	**(294)**	**(92)**	**(386)**	–
Corporation tax	**–**	**–**	**–**	(50)
	673	**(92)**	**581**	964

The total deferred tax charge for the year was £166,000. The adjustment in respect of prior years arose on the settlement of certain of the Group's capital allowance claims with the Inland Revenue.

The tax charge for 2001 includes a credit of £350,000 in respect of exceptional items. The remaining £500,000 charge relates to the profit on ordinary activities before tax and exceptional items.

The corporation tax assessed for the period is lower than the standard rate of corporation tax in the UK of 30% (2001: 30%). *The differences are explained as follows:*

	Before exceptional items 2002 £000	Exceptional items (note 2) 2002 £000	2002 £000	2001 £000 (Restated)
Profit/(loss) on ordinary activities before tax	**3,002**	**(853)**	**2,149**	(772)
Profit/(loss) on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	**(901)**	**256**	**(645)**	232
Effect of:				
Exceptional items not allowable for tax purposes	**–**	**(256)**	**(256)**	(1,280)
Expenses not deductible for tax purposes	**(66)**	**–**	**(66)**	(50)
Capital allowances for the period in excess of depreciation	**552**	**–**	**552**	814
Utilisation of loss relief	**–**	**–**	**–**	84
Current tax charge for the period	**(415)**	**–**	**(415)**	(200)

The corporation tax charge for future years will continue to be affected by the impacts of capital allowances in excess of depreciation and potential property disposals.

6 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 Company's loss for the financial year was £500,000 (2001: loss £181,000).

7 Dividends

	2002 £000	2001 £000
Final proposed ordinary dividend of nil p per share (2001: 3.0p)	–	642

8 Earnings per share

The calculation of 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 basic earnings per share, adjusted to allow for the issue of shares and the post tax effect of dividends and/or 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 basic and diluted calculations are set out below:

	Earnings £000	2002 Weighted average number of shares	Per share amount pence	Earnings £000 (Restated)	2001 Weighted average number of shares	Per share amount pence (Restated)
Basic earnings per share	1,568	21,401,815	7.33	(1,736)	21,367,225	(8.12)
Dilutive effect of securities						
Options	–	6,505	–	–	–	–
Diluted earnings per share	1,568	21,408,320	7.33	(1,736)	21,367,225	(8.12)

As there was a loss in 2001 the effect of options is anti-dilutive and consequently no diluted earnings per share is reported for that year.

An adjusted earnings per share has also been presented, based on continuing operations and excluding the effects of the exceptional items and revised accounting policies. This basis has been used to enable shareholders to assess the underlying earnings per share performance on a consistent basis. The adjustments required are as follows:

	Earnings £000	2002 Weighted average number of shares	Per share amount pence	Earnings £000 (Restated)	2001 Weighted average number of shares	Per share amount pence (Restated)
Basic earnings per share	1,568	21,401,815	7.33	(1,736)	21,367,225	(8.12)
Result attributable to exceptional items	761	–	3.55	4,922	–	23.03
Adjusted earnings per share	2,329	21,401,815	10.88	3,186	21,367,225	14.91
Dilutive effect of securities						
Options	–	6,505	–	–	105,050	(0.08)
Diluted adjusted earnings per share	2,329	21,408,320	10.88	3,186	21,472,275	14.83

Notes to the Accounts

continued

9 Intangible fixed assets

The Group

Goodwill	2002 £000
Cost	
At 1 January 2002	931
Additions in the year (note 25)	689
At 31 December 2002	**1,620**
Amortisation	
At 1 January 2002	25
Charge for the year	65
At 31 December 2002	90
Net book amount at 31 December 2002	**1,530**
Net book amount at 31 December 2001	906

The additions to goodwill arose on the acquisition of Victorian Leisure Limited, business units acquired from First Leisure Corporation and further pre-acquisition expenses arising from the acquisition of Kingfisher Leisure plc in 2001. The goodwill is being amortised over its useful economic life estimated at 20 years.

