

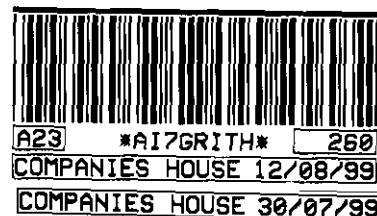
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Private and Confidential

Bridgend Group plc

1998 Report and Accounts

Signing copies 24 June 1999



BRIDGEND GROUP

— PLC —

DIRECTORS AND ADVISERS

DIRECTORS

C.G. Stainforth (Chairman)

M.A. Bretherton

C.P. Whiley

**SECRETARY AND
REGISTERED OFFICE**

F.C. Flood

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London EC2A 3NF

Tel: 0171 377 6060

REGISTRARS

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Worthing

West Sussex BN99 6DA

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AUDITOR

KPMG Audit Plc

FINANCIAL ADVISERS

Strand Partners Limited

STOCKBROKERS

Charles Stanley & Company Limited

SOLICITORS

Nabarro Nathanson

BANKERS

Lloyds Bank Plc

Henry Ansbacher & Co. Limited

BNY International Limited

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BRIDGEND GROUP

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FINANCIAL HIGHLIGHTS

	1998 £'000	1997 £'000
Turnover	22,947	24,001
(Loss)/profit before exceptional items and tax	(907)	275
(Loss)/profit before tax	(4,541)	228
(Loss)/earnings per Ordinary share	(11.3p)	0.6p
(Loss)/earnings per Ordinary share adjusted to exclude exceptional items	(2.3p)	0.8p
Dividends per Ordinary share	0.0p	0.2p

The exceptional items referred to above relate to the write-down of a hotel property, costs in respect of aborted corporate transactions, business restructure and redundancy costs and profits on disposal of current asset investments.

CHAIRMAN'S STATEMENT

RESULTS

Group turnover for the year fell to £22,947,000 (1997: £24,001,000). The Group made a loss before tax of £4,541,000 (1997: Profit £228,000) after absorbing a property write-down of £3,540,000 relating to Stocks Hotel, the proposed disposal of which was announced on 1 April 1999.

The Group will not therefore pay a dividend for the year although I can assure you that the Board as now constituted intends to pursue a strategy that will accelerate a return to dividends.

OPERATIONAL REVIEW

Market Overview

The 4 per cent. fall in turnover reported for the year included a full year contribution from the Kingavon and Cosmic businesses acquired in April 1997 that masked a greater 18 per cent. underlying rate of decline in sales. Although an operational review has highlighted significant overhead reductions and the Board was also restructured resulting in additional savings for the Company, these difficult trading conditions are expected to continue for its existing businesses during the year.

The Businesses

The reported reduction in turnover equates to an annualised sales loss of some £5.0 million of which over half was attributable to the Group's exposure, through Kingavon and Cosmic, to after market car accessories which have suffered aggressive destocking by their major customers.

Both John Sydney, which distributes bathroom products, and Brimley which distributes electrical goods to the marine industry, also experienced difficult market conditions with margins coming under pressure as the Group's principal customers sought to compensate for their own falling retail sales.

Action Taken

It was against this background that I elected to accept the invitation to rejoin the Board and I am pleased to highlight the significant progress made below:

Board Structure

The roles of Chairman and Chief Executive were split in January 1999 when I became part-time Chairman at which point J.N. Ferguson and F.C. Flood also resigned from the Board in their capacity as non-executive Directors.

Neil List, who had been Executive Chairman for the previous fifteen years, subsequently left the Company in February 1999 at a total cost to the Group of £200,000 payable in monthly instalments until October 2000.

I am delighted that Cyril Flood will continue to act for us as Company Secretary and that both Mike Bretherton and Clive Whiley continue to make an invaluable contribution to the Group in their executive roles.

As a result the total ongoing annual cost of directors' remuneration has fallen by 44 per cent.

CHAIRMAN'S STATEMENT

continued

Operating Structure

Throughout the year there was a wide ranging strategic review of every facet of the business which the Board believes should ultimately yield in excess of £1.0 million of operational cost savings on an annualised basis including the already significantly reduced head office costs.

In addition, considerable resources have been invested in improving efficiency, marketing and the customer base of the subsidiaries together with further enhancement of their product ranges.

This included the recruitment of a new Managing Director and strengthening of the purchasing team at John Sydney and a reinforced sales force at Kingavon.

Finally, all of the remaining Group leisure assets will have now been realised following the termination of the leasehold operation of Cloisters Wood sports and leisure club and the proposed disposal of Stocks Hotel.

Overall the Group has sought to return to its core operational and purchasing strengths and wherever necessary has reduced capacity accordingly and as a result, has improved the utilisation of working capital.

Disposal Programme

During 1998, the Board took a decision to sell Stocks Hotel & Country Club which was extensively marketed for sale in the fourth quarter of that year. Subsequently it was announced that the Company was seeking to dispose of certain other Group assets for cash. The announcement on 1 April 1999 regarding the sale of Stocks Hotel & Country Club is the first of such asset sales and the Board continues to seek the disposal of other Group assets.

DISPOSAL OF STOCKS HOTEL AND PLACING AND OPEN OFFER

On 1 April 1999, the Group exchanged contracts for the disposal of Stocks Hotel & Country Club to Ashdown Forest Golf Hotel Limited for a cash consideration of £2.8 million. The disposal is conditional upon shareholders' approval and the EGM to approve the sale will be held on 19 July 1999.

The Board announced today that it is proposing to raise approximately £2.0 million (before expenses) by way of a placing and open offer of new Ordinary shares to reduce bank overdrafts and to provide additional working capital for the Company. The open offer is an offer of 100,110,230 new Ordinary shares at 2p per share to shareholders on the basis of 5 new Ordinary shares for every 2 Ordinary shares held.

The Stocks Hotel disposal and the placing and open offer are expected to raise approximately £4.37 million net of expenses. Full details of these proposals are contained in a circular which was issued to shareholders today.

BALANCE SHEET AND GEARING

The Group generated cash of £866,000 in the period including the sale of the remaining shareholding in Hanover International Plc which resulted in a net gain of £144,000 and arose from the sale of the Imperial Hotel in 1995.

Net borrowings were reduced by 16% during the year to £4,481,000 and will be further reduced as a result of the subsequent disposal of Stocks Hotel and the proposed placing and open offer.