10 Tangible fixed assets

The Group	Freehold land and buildings £000	Leasehold land and buildings £000	Fixtures and fittings £000	Vehicles £000	Total £000
Cost or valuation					
At 1 January 2002	30,141	27,784	12,476	387	70,788
Additions	550	1,074	1,926	–	3,550
Acquisition of new business units	–	8,750	–	–	8,750
Disposals	(2,470)	–	(253)	(44)	(2,767)
At 31 December 2002	**28,221**	**37,608**	**14,149**	**343**	**80,321**
Depreciation					
At 1 January 2002	–	–	3,489	117	3,606
Charge for the year	173	267	1,369	33	1,842
At 31 December 2002	**173**	**267**	**4,858**	**150**	**5,448**
Net book amount at 31 December 2002	**28,048**	**37,341**	**9,291**	**193**	**74,873**
Net book amount at 31 December 2001	30,141	27,274	8,987	270	67,182

2001

The figures above include a valuation of freehold land and buildings and short leasehold land and buildings by Messrs Christie & Co in 2001. The directors reviewed these valuations and increased the valuation of the sites by £1,090,000 to reflect agreed property disposals and trading conditions at 31 December 2001. The basis of the valuation used was an existing use basis unless the site is currently being marketed, in which case an open market value was used. The valuation in respect of the Zanzibar sites was based on a portfolio approach and included a premium of £5,150,000 attributable to the portfolio rather than individual clubs within that portfolio.

2002

As at 31 December the directors have considered potential impairment of property values as at December 2002 given the downturn in trading experienced by the Group and the market sector. Whilst it is recognised that there are likely to be current reductions in open market valuations it is considered that the long-term value in use will support current valuations. The directors will continue to review the position regularly.

10 Tangible fixed assets *continued*

If the properties had not been revalued, they would have been included at 31 December 2002 on the historical cost basis at the following amounts:

	Freehold land and buildings £000	Leasehold land and buildings £000
Cost	20,150	32,703
Accumulated depreciation	(383)	(719)
	19,767	31,984

Vehicles include assets held under finance leases with a net book value of £31,000 (2001: £60,000). Depreciation charged on these assets was £29,000.

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

	2002 £000	2001 £000
At 1 January 2002	**492**	456
Additions in the year (note 3)	**–**	36
At 31 December 2002	**492**	492

The Company	Freehold land and buildings £000
Cost	
At 1 January 2002 and 31 December 2002	440
Depreciation	
At 1 January 2002 and 31 December 2002	-
Net book amount at 31 December 2002	**440**
Net book amount at 31 December 2001	440

11 Fixed asset investments

The Company	Subsidiary undertakings £000
Cost	
At 1 January 2002 and 31 December 2002	17,673
Provision	
Provision at 1 January 2002 and 31 December 2002	(30)
Net book amount at 31 December 2002	**17,643**
Net book amount at 31 December 2001	17,643

During the year the group acquired 100% of the issued share capital of Victorian Leisure Limited, through the subsidiary Springwood Leisure Limited. Following the acquisition the trade and assets of Victorian Leisure Limited and Deltacloud Limited were transferred to Springwood Leisure Limited and those companies became dormant.

Notes to the Accounts
continued

11 Fixed asset investments *continued*

At 31 December 2002 the Company held the entire issued ordinary share capital of the following companies. All are dormant with the exception of Springwood Leisure Limited and Kingfisher Leisure Limited which trade as operators of nightclubs, venue bars and public houses.

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

At 31 December 2002 the Company also held 80.6% of the issued share capital of Kingfisher Leisure Limited. The remaining issued share capital of that company is held by Springwood Leisure Limited.

At 31 December 2002 Springwood Leisure Limited held the entire ordinary share capital of the following companies. All of these are dormant.

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

At 31 December 2002 Kingfisher Leisure Limited held the entire ordinary share capital of Kingfisher Leisure Operations Limited, a dormant company, and Victorian Leisure Limited held the entire share capital of Deltacloud Limited, a dormant company.

12 Properties held for resale and stock

	The Group		The Company	
	2002	2001	**2002**	2001
	£000	£000	**£000**	£000
Properties held for resale	**36**	54	**36**	54

The Group has sold one property in 2002 and is actively pursuing the disposal of the remaining two properties.

	The Group	
	2002	2001
	£000	£000
Stock - consumable supplies	**527**	508

13 Debtors

	The Group		The Company	
	2002	2001	**2002**	2001
	£000	£000	**£000**	£000
Amounts due by subsidiary undertakings	**–**	–	**3,237**	6,387
Other debtors	**336**	61	**20**	82
Prepayments	**1,614**	1,567	**–**	–
	1,950	1,628	**3,257**	6,469

14 Creditors: amounts falling due within one year

	The Group		The Company	
	2002	2001	**2002**	2001
	£000	£000	**£000**	£000
Bank loans and overdraft (note 15)	**7,461**	8,914	**688**	1,375
Finance leases	**12**	10	**-**	-
Trade creditors	**2,266**	2,792	**-**	-
Amounts owed to subsidiary undertakings	**-**	-	-	640
Corporation tax	**983**	504	**-**	-
Social security and other taxes	**866**	493	**-**	-
Proposed dividends	**-**	642	**-**	642
Deferred contingent consideration (note 25c)	**3,155**	-	**-**	-
Other creditors and accruals	**1,087**	1,493	**34**	119
Deferred income	**244**	-	**-**	-
	16,074	14,848	**722**	2,776

Included in other creditors and accruals at 31 December 2002 are amounts of £75,000 (2001: £106,000) representing sums due and unclaimed by former shareholders of Kingfisher Leisure plc.