BRIDGEND GROUP

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CHAIRMAN'S STATEMENT

continued

FUTURE PROSPECTS

I would like to thank all Group employees for their part in the vigorous action taken to ensure that the continuing cost base is now at a level appropriate to anticipated turnover.

Our swift and continuing action will not immediately return the Group to profitability until some improvement in sales is witnessed at our subsidiaries. However, I believe that your Board has a strategy that will provide a strong foundation for the Group's long term growth and facilitate the Group in targeting a significant acquisition in order to redirect the nature and focus of its business.

Yours faithfully

Christopher Stainforth

Chairman

24 June 1999

DIRECTORS' REPORT

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

Bridgend Group PLC is a holding and management company. The Company had two operating divisions throughout 1998: Wholesale Distribution and Leisure.

The Wholesale Distribution division consists of companies engaged in the distribution, packing and assembly of bathroom and kitchen fittings, principally taps and showers, in the distribution of electrical products and in the wholesale distribution of after-market car accessories.

The Leisure division consisted of a hotel and golf club, contracts for the disposal of which were exchanged on 1 April 1999, and a sports and leisure club licensing operation which ceased to trade on expiry of the club's property lease on 2 January 1999.

Details of principal operating companies are given in Note 27 to the accounts.

A review of the Group's activities and future prospects is included in the Chairman's Statement on pages 3 to 5.

RESULTS & DIVIDENDS

The results for the year are shown in the Consolidated Profit and Loss Account on page 17.

No interim dividend was paid (1997: 0.1p per Ordinary share) and the Directors do not recommend the payment of a final dividend (1997: 0.1p per Ordinary share).

DISPOSAL OF STOCKS HOTEL AND PLACING AND OPEN OFFER

The Board announced on 1 April 1999 that the Company had entered into an agreement, conditional on Shareholder approval, to sell Stocks Hotel and Country Club Limited for £2.8 million, payable in cash, to Ashdown Forest Golf Hotel Limited.

In view of its size, the Disposal constitutes a Class 1 transaction under the Listing Rules of the London Stock Exchange. It is also a related party transaction under the Listing Rules of the London Stock Exchange as Kanawa Limited, which is a 21.8 per cent. Shareholder in the Company, is deemed to be an associate of Ashdown.

The Board announced today that it is proposing to raise approximately £2.0 million (before expenses) by way of a placing and open offer of 100,110,230 new Ordinary shares at 2p per share to Shareholders on the basis of 5 new Ordinary shares for every 2 Ordinary shares held.

The Stocks Hotel disposal and the placing and open offer are expected to raise approximately £4.37 million net of expenses. Full details of these proposals are contained in a circular which was issued to shareholders today. These funds will be used to reduce borrowings and provide cash and working capital for the Company.

CORPORATE GOVERNANCE

Bridgend Group PLC fully supports the Principles of Good Governance and the Code of Best Practice ("the Combined Code"). This report sets out how the principles of the Combined Code have been applied.

Throughout the year ended 31 December 1998 the Company has been in compliance with the Code Provisions set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange except as regards:

DIRECTORS' REPORT

continued

- (i) separation of the roles of Chairman and Chief Executive.
- (ii) periodic re-election of all Directors including the Chairman.
- (iii) service contracts of in excess of one year for the Executive Directors.
- (iv) the nominations committee and the recognition of a senior independent Director.
- (v) the Audit Committee, which for the period from 28 May to 12 October 1998 comprised only two, rather than three non-executive Directors.

On 22 January 1999 the resignation of two non-executive Directors reduced the Board to include just one non-executive who was subsequently appointed Company Chairman on 19 February 1999. These changes have a consequent impact on the Company's compliance with the Code in the year ending 31 December 1999.

As permitted by the London Stock Exchange, the Company has complied with Code provision D.2.1. on internal control by reporting on internal financial control in accordance with the guidance for directors on internal control and financial reporting that was issued in December 1994.

BOARD CONSTITUTION

Mr C.G. Stainforth retired as a non-executive Director at the 1998 Annual General Meeting on 28 May 1998 and was re-appointed a non-executive Director of the Company on 12 October 1998. During 1998, except as regards the period 28 May to 12 October 1998, the Board comprised of six Directors of whom three were non-executive and three were executive.

On 22 January 1999 the Board of Bridgend announced certain changes from a wide ranging strategic review which would facilitate the Group in targeting a significant acquisition in order to redirect the nature and focus of its business and contain costs. On that date the role of Mr N. List, who was then Chairman and Chief Executive, was split with Mr N. List remaining as Chief Executive and Mr C.G. Stainforth was appointed Company Chairman. In addition, both Mr J. N. Ferguson and Mr F.C. Flood resigned from the Board on 22 January 1999 in their capacity as non-executive Directors.

Mr N. List subsequently ceased to be a Director of the Company on 19 February 1999.

Consequent to these changes, the Board is now comprised of three Directors the biographies of whom are set out on page 9.

The Contract of Service in respect of Mr C.G. Stainforth is for a rolling period of two years' notice on either side. The executive Directors of the Company are provided with rolling Service Contracts which were previously terminable on giving three years notice on either side; during the year the executives agreed to a reduction of the notice period from three to two years without compensation. Although the code recommends a one year notice period, having considered the matter carefully, the Remuneration Committee considers that is in the best interest of the company not to make any further reduction at the present time. Full details of Directors' remuneration and a statement of the Company's remuneration policy is set out in a Remuneration Report on pages 12 to 14.

BOARD COMMITTEES

The Company has maintained a Remuneration Committee and an Audit Committee for many years, both of which consist of all of the non-executive Directors. Consequent to the Board changes on 22 January 1999, Mr C.G. Stainforth is currently the sole member of both of these Committees. The Board considers that because of its small size and the manner in which it conducts its business, a nominations committee would not be appropriate. The Board's policy on appointments to it is that every Board member should have the opportunity of individual meetings with prospective candidates following which there should be a unanimous view in favour of the appointment.

DIRECTORS' REPORT

continued

COMMUNICATION

The company seeks to develop regular dialogue with individual institutional shareholders and constructive liaison with private shareholders who have the opportunity to attend and put questions at the company's Annual General Meeting.

INTERNAL CONTROL

The Directors acknowledge responsibility for the Group's system of internal financial control and have reviewed its effectiveness. Formal guidance as to the review of non-financial internal controls, as required by the Combined Code, has yet to be published. As with any system of internal financial control the systems are designed to provide reasonable but not absolute assurance against material misstatement or loss.

The Board of Directors meets at least monthly and is responsible for Group strategy, approving major capital expenditure and disposals, and approving budgets. Additionally the Board has a formal schedule of matters specifically reserved for its decision and ensures appropriate action is taken to monitor and mitigate risk. An internal control framework has been put in place by the Board of Directors to safeguard the assets of the Group, and ensure that proper accounting records are maintained and that reliable financial information is produced. There is a comprehensive system of budgets against which actual monthly results are reported and monitored both by local subsidiary management and by the Directors of the Company. The Company reports to shareholders on a half yearly basis.

Although there are no dedicated internal auditors, head office staff monitor business performance and carry out reviews of key financial systems and controls throughout the Group.

GOING CONCERN

Since the year end, the Directors have announced the sale of Stocks Hotel and a placing and open offer of new Ordinary shares which together are anticipated to raise approximately £4.37 million (net of expenses) and which will be used to reduce bank borrowings and provide funds for the Group's future development.

The Directors have reviewed the Group's budget and cash flow forecasts for the period to 31 December 2000. On the basis of this review, provided that both the sale of Stocks Hotel and the placing and open offer announced today are completed, the Directors expect that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

DIRECTORS AND THEIR INTERESTS

The Directors who served during the year, together with their beneficial holdings in the Ordinary shares of the Company, were:

	31 December 1998 Ordinary Shareholdings	3 December 1997 Ordinary Shareholdings
C.G. Stainforth (retired 28 May 1998, re-appointed 12 October 1998)	—	—
M.A. Bretherton	125,000	125,000
C.P. Whiley	100,000	100,000
N.P. List (ceased 19 February 1999)	2,490,435	2,490,435
J.N. Ferguson (resigned 22 January 1999)	—	—
F.C. Flood (resigned 22 January 1999)	10,000	10,000

DIRECTORS' REPORT

continued

DIRECTORS AND THEIR INTERESTS continued

The holding of N.P. List in the Ordinary shares of the Company includes a non-beneficial interest in 360,000 shares held as trustee of a settlement for the benefit of the children of N.P. List.

All other interests are beneficial.

Details of the Directors' share options and Deferred Convertible shares are given in the Remuneration Report on pages 12 to 14.

There have been no movements in the interests of the Directors in the shares or share options of the Company between 31 December 1998 and the date of this report.

C.G. Stainforth retired at the 1998 Annual General Meeting on 28 May 1998 and was re-appointed a Director of the Company by the Board on 12 October 1998. He retires and being eligible, offers himself for re-election. The Company has entered into a consultancy agreement with Denfurlong (Consultants) Limited, a company of which C.G. Stainforth is a director, the principal terms of which are that Denfurlong (Consultants) Limited agrees to provide the services of C.G. Stainforth to act as Company Chairman of Bridgend Group PLC and Bridgend Group PLC undertakes to pay Denfurlong (Consultants) Limited an annual fee of £30,000. The agreement is for a rolling period of two years' notice on either side.

M.A. Bretherton retires by rotation and being eligible, offers himself for re-election. He has a contract of service with the Company which is for a rolling period of two years' notice on either side.

No Director had any interest in contracts, other than contracts of service, with the Group during or at the end of the year.

PROFILE OF THE DIRECTORS

C.G. Stainforth F.C.A.; Chairman, aged 45

Christopher Stainforth was appointed Company Chairman in January 1999. He is a Director of Ermgassen & Co. Limited, a specialist mergers and acquisitions business. He became a Member of the Stock Exchange in 1985. He is also Chairman of the Company's Remuneration and Audit Committees.

M.A. Bretherton B.A., A.C.A.; Finance Director, aged 43

Mike Bretherton joined the Company in January 1988 and was appointed to the Board in June of that year. He was formerly a Manager in the Corporate Financial Analysis and Planning Department of The Plessey Company PLC, having qualified as a Chartered Accountant with Price Waterhouse, London and held the position of Manager for two years with Price Waterhouse in the Middle East.

C.P. Whiley; Corporate Development Director, aged 39

Clive Whiley was appointed to the Board in May 1997 having previously been engaged as a consultant responsible for the disposal of the Imperial Hotel to Hanover International and the acquisitions of Kingavon and Cosmic. He became a member of the Stock Exchange in 1983 and has extensive corporate development experience across a broad range of manufacturing and distribution businesses in the UK, Europe, USA, Australia and the Peoples Republic of China.

SUBSTANTIAL SHAREHOLDINGS

Up to 23 June 1999, the Company has been notified of the following material holdings of shares:

	Number of Ordinary shares	Percentage of Ordinary share capital
Kanawa Limited	8,760,942	21.8%
N.P. List	2,490,435	6.2%

DIRECTORS' REPORT

continued

SHARE CAPITAL

Details of movements in the called-up share capital are set out in Note 20 to the accounts.

A resolution will also be put to shareholders to further renew the authority given to the Company at the Annual General Meeting on 4 May 1990 to purchase its own Ordinary shares. Such authority permits the Company to make market purchases of up to 2,933,083 Ordinary shares at a price per share of not less than 10p and not more than five per cent above the average middle market quotation for an Ordinary share for the ten business days prior to the date of purchase. The Company has to date purchased a total of 1,860,000 Ordinary shares pursuant to such an authority.

The Board announced today that it is proposing to raise approximately £2.0 million (before expenses) by way of a placing and open offer of 100,110,230 new Ordinary shares at 2p per share to Shareholders on the basis of 5 new Ordinary shares for every 2 Ordinary shares held.

Full details of the proposals are contained in a circular which was issued to shareholders today and which also contains the Notice of an Extraordinary General Meeting to be held on 19 July 1999 at which resolutions will be proposed seeking approval for the necessary authorities to implement the placing and open offer.

EXECUTIVE SHARE OPTION SCHEME

During the year, options over 200,000 Ordinary shares were granted under the Bridgend Group PLC Executive Share Option Scheme 1985. No options were exercised but options over 150,000 shares previously granted were allowed to lapse, leaving 650,000 options outstanding at 31 December 1998 as follows:

Ordinary shares	Ordinary shares	Ordinary shares
200,000	14.5p	2001/2008
450,000	20.0p	2000/2007

The Board believe that the scheme is a most valuable means of securing an identity of interest between shareholders and employees. The scheme is an Inland Revenue Approved Scheme.

EMPLOYMENT POLICIES

The Group supports employment of disabled people wherever possible through recruitment, by retention of those who become disabled and generally through training, career development and promotion.

The Group is committed to keeping employees as fully-informed as possible with regard to the Group's performance and prospects and seeks their views, wherever possible, on matters which affect them as employees.