The deferred contingent consideration of £3,155,000 is secured by a fixed charge over the properties acquired from First Leisure Corporation ("the First Leisure Properties"). No interest is payable on the deferred consideration.

Deferred income

The deferred income is a grant received in respect of the development of a leisure venue by Springwood Leisure Limited. It may be recovered by the Grant Authority prior to 31 December 2003 if the trading performance of the relevant venue exceeds certain predetermined levels.

15 Creditors: amounts falling due after more than one year

	The Group		The Company	
	2002	2001	**2002**	2001
	£000	£000	**£000**	£000
Bank loans	**29,328**	25,124	**8,937**	9,625
Finance leases	**10**	43	**-**	-
6% Debentures	**36**	36	**36**	36
Deferred income	**-**	244	**-**	-
	29,374	25,447	**8,973**	9,661

Bank loans and overdraft

The bank loans and overdraft are secured by a fixed charge over freehold property (other than the First Leisure Properties), a second charge over the First Leisure Properties and by a fixed first charge and floating charge over all the remaining assets of the Group.

Bank arrangement fees

The fees incurred in securing the Group's bank loans are being amortised over the period of the loan.

6% Debentures

The 6% Debentures are unsecured and 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.

Notes to the Accounts

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16 Borrowings

Borrowings are repayable as follows:

	The Group		The Company	
	2002	2001	**2002**	2001
	£000	£000	**£000**	£000
Within one year				
Bank overdraft	**6,441**	4,815	**–**	–
Bank loans	**1,020**	4,099	**688**	1,375
Finance leases	**12**	10	**–**	–
Deferred contingent consideration	**3,155**	–	**–**	–
After one and within two years				
Bank loans	**29,328**	4,085	**8,937**	1,375
Finance leases	**10**	43	**–**	–
After two and within five years				
Bank loans	**–**	10,632	**–**	4,125
After five years				
Bank loans	**–**	10,407	**–**	4,125
6% Debentures	**36**	36	**36**	36
	40,002	34,127	**9,661**	11,036

The new term loan facility runs through to July 2004. This allows the Group to consider appropriate long term funding options.

17 Financial instruments

Other than derivatives, the Group uses financial instruments comprising borrowings and various items, such as trade creditors, that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's operations.

The Group finances its operations through a mixture of equity share capital, retained profits and bank borrowings. The Group's exposure to interest rate fluctuations on its borrowings is managed by the use of both fixed and floating facilities, and by various interest rate swap and cap and collar mechanisms.

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

Short term debtors and creditors

Short term debtors and creditors have been excluded from all of the following disclosures.

Interest rate risk

The main risks arising from the Group's financial instruments are interest rate risk and liquidity risk. The Board of Directors reviews and agrees policies for managing each of these risks. The Group's exposure to interest rate fluctuations on its borrowings is managed by the use of both fixed and floating facilities. The Group policy is to keep a high proportion of its borrowings with fixed interest rates or within interest rate bands. These policies have remained unchanged from the previous year. Due to the impact of increased gearing in the Group and the associated risk of interest rate fluctuations on the Group it has been considered appropriate to increase the proportion of borrowings with such arrangements by *undertaking the following:*

- an interest rate swap on £5,000,000 to fix the effective interest rate at 6.3% until September 2010, with an option for the bank to terminate in September 2005;
- an interest rate swap on £10,000,000 to fix the effective interest rate at 5.25% until January 2012, with an option for the bank to terminate in January 2007;
- an interest rate swap on £10,000,000 to fix the effective interest rate at 5.35% until January 2010, with an option for the bank to terminate in January 2007;
- a cap at 7.5% and collar at 6.15% on a further £5,000,000 of loans until September 2005.
- cap at 7.5% on £7,000,000 of loans until April 2004.

One loan is held on fixed rate interest terms with amounts outstanding of £1,667,000 at 31 December 2002 (£3,000,000 at 2001). As a result of these arrangements 100% of the Group's borrowings are effectively subject to fixed, cap/collar or zero interest rates (2001: 100%).