DONATIONS

No charitable donations were made in the year (1997: £4,000). No political donations were made in the year (1997: Nil).

DIRECTORS' REPORT

continued

PAYMENT OF SUPPLIERS

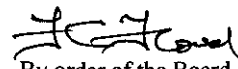
The Company's policy concerning the payment of suppliers is either to agree payment terms in advance with each supplier or to ensure that the supplier is made aware of the Company's standard payment terms, and in either case to pay in accordance with its contractual or other legal obligations. The Company does not follow any code or statement on payment practice.

The number of days purchases represented by the Company's year end trade creditors was 73 days (1997: 89 days).

AUDITORS

In accordance with Section 384 of the Companies Act 1985, a resolution for the reappointment of KPMG Audit Plc as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Thompson House
20-22 Curtain Road
London
EC2A 3NQ
24 June 1999


By order of the Board
F.C. Flood
Secretary

REMUNERATION REPORT

The Directors present their report to the shareholders for the year ended 31 December 1998.

REMUNERATION COMMITTEE

The Committee comprises of the non-executive Directors. Mr C.G. Stainforth is currently the only member of the Committee and was Chairman for the period 1 January 1998 to 28 May 1998. Mr J.N. Ferguson was Chairman of the Committee for the period 29 May 1998 to 22 January 1999. The Committee is responsible for determining, on behalf of the Board, the remuneration and other terms of employment of the Executive Directors. The overall policy of the Committee is to provide pay and benefits packages to Directors to attract, retain and motivate individuals of the quality required by the Group.

SALARIES

The salaries paid to Executive Directors are determined by the Committee at the beginning of each year and when an individual changes position or responsibility. In reviewing and setting Executive Directors' salaries the Committee considers individual performance, responsibility and market conditions. Particular attention is paid to salary levels in companies of a comparable size and performance.

The fees paid to Non-executive Directors are determined by the Board based upon their time commitment and experience.

BONUS PAYMENTS

There is currently no formal performance related bonus scheme and no bonus was paid to Directors during the year. A discretionary bonus was paid to Executive Directors during the year ended 31 December 1997 relating to a previous disposal of a subsidiary.

PENSION CONTRIBUTIONS

The company makes defined contributions into the pension schemes of certain Executive Directors. The rates of these contributions are determined by the Committee when reviewing salaries and currently amount to 15% of the individual Executive Director's basic salary.

SERVICE CONTRACTS

Executive Directors of the Company are provided with rolling service contracts which were previously terminable on giving three years' notice on either side. During the year, the executive Directors agreed to a reduction of the notice period from three to two years without compensation. Although the Code recommends a one year notice period, having considered the matter carefully, the Remuneration Committee considers that it is in the best interests of the Company not to make any further reduction at the present time.

The Company Chairman has been appointed for a rolling period of two years' notice on either side.

SHARE OPTIONS

The Committee grants share options at its own discretion, subject to Inland Revenue limits and the rules of the Bridgend Group PLC Executive Share Option Scheme 1985 and are phased over time. Subject to Scheme rules, options are exercisable not later than ten years and not earlier than three years from the date of grant.

DEFERRED CONVERTIBLE SHARES

Deferred Convertible shares are issued to the Executive Directors.

Each Deferred Convertible share carries the right to convert into one Ordinary share of 10p at any time between the third and tenth anniversary of the date on which they were allotted, provided that earnings per Ordinary share,

REMUNERATION REPORT

continued

as shown by the Company's most recently available report and accounts, are on average at least 14% compound per annum above the corresponding earnings per share figure at the date of allotment of the Deferred Convertible share. The conversion price is calculated by reference to the average middle market quotation of the Ordinary shares for the ten days immediately preceding the date of allotment of the Deferred Convertible shares. The Deferred Convertible shares would be redeemed by the Company, at their nominal value, if they remain unconverted on the tenth anniversary of allotment or if the person to whom they are allotted ceases to be an employee of the Group. The Deferred Convertible shares are not listed on any Stock Exchange. The holders of the Deferred Convertible shares have no rights to receive payments of dividends or to vote on any resolution at a general meeting unless it is a resolution for winding up the Company or to modify the special rights attached to the Deferred Convertible shares. On a winding up or other return of capital the nominal value of the Deferred Convertible shares shall only be repaid after the nominal value of the Ordinary shares has been repaid.

At 31 December 1998 there were 1,800,000 Deferred Convertible shares in issue which had been allotted on 27 May 1997 and comprised 800,000 Deferred Convertible shares to N.P. List and 500,000 Deferred Convertible shares to both M.A. Bretherton and C.P. Whiley. The total of 1,800,000 Deferred Convertible shares allotted to the Executive Directors of the Company were for a subscription price of 1p per share. The average middle market quotations of the Ordinary shares for the ten days immediately preceding the allotment date was 20p. The earnings per Ordinary share from the most recently available report and accounts at the allotment date was 0.5p.

OTHER BENEFITS

Other benefits principally relate to the use of company cars and private medical and life insurance.

DIRECTORS' REMUNERATION

The remuneration of the individual Directors was:

	Salary and fees £'000	Benefits £'000	1998 Total £'000	1997 Total £'000	1998 Pension Contribution £'000	1997 Pension Contribution £'000
Executive Directors:						
N.P. List (ceased 19 February 1999)	125.0	22.2	147.2	168.0	25.0	23.3
M.A. Bretherton	90.0	8.0	98.0	115.5	13.5	12.5
C.P. Whiley	97.8	—	97.8	84.6	—	—
Non-executive Directors:						
J.N. Ferguson (resigned 22 January 1999)	15.0	—	15.0	18.8	—	—
F.C. Flood (resigned 22 January 1999)	15.0	—	15.0	18.8	—	—
C.G. Stainforth (retired 28 May 1998, re-appointed 12 October 1998)	9.6	—	9.6	18.8	—	—
	<u>352.4</u>	<u>30.2</u>	<u>382.6</u>	<u>424.5</u>	<u>38.5</u>	<u>35.8</u>

The contracts of service in respect of M.A. Bretherton and C.P. Whiley can be terminated by either the Director or the Company giving to the other not less than two years notice in writing. The contract of service in respect of M.A. Bretherton is for an annual fee of £90,000 and in respect of C.P. Whiley is for an annual fee of £25,000. Additionally a consultancy agreement with Y-LEE Limited, a company of which C.P. Whiley is a director, has been entered into by the Company, the principal terms of which are that Y-LEE Limited agrees to provide the services of C.P. Whiley to act as Corporate Development Director of Bridgend Group PLC and Bridgend Group PLC undertakes to pay Y-LEE Limited an annual fee of £72,800. The contract between the two companies calls for a notice of two years of termination.

BRIDGEND GROUP

PLC

REMUNERATION REPORT

continued

DIRECTORS' REMUNERATION continued

The Company has entered into a consultancy agreement with Denfurlong (Consultants) Limited, a company of which C.G. Stainforth is a director, the principal terms of which are that Denfurlong (Consultants) Limited agrees to provide the services of C.G. Stainforth to act as a Director of Bridgend Group PLC and Bridgend Group PLC undertakes to pay Denfurlong (Consultants) Limited an annual fee. The agreement is for a rolling period of two years' notice on either side at an annual fee of £30,000.

The contract of service in respect of N.P. List was terminable by either the Director of the Company giving to the other not less than two years notice in writing. N.P. List ceased to be a Director of the Company on 19 February 1999 and is receiving compensation for loss of office of £200,000 payable at a monthly rate of £10,416 until October 2000.

The contracts of service in respect of F.C. Flood and J.N. Ferguson were for a fixed period of two years from 13 June 1998 at an annual fee of £15,000. They both resigned as Directors of the Company on 22 January 1999. F.C. Flood is receiving compensation for loss of office of £21,250 payable at a quarterly rate of £3,750 until June 2000. J.N. Ferguson has been paid a settlement of £18,000 as compensation for loss of office.

C.G. Stainforth retired at the 1998 Annual General Meeting on 28 May 1998 and was re-appointed a Director of the Company by the Board on 12 October 1998. He retires together with M.A. Bretherton who retires by rotation, and being eligible they both offer themselves for re-election. Details of their contracts are given above.

DIRECTORS' DEFERRED CONVERTIBLE SHARES AND SHARE OPTIONS

The interests of the Directors in the Deferred Convertible shares and options on Ordinary shares of the Company were:

	Deferred Convertible Share Holdings 31 December 1998	Deferred Convertible Share Holdings 31 December 1997	Ordinary Share Options 31 December 1998	Ordinary Share Options 31 December 1997
N.P. List (ceased 19 February 1999)	800,000	800,000	150,000	150,000
M.A. Bretherton	500,000	500,000	150,000	150,000
C.P. Whiley	500,000	500,000	150,000	150,000

Details of the Directors' Ordinary share options are as follows:

	Number of Ordinary share options		Option Price	Date	
	31 December 1998	31 December 1997		From Which Exercisable	Expiry Date
N.P. List (ceased 19 February 1999)	150,000	150,000	20p	27/05/00	27/05/07
M.A. Bretherton	150,000	150,000	20p	27/05/00	27/05/07
C.P. Whiley	150,000	150,000	20p	27/05/00	27/05/07

The market price of the Ordinary shares at 31 December 1998 was 7.5p and the range during the year was 16.5p to 7.5p.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are required by UK Company Law to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and the Group at the end of the financial year and of the profit or loss for the financial year.

In preparing the accounts, the Directors are required to select appropriate accounting policies and apply them consistently, to make reasonable and prudent judgements and estimates, and to state that all applicable accounting standards have been followed, save as disclosed and explained in the accounts. The Directors are also required to prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors have responsibility for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985. The Directors also have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

AUDITORS' REPORT TO THE MEMBERS OF BRIDGEND GROUP PLC

We have audited the financial statements on pages 17 to 34.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Directors are responsible for preparing the Annual Report, including as described on page 15, the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

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

We review whether the statement on pages 6 to 7 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

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

BASIS OF AUDIT OPINION

We conducted our audit in accordance with the 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 accounts. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the accounts, 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 consider necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts 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.

Going Concern

In forming our opinion, we have considered the adequacy of disclosures made in note 1 to the financial statements concerning the Directors' efforts to refinance the Group. In view of the significance of the fact that the preparation of financial statements on the going concern basis assumes the successful conclusion of the refinancing, we consider that these disclosures should be brought to your attention, but our opinion is not qualified in this respect.

OPINION

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

KPMG Audit Plc

Chartered Accountants

Registered Auditor
London

24 June 1999

BRIDGEND GROUP

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CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 December

Notes	1998		1997	
	£'000	£'000	£'000	£'000
2	Turnover	22,947		24,001
	Cost of Sales	(15,426)		(15,967)
	Gross Profit	7,521		8,034
12	Write-down of hotel property	(3,540)	—	
	Costs of business restructure and redundancy	(136)	(47)	
	Costs of aborted disposals/acquisitions	(102)	—	
3	Other operating expenses	(7,971)	(7,384)	
	Net operating expenses	(11,749)		(7,431)
	Operating (loss)/profit	(4,228)		603
	Profit on disposal of investments	144		—
	(Loss)/profit before interest	(4,084)		603
5	Net interest payable and similar charges	(457)		(375)
	(Loss)/profit on ordinary activities before taxation	(4,541)		228
9	Taxation on ordinary activities	—		—
6	(Loss)/profit for the financial year	(4,541)		228
10	Dividends	—		(93)
21	Retained (loss)/profit transferred to reserves	(4,541)		135
11	(Loss)/earnings per Ordinary share	(11.3p)		0.6p
	Adjustments			
	Write-down of hotel property	8.8p		—
	Costs of business restructure and redundancy	0.4p		0.2p
	Costs of aborted disposals/acquisitions	0.2p		—
	Profit on disposal of investments	(0.4p)		—
	Adjusted (loss)/earnings per Ordinary share	(2.3p)		0.8p
11	Diluted (loss)/earnings per Ordinary share	(11.3p)		0.6p

The above results are all derived from continuing operations. The loss for the financial period represents all of the gains and losses recognised by the Group during the period. In addition, there is no material difference between the results presented above and the results on an unmodified historical cost basis, and therefore a note of historical cost (loss)/profit is not required.

The adjusted (loss)/earnings per Ordinary share figures show the year on year comparison adjusted to exclude the write-down of a hotel property, business restructure and redundancy costs, costs relating to aborted corporate transactions and profits on disposal of investments.