17 Financial instruments *continued*

The interest rate exposure of the financial liabilities of the Group as at 31 December 2002 was:

	Interest rate			
	Fixed	Floating	Zero	Total
	£000	£000	£000	£000
2002				
Bank overdraft	**–**	**6,441**	**–**	**6,441**
Bank loans	**26,667**	**3,681**	**–**	**30,348**
6% Debentures	**36**	**–**	**–**	**36**
Deferred income: grant	**–**	**–**	**244**	**244**
	26,703	**10,122**	**244**	**37,069**
2001				
Bank overdraft	–	4,815	–	4,815
Bank loans	28,000	1,223	–	29,223
6% Debentures	36	–	–	36
Deferred income: grant	–	–	244	244
	28,036	6,038	244	34,318

The floating rate liabilities are hedged by £5,000,000 held on the collar arrangement and £7,000,000 on the cap arrangement referred to above.

	Fixed rate financial liabilities	
	Weighted average fixed interest rate %	Weighted average period for which rate is fixed in years
2002		
Bank loans	**7.0**	**3.4**
6% Debentures	**6.0**	**–**
2001		
Bank loans	7.2	4.4
6% Debentures	6.0	–

The floating rate borrowings bear interest at rates based on the Lloyds TSB bank rate.

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

The maturity of the Group's financial liabilities at 31 December 2002 is as shown in note 16.

Liquidity risk

The Group seeks to manage financial risk, to ensure sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Short term flexibility is achieved by the use of overdraft facilities.

Borrowing facilities

The Group has no undrawn facilities at 31 December 2002. The overdraft facility was renewed in April 2003 and will remain in place until its regular review date in April 2004 (see note 30). The bank loan facility runs through to July 2004.

Notes to the Accounts

continued

18 Provisions for liabilities and charges

The Group	Deferred taxation £000	Onerous lease costs £000	Other £000	Total £000
At 1 January 2002 (as previously stated)	–	–	16	16
Prior year adjustment (note 19)	3,443	–	–	3,443
At 1 January 2002 (as restated)	3,443	–	16	3,459
Arising on acquisition	99	2,000	–	2,099
Charge for the year	166	–	100	266
Utilised for the year	–	(270)	(16)	(286)
At 31 December 2002	**3,708**	**1,730**	**100**	**5,538**

The onerous lease costs provision is in respect of expected costs arising on terminating lease arrangements for the First Leisure Properties identified for subsequent disposal (see note 25 (c)).

Other provisions include a provision in respect of the Group's pension scheme (see note 28).

The Company	Other £000	Total £000
At 1 January 2002 (as previously stated)	16	16
Prior year adjustment	–	–
At 1 January 2002 (as restated)	16	16
Charge for the year	–	–
Utilised for the year	(16)	(16)
At 31 December 2002	**–**	**–**

19 Deferred taxation

Deferred taxation provided in the financial statements is set out below.

	The Group Amount provided **2002** **£000**	The Group Amount provided 2001 £000 (Restated)
Accelerated capital allowances	**3,281**	2,924
Realised capital gains	**427**	519
	3,708	3,443
Less:		
Tax losses carried forward	**–**	–
	3,708	3,443

The Group has adopted FRS19 - Deferred Tax in these financial statements. Comparatives have been amended to reflect the change in accounting policy.

The adoption of FRS19 has resulted in the Group recognising a charge for deferred tax of £166,000 for 2002 (£814,000 in 2001) and a liability in the balance sheet at 31 December 2002 of £3,708,000 (2001: £3,443,000).

No provision has been included above for deferred tax on gains recognised on revaluing the land and buildings. Such tax would become payable only if the relevant property were sold without it being possible to claim rollover relief. The maximum potential amount involved is £5,198,000.

20 Called up share capital

	2002 £000	2001 £000
Authorised		
31,568,140 ordinary shares of 10p each	**3,157**	3,157
Allotted, called up and fully paid		
21,401,815 (2001: 21,401,815) ordinary shares of 10p each	**2,140**	2,140

21 Share options

Outstanding options have been granted for 10p ordinary shares as follows:

	Number of shares	Subscription price per share	Period of option
Executive (Approved)	44,751	78.2	July 2000 to July 2006
	174,828	141.0	October 2003 to October 2010
	94,880	106.5	October 2004 to October 2011
	314,459		
Executive (Unapproved)	100,000	112.5	May 2002 to May 2009
	136,172	141.0	October 2003 to October 2010
	86,620	106.5	October 2004 to October 2011
	322,792		

The market price of the Company's shares at 31 December 2002 was 27p, and the price range during 2002 was 25p to 157p.