BRIDGEND GROUP

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BALANCE SHEETS

At 31 December

		Group		Company	
Notes		1998 £'000	1997 £'000	1998 £'000	1997 £'000
	Fixed Assets				
12	Tangible Assets	3,250	6,815	91	71
13	Investments	—	—	12,457	18,626
		<u>3,250</u>	<u>6,815</u>	<u>12,548</u>	<u>18,697</u>
	Current Assets				
14	Stocks	5,445	6,660	—	—
15	Debtors	4,136	5,109	551	1,229
16	Investments	—	530	—	—
	Cash at bank and in hand	85	74	1	1
		<u>9,666</u>	<u>12,373</u>	<u>552</u>	<u>1,230</u>
17	Creditors: amounts falling due within one year	(7,400)	(9,294)	(969)	(1,360)
	Net current assets/(liabilities)	<u>2,266</u>	<u>3,079</u>	<u>(417)</u>	<u>(130)</u>
	Total assets less current liabilities	5,516	9,894	12,131	18,567
18	Creditors: amounts falling due after more than one year	(1,933)	(1,883)	(9,490)	(8,326)
19	Provisions for liabilities and charges	(113)	—	—	—
	Net Assets	<u>3,470</u>	<u>8,011</u>	<u>2,641</u>	<u>10,241</u>
	Capital and Reserves				
20	Called up share capital	4,022	4,022	4,022	4,022
21	Share premium account	69	69	69	69
21	Capital redemption reserve	186	186	186	186
21	Other reserves	—	3,248	—	5,574
21	Profit and loss account	(807)	486	(1,636)	390
	Shareholders' Funds	<u>3,470</u>	<u>8,011</u>	<u>2,641</u>	<u>10,241</u>

Included in the analysis of both the Group's and the Company's shareholders' funds above, is £18,000 (1997: £18,000) which relates to non-equity interests.

Approved by the Board on 24 June 1999 and signed on its behalf by:

C.G. Stainforth
Director

M.A. Bretherton
Director

BRIDGEND GROUP

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GROUP CASH FLOW STATEMENT

Year ended 31 December

	1998	1997
	£'000	£'000
Net cash inflow from operating activities (Note 22)	1,193	89
Returns on investments and servicing of finance		
Interest received	31	23
Interest paid	(467)	(372)
Interest on finance leases and hire purchase payments	(21)	(25)
	(457)	(374)
Taxation		
UK Corporation tax paid	(138)	(17)
UK Corporation tax refunded	—	5
	(138)	(12)
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(367)	(245)
Sale of tangible fixed assets	41	39
Sale of investments	674	—
	348	(206)
Acquisitions and disposals		
Purchase of businesses	—	(2,184)
Equity dividends paid	(80)	(68)
Cash inflow/(outflow) before use of liquid resources and financing	866	(2,755)
Management of liquid resources		
Withdrawals from short term deposits	—	414
Financing		
Issue of Deferred Convertible share capital	—	18
Redemption of Deferred convertible share capital	—	(15)
New secured bank loan	2,000	1,500
Repayment of bank loans	(2,209)	(335)
Increase in short term finance bank loans	19	296
Capital element of finance lease and hire purchase payments	9	(69)
	(181)	1,395
Increase/(decrease) in cash in year	685	(946)

During the year the Group had no major non-cash transactions. An analysis of movements in net borrowings is shown in Note 23 and a reconciliation of net cash flow to the movement in net borrowings is shown in Note 24.

BRIDGEND GROUP

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RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

Year ended 31 December

	1998 £'000	1997 £'000
(Loss)/profit for the financial year	(4,541)	228
Dividends	—	(93)
	(4,541)	135
New Ordinary share capital subscribed	—	2,452
New Deferred Convertible share capital subscribed	—	18
Deferred Convertible share capital redeemed	—	(15)
Goodwill written off	—	(2,483)
Net (reduction)/increase in shareholders' funds	(4,541)	107
Opening shareholders' funds	8,011	7,904
Closing shareholders' funds	3,470	8,011

NOTES TO THE ACCOUNTS

1

ACCOUNTING POLICIES

Basis of preparation of the financial statements: Since the year end, the Directors have announced the proposed sale of Stocks Hotel and a placing and open offer of new Ordinary shares which together are anticipated to raise approximately £4.37 million (net of expenses) and which will be used to reduce bank borrowings and provide funds for the Group's future development. Irrevocable commitments have been received from Kanawa Limited, a 21.8% shareholder in the Company and from the Directors to take up all placing shares not purchased under the open offer. To the extent that Kanawa Limited and the Directors fail to honour any obligations which arise to take up placing shares, the placing and open offer will not be underwritten and the amount raised in the placing and open offer will be accordingly reduced, assuming that qualifying shareholders do not take up their full entitlements under the open offer. Full details of the proposals are contained in a Circular which was issued to shareholders on 24 June 1999.

The directors have reviewed the Group's budget and cash flow forecasts for the period to 31 December 2000. On the basis of this review, provided that both the sale of Stocks Hotel and the placing and open offer are completed, the Directors expect that the Group has adequate resources to continue in operational existence for the foreseeable future. The Directors therefore consider it appropriate for the financial statements to be prepared on a going concern basis. The financial statements do not include any adjustments that might result if either the sale of Stocks Hotel or the Share Issue are not successfully completed.

Basis of accounting: The accounts are prepared under the historical cost convention as modified by the revaluation of certain land and buildings and comply with applicable accounting standards. The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis of consolidation: The Group accounts include the accounts of Bridgend Group PLC and all its subsidiaries prepared to 31 December 1998. Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of any subsidiaries acquired or disposed of in the year are included in the consolidated profit and loss account for the periods of Group ownership.

Purchased goodwill, both positive and negative, arising on consolidation in respect of acquisitions prior to 1 January 1998 has been written off directly to reserves and no adjustment was made on adoption of FRS10 Goodwill and Intangible Assets. On disposal, goodwill previously charged directly to reserves is included in determining the profit or loss on disposal. There have been no acquisitions subsequent to 1 January 1998.

As permitted by Section 230 of the Companies Act 1985, the profit and loss account of the Parent Company is not presented. The Company's result for the year is shown in Note 6.

Tangible fixed assets: Tangible assets are stated at cost or valuation less, if appropriate, accumulated depreciation.

No depreciation is provided in respect of freehold hotel and leisure properties. It is the Group's practice to maintain these assets to a standard such that the Directors consider that the lives of these assets are sufficiently long and residual values based on prices prevailing at the time of acquisition or subsequent valuation are sufficiently high that their depreciation is insignificant. Any impairment in the value of such properties to below cost is charged to the profit and loss account as an operating item impairment.

Short leasehold land and buildings are depreciated on a straight line basis over the life of the lease.

Plant, equipment and motor vehicles are depreciated at rates of between 10% and 33% calculated to write off their cost less estimated residual value over their estimated useful economic lives.

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

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

NOTES TO THE ACCOUNTS

continued

1 ACCOUNTING POLICIES continued

Investments: Shares in and loans to subsidiaries are stated in the parent company's balance sheet at cost less provision for any impairment.

Government grants: Grants are credited to deferred revenue. Grants towards capital expenditure are released to the profit and loss account over the expected useful life of the asset. Grants towards revenue expenditure are released to the profit and loss account as the relevant expenditure is incurred.

Stocks: Stocks comprise raw materials and goods for resale and have been valued at the lower of cost and net realisable value. In determining cost, the first-in, first-out method is used.

Deferred taxation: Deferred taxation represents corporation tax, calculated on the liability basis, deferred by capital allowances and other timing differences to the extent that the Directors expect liabilities to arise in the foreseeable future.

Pension costs: The cost of providing pensions to employees is charged to the profit and loss account over the period benefiting from the employees' services. The difference between the charge to the profit and loss account and contributions paid is included as an asset or liability in the balance sheet.

Foreign currency: Assets and liabilities expressed in foreign currencies are translated into sterling at the rates of exchange ruling at the date of the balance sheets. The trading results of foreign subsidiaries are translated into sterling at the average rate for the year. Differences arising on the restatement of net investments in foreign subsidiaries are dealt with as adjustments to reserves. All other differences are taken to the profit and loss account.

2 SEGMENTAL INFORMATION

Business Analysis

	Turnover		Operating (Loss)/Profit		Net Assets	
	1998	1997	1998	1997	1998	1997
	£'000	£'000	£'000	£'000	£'000	£'000
Wholesale distribution	20,918	22,058	(37)	1,022	5,668	6,691
Leisure	2,029	1,943	(3,481)	90	2,344	5,822
Corporate and unallocated	—	—	(710)	(509)	(61)	845
	<u>22,947</u>	<u>24,001</u>	<u>(4,228)</u>	<u>603</u>	<u>7,951</u>	<u>13,358</u>
					<u>(4,481)</u>	<u>(5,347)</u>
					<u>3,470</u>	<u>8,011</u>

Geographical Analysis

All net assets are owned by, and the turnover and operating profits are made by, companies located in the United Kingdom. No significant export sales are made.

3 OTHER OPERATING EXPENSES

	1998	1997
	£'000	£'000
Distribution and selling costs	2,453	2,443
Administrative expenses	5,518	4,941
	<u>7,971</u>	<u>7,384</u>

The above figures for 1998 are all in respect of continuing operations.

NOTES TO THE ACCOUNTS

continued

4

YEAR 2000

The Year 2000 issue relates to the inability of information systems properly to recognise and process date sensitive information beyond 1 January 2000. Many computer systems and software products may not be able to interpret dates after 31 December 1999 because such systems and products allow only two digits to indicate the year in a date. As a result, these systems and products are unable to distinguish 1 January 2000 from 1 January 1900 which could have adverse consequences on the operations of an entity and the integrity of information processing.

The Bridgend Group PLC's management has recognised the need to address the Year 2000 issue within its internal systems as well as with suppliers, customers and other third parties. The Company's operating subsidiaries mainly use Year 2000 compliant computer systems in conjunction with proprietary software for which Year 2000 compatible versions are already installed and are fully operational with the exception of one subsidiary in respect of which the Year 2000 compatible version is still being run using only test data.

Bridgend's management presently believes that any business interruption is unlikely based on the progress the Group has made within its Year 2000 compliance process. However, due to the complexity of this problem and possible exposure to systematic failure, internally or externally, there can be no assurance that the Year 2000 problem will not have a material adverse effect on the Company.

As of the date of this document, Bridgend has substantially completed its programme of information system replacement and upgrades. All material systems within the Company are expected to be compliant by September 1999 and contingency planning is underway.

Costs associates with Year 2000 compliance are recognised in the period in which the restoration or maintenance work is carried out and are estimated not be material.

5

NET INTEREST PAYABLE AND SIMILAR CHARGES

	1998 £'000	1997 £'000
Interest payable on bank loans and overdrafts	(467)	(372)
Finance lease and hire purchase interest charges	(21)	(25)
	<u>(488)</u>	<u>(397)</u>
Interest receivable	31	22
	<u>(457)</u>	<u>(375)</u>

BRIDGEND GROUP

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NOTES TO THE ACCOUNTS

continued

6

PROFIT FOR THE FINANCIAL YEAR

	1998 £'000	1997 £'000
The profit for the financial year is stated after charging:		
Depreciation	377	322
Audit fees	68	69
Non-audit fees payable to KPMG Audit Plc and their associates	74	113
Operating lease rentals for plant and machinery	194	170
Other operating lease rentals	327	275
	<hr/>	<hr/>
The consolidated (loss)/profit for the financial year is dealt with as follows:		
Company	(4,513)	200
Subsidiaries	(28)	28
	<hr/>	<hr/>
	(4,541)	228

Fees paid to the auditors in relation to the Company audit were £21,000 (1997: £19,000).

7

EMPLOYEE COSTS

	1998 £'000	1997 £'000
Wages and salaries	3,475	3,568
Social security	311	308
Other pension costs	177	103
	<hr/>	<hr/>
	3,963	3,979

The average weekly number of persons employed by the Group during the year was as follows:

	1998 Number	1997 Number
Operations	193	214
Administration	45	61
	<hr/>	<hr/>
	238	275

BRIDGEND GROUP

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NOTES TO THE ACCOUNTS

continued

8

DIRECTORS' EMOLUMENTS

	1998 £'000	1997 £'000
Directors' emoluments, included in employee costs above, were as follows:		
Non-executives' fees	40	56
Remuneration as executives, excluding pension contributions	342	368
Executives' pension contributions	39	36
	<u>421</u>	<u>460</u>
Chairman and highest paid Director, N.P. List, excluding pension contributions	<u>147</u>	<u>168</u>

The Company also provided pension contributions on behalf of the Chairman of £25,000 (1997: £23,000).

C.P. Whiley is an Executive Director and is also a director of Y-Lee Limited. During the year the Company paid Y-Lee Limited £72,800 (1997: £68,000) for consultancy services which is included above.

Details of Directors' remuneration and share options are included in the Remuneration Report on pages 12 to 14.