The Executive Share Option Schemes are open to selected employees and full time executive directors of the Company. Other employees may be included at the discretion of the Board or Remuneration Committee. During the year 48,000 options lapsed.

22 Reserves

The Group	Share premium account £000	Revaluation reserve £000	Profit and loss account £000
At 1 January 2002 (as previously reported)	7,456	16,543	5,576
Prior year adjustment (see note 19)	-	-	(3,443)
At 1 January 2002 (as restated)	7,456	16,543	2,133
Retained profit for the year	-	-	1,568
Transfer from revaluation reserve to profit and loss account	-	(104)	104
At 31 December 2002	**7,456**	**16,439**	**3,805**

The prior year adjustment arose on the adoption of FRS19 - Deferred Tax.

The cumulative amount of goodwill arising from acquisitions in current and prior years which has been written off directly to Group reserves is £3,143,000 (2001: £3,143,000).

The Company	Share premium account £000	Revaluation reserve £000	Profit and loss account £000
At 1 January 2002	7,456	203	2,508
Retained loss for the year	-	-	(500)
At 31 December 2002	**7,456**	**203**	**2,008**

Notes to the Accounts

continued

23 Reconciliation of movements in shareholders' funds

The Group	2002 £000	2001 £000 (Restated)
Profit/(loss) for the financial year	**1,568**	(1,736)
Dividends	**–**	(642)
	1,568	(2,378)
Surplus on revaluation of assets	**–**	16,501
Issue of shares in the year	**–**	145
Net increase in shareholders' funds	**1,568**	14,268
Shareholders' funds at 1 January	**28,272**	14,004
Shareholders' funds at 31 December	**29,840**	28,272

24 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	2002 £000	2001 £000
Operating profit	**5,105**	4,146
Depreciation	**1,842**	1,507
Amortisation of goodwill	**65**	25
Exceptional items - non cash items	**100**	900
(Profit)/loss on sale of fixed assets	**(138)**	8
Decrease in stock	**44**	1
Decrease in debtors	**28**	707
Decrease in creditors	**(1,322)**	(1,410)
Decrease in provisions	**(286)**	(10)
Net cash inflow	**5,438**	5,874

b Reconciliation of net cash flow to movement in net debt

	2002 £000	2001 £000
Decrease in cash in the year	**(1,464)**	(516)
Cash inflow from financing	**(1,094)**	(10,488)
Change in net debt resulting from cash flows	**(2,558)**	(11,004)
Loans acquired on acquisition	**–**	(2,810)
New finance leases	–	(53)
Deferred contingent consideration	**(3,155)**	-
Net debt at 1 January 2002	**(32,379)**	(18,512)
Net debt at 31 December 2002	**(38,092)**	(32,379)

c Analysis of changes in net debt	At 1 Jan 2002 £000	Cash flow £000	Non-cash items £000	**At 31 Dec 2002 £000**
Cash at bank and in hand	1,748	162	–	**1,910**
Overdraft	(4,815)	(1,626)	–	**(6,441)**
	(3,067)	(1,464)	–	**(4,531)**
Finance leases	(53)	31	–	**(22)**
Loans and debentures	(29,259)	(1,125)	–	**(30,384)**
Deferred contingent consideration	–	–	(3,155)	**(3,155)**
	(32,379)	(2,558)	(3,155)	**(38,092)**

25 Acquisitions

During the year the Group made two material acquisitions and settled further pre-acquisition costs in respect of the Kingfisher Leisure plc acquisition initially completed in 2001. The purchase of all acquisitions has been accounted for by the acquisition method of accounting.

The fair value of the assets and liabilities acquired are summarised below:

	Kingfisher Leisure Note 25 (a) Fair value £000	Victorian Leisure Note 25 (b) Fair value £000	First Leisure Properties Note 25 (c) Fair Value £000	Total Fair Value £000
Fixed assets				
Tangible assets	-	3,250	5,500	8,750
Current assets				
Stock	-	45	-	45
Debtors	-	350	-	350
Cash	-	353	-	353
	-	748	-	748
Creditors: amounts falling due within one year	-	(748)	-	(748)
Net current liabilities	-	-	-	-
Total assets less current liabilities	-	3,250	5,500	8,750
Provisions for liabilities and charges	-	(99)	(2,000)	(2,099)
Net assets purchased	-	3,151	3,500	6,651
Goodwill capitalised (note 9)	377	287	25	689
Consideration	377	3,438	3,525	7,340
Satisfied by:				
Cash in the year	347	3,438	370	4,155
Creditor at the year end	30	-	3,155	3,185
	377	3,438	3,525	7,340

The undertakings acquired during the year made the following contributions to, and utilisation of, Group cash flow

	Victorian Leisure £000	First Leisure Properties £000	Total £000
Net cash inflow from operating activities	162	208	370
Returns on investment and servicing of finance	(143)	(3)	(146)
Capital expenditure and financial investment	(30)	(142)	(172)
(Decrease)/increase in cash	(11)	63	52

25 (a) Kingfisher Leisure plc

Further costs of £347,000 were incurred in respect of the settlement of pre acquisition creditors. These included rent reviews, further property costs, losses on property disposals, a bad debt charge in respect of irrecoverable debts and associated professional fees. A creditor of £30,000 remains at the year end in respect of professional fees and related costs in respect of outstanding corporation tax matters prior to acquisition.

Notes to the Accounts

continued

25 **Acquisitions** *continued*

25 (b) Victorian Leisure Limited

On 24 May 2002 the Group acquired 100% of the ordinary share capital of Victorian Leisure Limited, a company which in turn owned 100% of the ordinary share capital of Deltacloud Limited, a company operating a nightclub and late night bars in the Barnsley area. On that day the trade and assets of Victorian Leisure Limited were transferred to Springwood Leisure Limited and both Victorian Leisure Limited and Deltacloud Limited became dormant.

The assets and liabilities of Victorian Leisure Limited acquired were as follows:

	Book value £000	Revaluation £000	Other adjustments £000	Fair value £000
Fixed assets				
Tangible assets	794	2,456	-	3,250
Current assets				
Stock	45	-	-	45
Debtors	350	-	-	350
Cash	81	-	272	353
	476	-	272	748
Creditors: amounts falling due within one year	(748)	-	-	(748)
Net current (liabilities)/assets	(272)	-	272	-
Total assets less current liabilities	522	2,456	272	3,250
Provisions for liabilities and charges	(99)	-	-	(99)
Net assets purchased	423	2,456	272	3,151
Goodwill capitalised				287
Consideration				3,438
Satisfied by:				
Cash in the year				3,438

Revaluation and other adjustments

The fixed assets were valued by Messrs Christie & Co in May 2002. This led to an increase in the book value by £2,456,000. Other adjustments relate to amounts received from the vendors to settle certain specific liabilities existing at the date of acquisition. The fair value figures quoted above are provisional pending final determination within the 2003 financial statements.

Goodwill

Capitalised goodwill of £287,000 arising on the acquisition of Victorian Leisure Limited is in respect of stamp duty and professional costs, amounting to £189,000 and deferred taxation on acquisition, amounting to £99,000.

Pre acquisition results

The results of Victorian Leisure Limited for the period from 1 January 2002, the beginning of the subsidiary's financial year to the date of acquisition, were:

	£000
Turnover	1,716
Operating profit	136
Interest payable	(69)
Profit before tax	67

Profit before interest, tax and depreciation for the period from 1 January 2002 to the date of acquisition was £206,000.

The profit after tax for the year ended 31 December 2001 was £375,000. Profit before interest, tax and depreciation for the year ended 31 December 2001 was £885,000.

25 Acquisitions *continued*

25 (c) First Leisure Properties

On 8 August 2002 the Group acquired 7 properties throughout the north of England, trading as nightclubs, from First Leisure Corporation.

	Book value £000	Revaluation £000	Other adjustments £000	Fair value £000
Fixed assets				
Tangible assets	3,500	2,000	–	5,500
Provision for liabilities and charges	–	–	(2,000)	(2,000)
Net assets purchased	3,500	2,000	(2,000)	3,500
Goodwill capitalised				25
Consideration				3,525
Satisfied by:				
Cash in the year				370
Deferred contingent consideration				3,155
				3,525

Revaluation and other adjustments

The leasehold properties were re-valued by the directors on an existing use basis to £5,500,000 on acquisition and this valuation was supported by an initial professional valuation.

As part of the agreed transaction the Group acquired 2 leasehold properties, identified as loss making on acquisition. The Group does not intend to develop or trade the 2 properties as nightclubs and is seeking to resell the sites. The provision, therefore, represents the fair value of the onerous lease and related property costs which the Group is expected to incur until their subsequent disposal. The Group is actively seeking the disposal of both sites. The fair value figures quoted above are provisional pending final determination within the 2003 financial statements.

Consideration

The consideration payable for these sites is £3,525,000 of which £3,155,000 has been deferred for up to six months and is contingent upon the settlement date. At the end of the six month period the Group has a series of options to defer the final payment by up to a further 12 months in consideration for one or more staged payments. Based upon the length of deferral the maximum consideration payable is £4,100,000. The fair value included above reflects the Directors' best estimate of the likely amounts due and is provisional pending final determination within the 2003 financial statements.

Pre acquisition results

The First Leisure Properties comprise individual trading units. It has not been possible to obtain results for these units *to the date of acquisition.*

26 Operating lease commitments

The Group and the Company

Operating lease payments amounting to £2,777,000 (2001: £1,307,000) for the Group are due within one year. The leases to which these amounts relate expire as follows:

The Group	**Land and buildings 2002 £000**	Land and buildings 2001 £000
Within one year	**12**	12
Between one and five years	**–**	–
In five years or more	**2,765**	1,295
	2,777	1,307

Notes to the Accounts

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27 Contingent liabilities

The Company has given an unlimited guarantee in respect of the bank borrowings of Springwood Leisure Limited and Kingfisher Leisure Limited. At 31 December 2002 the liability under the guarantee amounted to £27,163,000 (2001: £21,444,000).

28 Pension schemes

Existing UK accounting treatment

During the year the Group operated a defined benefit scheme, originally for the benefit of employees in a timber business previously owned by the Group which was closed to members on 5 April 1996. In 1999 the trustees received legal advice that the scheme was not in wind-up and the decision was taken to re-open the scheme to new members although the required changes to the Scheme Rules have not yet been effected. No new members have been admitted since the scheme was closed.

The assets of the scheme are administered by a trustee in a fund independent of those of the Group. The pension costs were 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 were:

- The asset was valued as the current value of the insurance policy
- The liabilities were 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 were assumed to 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 two year age reduction

The last formal actuarial valuation was at 30 June 2000. The market value of the scheme's assets as assessed by the actuary as at 30 June 2000 was £6,000,000. The actuarial value of those assets at that date was sufficient to cover 126% of the benefits that had accrued to members being the estimated cost, as at 30 June 2000, of buying out members' benefit entitlements by non profit deferred annuity insurance policies.

An informal actuarial valuation was produced at 31 December 2002 which indicated that under the valuation methods applicable under SSAP 24 the pension scheme has a deficit of £100,000. As this scheme has no active participating members the deficit has been fully provided in the 2002 results. The actuary has advised the Group that this deficit may be eliminated without requiring further contributions from the Group. The directors will continue to monitor this position which is to some extent dependent on the performance of UK equity prices.

Future UK accounting treatment

The Group is required to disclose details of the future accounting treatment of its pension scheme (as required by FRS17). These amounts have not been reflected in the 2002 financial statements.

The main assumptions used by the actuary were:

	2002	2001
	%	%
Rate of increase for pensions in payment	**3.0**	3.0
Rate of increase in inflation linked deferred pensions	**2.4**	2.4
Inflation	**2.4**	2.6
Discount rate	**5.3**	5.7

28 Pension schemes *continued*

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

	Rate of return %	2002 £000	Rate of return %	2001 £000
Equities	7.0	2,762	7.0	4,531
Bonds	5.0	540		-
Cash	2.5	248		-
Total market value of assets		3,550		4,531
Present value of scheme liabilities		(4,405)		(4,525)
(Deficit)/surplus in the scheme		(855)		6

Under FRS17 there would not be any amounts chargeable against operating profits in 2002 in respect of either current service costs or losses on settlements.

Under FRS17 other finance costs and income would be:	2002 £000
Expected return on pension assets	309
Interest on pension scheme liabilities	(256)
	53

The movement in the deficit in the year was:

	£000
Surplus on scheme at 1 January 2002	6
Current service cost	-
Contributions	-
Other financial income	53
Actuarial loss	(914)
Deficit on scheme at 31 December 2002	(855)

An analysis of the amount that would be recognised in the statement of total recognised gains and losses is:

	2002 £000
Actual return less expected return on pension scheme assets	(1,140)
Experience gains and losses on the scheme liabilities	41
Changes in assumptions underlying the present value of the scheme liabilities	185
Actuarial loss recognised in statement of total recognised gains and losses	(914)

The history of experience gains and losses has been:

Difference between expected and actual return on pension scheme assets	
Amount (£000)	(1,140)
% of scheme assets	(32.1)
Experience gains and losses on scheme liabilities	
Amount (£000)	41
% of present value of scheme liabilities	0.9
Total actuarial gains and losses	
Amount (£000)	(914)
% of present value of scheme liabilities	(20.6)

Notes to the Accounts

continued

29 Transactions with related parties

A S Page

A S Page is a related party as he is a Director and by virtue of his shareholding in the Company. The Group has entered into certain arrangements with him as follows:

	2002	2001
	£000	£000
Rent and other property costs	10	10

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

30 Post balance sheet events

The Group successfully concluded negotiations with its bankers, Lloyds TSB Bank plc, in April 2003 in respect of the renewal of its bank loan and overdraft facilities, allowing for the funding of the First Leisure Properties acquisition from bank debt. These negotiations commenced and were agreed in principle prior to 31 December 2002 and as such the bank debt and related disclosure in these financial statements reflect the current agreed facility as if it was in place at 31 December 2002.

Since the year end the Group has centralised its administration within its premises at Anstey, Leicester and, therefore the rental costs previously paid to A S Page (note 29 above) have ceased.

Locations

Birmingham ZANZIBAR	3,400 capacity venue bar and twin scene nightclub complex. (Leasehold)
Chesterfield ZANZIBAR	3,000 capacity venue bar and nightclub. (Leasehold)
Derby ZANZIBAR	2,800 capacity venue bar and nightclub. (Freehold)
Kidderminster ZANZIBAR	1,500 capacity venue bar and nightclub. (Leasehold)
Leicester ZANZIBAR/COBARNA	2,500 capacity venue bar and nightclub. (Freehold). Refurbished March 2002.
Newcastle under Lyme ZANZIBAR	2,000 capacity venue bar and nightclub. (Freehold)
Newport ZANZIBAR	2,000 capacity venue bar and nightclub. (Freehold)
Plymouth ZANZIBAR	1,800 capacity venue bar and nightclub. (Leasehold)
Stafford ZANZIBAR	1,800 capacity venue bar and nightclub. (Freehold)
Stockton ZANZIBAR	2,500 capacity venue bar and nightclub. (Freehold)
Birmingham COBARNA	1,000 capacity venue bar. (Leasehold) Closed pending development
Newport COBARNA	1,500 capacity venue bar. (Leasehold)
Stevenage COBARNA	1,000 capacity venue bar. (Leasehold)
Bristol MCCLUSKYS	850 capacity venue bar. (Leasehold)
Croydon MCCLUSKYS	700 capacity venue bar. (Leasehold)
Derby MCCLUSKYS	1,000 capacity venue bar. (Freehold)
Kingston MCCLUSKYS	920 capacity venue bar. (Leasehold)
Nottingham MCCLUSKYS	1,150 capacity venue bar. (Leasehold)
Romford MCCLUSKYS	530 capacity venue bar. (Leasehold)
Southampton MCCLUSKYS/ New York New York	1,650 capacity venue bar and nightclub. (Leasehold)
Birmingham (The Tower)	1,800 capacity nightclub/function complex. (Freehold)
Ashby de la Zouch (The Stockyard)	1,000 capacity nightclub/restaurant/bar complex. (Freehold)
Spondon, Derbyshire (Spondon Snooker Club)	Snooker club/function room. (Freehold)
Leicester (The Three Cranes)	City centre pub/14 bedrooms. (Freehold)
Nottingham (The Redback Bar)	City centre bar (Leasehold) Closed
Barnsley (Pharaohs)	1,100 capacity nightclub. (Leasehold). Acquired May 2002
Barnsley (The Theatre)	1,100 capacity live music venue/town centre bars. (Leasehold) Acquired May 2002
Manchester (Infinity)	1,600 capacity nightclub. (Leasehold). Acquired July 2002
Blackburn (Utopia)	1,250 capacity nightclub. (Leasehold). Acquired August 2002
Blackpool (Palace)	3,000 capacity nightclub. (Leasehold). Acquired August 2002
Darlington (Mardi Gras)	1,446 capacity nightclub. (Leasehold). Acquired August 2002
Sunderland (Pzazz)	1,300 capacity nightclub. (Leasehold). Acquired August 2002
Rochdale (Nemesis)	1,972 capacity nightclub. (Leasehold). Acquired August 2002
Wigan (Kudos)	1,850 capacity nightclub. (Leasehold). Acquired August 2002. Closed
Nottingham (Odeon cinema)	Development site (Leasehold). Acquired July 2002
Ipswich	Town centre bar/nightclub (Leasehold). Closed
Anstey, Leicester	Head office and administration centre (Freehold)

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ZANZIBAR

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