9

TAXATION

	1998 £'000	1997 £'000
UK corporation tax at 20% (1997: 21.74%)	—	19
Advance corporation tax written off/(back)	26	(17)
Adjustment relating to prior years	<u>(26)</u>	<u>(2)</u>
Taxation on ordinary activities	<u>—</u>	<u>—</u>

The aggregate Group taxation losses carried forward at 31 December 1998 were approximately £700,000 (1997: £700,000). These losses may be utilised against future taxable profits made by Stocks Hotel and Country Club Limited, contracts for the disposal of which were exchanged on 1 April 1999. Additionally both the Company and the Group had an unrecognised deferred tax asset relating to written off advance corporation tax of £286,000 (1997: £249,000).

10

DIVIDENDS

	1998 £'000	1997 £'000
Ordinary shares — proposed interim dividend of nil (1997: 0.1p) per share	—	40
— proposed interim dividend of nil (1997: 0.1p) per share	—	40
— dividend paid to subscribers of shares issued in 1997	—	13
	<u>—</u>	<u>93</u>

NOTES TO THE ACCOUNTS

continued

11 EARNINGS/(LOSS) PER SHARE

(Loss)/earnings per share is based on the (loss)/profit on ordinary activities after taxation of £(4,541,000) (1997: profit £228,000) related to the weighted average number of shares in issue during the year of 40,044,092 (1997: 36,379,708). Fully diluted (loss)/earnings per share is the same as basic (loss)/earnings per share.

12 TANGIBLE FIXED ASSETS

The Group	Freehold land and buildings £'000	Short leasehold land and buildings £'000	Plant, equipment and motor vehicles £'000	Total £'000
Cost or valuation				
At 1 January 1998	6,034	152	2,180	8,366
Additions	—	—	367	367
Disposals	—	—	(125)	(125)
At 31 December 1998	6,034	152	2,422	8,608
At valuation	5,871	—	—	5,871
At cost	163	152	2,422	2,737
	6,034	152	2,422	8,608
Depreciation				
At 1 January 1998	43	43	1,465	1,551
Provision in year	3	18	356	377
Write-down of hotel property	3,540	—	—	3,540
Disposals	—	—	(110)	(110)
At 31 December 1998	3,586	61	1,711	5,358
Net book amount				
At 31 December 1998	2,448	91	711	3,250
At 31 December 1997	5,991	109	715	6,815

Included above in freehold land and buildings are non depreciated assets with cost of £5,924,000 (1997: £5,924,000).

During the year the Directors took the decision to sell the Stocks Hotel freehold property, which includes the golf course and related plant and equipment. On the basis of offers received it was apparent that these assets were impaired and hence they have been written-down by £3,540,000 to a 31 December 1998 value of £2,500,000, being the estimated recoverable amount, net of expenses of sale. Subsequent to the year end, contracts for the sale of Stocks Hotel and related assets have been exchanged.

BRIDGEND GROUP

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NOTES TO THE ACCOUNTS

continued

12

TANGIBLE FIXED ASSETS *continued*

The Company

Plant,
equipment
and motor
vehicles
£'000

Cost

At 1 January 1998

185

Additions

57

At 31 December 1998

242

Depreciation

At 1 January 1998

114

Provision in year

37

At 31 December 1998

151

Net book amount

At 31 December 1998

91

At 31 December 1997

71

Tangible fixed assets acquired under finance leases and hire purchase agreements as follows:

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Net book amount	247	301	82	66
Depreciation charge for year	96	105	36	24

13

FIXED ASSETS – INVESTMENTS

The principal trading subsidiaries are set out in Note 27.

Details of investments in subsidiaries are as follows:

	Shares £'000	Company Loans £'000	Total £'000
Cost			
At 1 January 1998	16,047	10,361	26,408
Additions	–	687	687
Repayments	–	(229)	(229)
At 31 December 1998	16,047	10,819	26,866
Provisions			
At 1 January 1998	(2,972)	(4,810)	(7,782)
Movements in year	(3,115)	(3,512)	(6,627)
At 31 December 1998	(6,087)	(8,322)	(14,409)
Net book amount			
At 31 December 1998	9,960	2,497	12,457
At 31 December 1997	13,075	5,551	18,626

BRIDGEND GROUP

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NOTES TO THE ACCOUNTS

continued

14 STOCKS

	Group	
	1998	1997
	£'000	£'000
Raw materials	200	254
Finished goods and goods for resale	5,245	6,406
	<u>5,445</u>	<u>6,660</u>

15 DEBTORS

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Trade debtors	3,764	4,395	—	—
Amounts owed by subsidiaries	—	—	535	1,010
Taxation recoverable	20	47	—	47
Other debtors	146	397	—	159
Prepayments and accrued income	206	270	16	13
	<u>4,136</u>	<u>5,109</u>	<u>551</u>	<u>1,229</u>

Included within Group other debtors is an amount of £124,000 (1997: £124,000) which is due from Heatons Transport (St Helens) Limited and is repayable on 15 March 2000. The loan accrues interest at a rate of 2½% above the Lloyds Bank Plc base rate and is paid quarterly in arrears. The loan is secured by a Deed of Debenture creating fixed and floating charges over certain assets of Heatons Transport (St Helens) Limited, on the basis that such security ranks behind any security granted in favour of that company's bankers.

16 CURRENT ASSETS – INVESTMENTS

	Group	
	1998	1997
	£'000	£'000
Listed investments	—	530
Market value of listed investments	<u>—</u>	<u>633</u>

BRIDGEND GROUP

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NOTES TO THE ACCOUNTS

continued

17 CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Bank loans and overdrafts	2,524	3,432	714	1,095
Finance leases and hire purchase	109	106	34	32
Trade creditors	2,905	3,901	5	5
Corporation tax	65	237	—	20
Other taxes and social security	638	437	20	13
Other creditors	85	51	26	23
Accruals and deferred income	1,074	1,050	170	92
Proposed dividends	—	80	—	80
	<u>7,400</u>	<u>9,294</u>	<u>969</u>	<u>1,360</u>

Bank overdrafts are repayable on demand. Bridgend Group PLC has given its bankers the authority to combine or offset its own and certain of its subsidiaries' bank accounts. Details in respect of the bank loans are given in Note 18.

Trade creditors of £910,000 (1997: £1,542,000) are covered by letters of credit which are secured by way of a debenture over certain assets of the Group.

18 CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Bank loans	1,828	1,784	1,828	1,375
Finance leases and hire purchase	105	99	18	18
Amount owed to subsidiaries	—	—	7,644	6,933
	<u>1,933</u>	<u>1,883</u>	<u>9,490</u>	<u>8,326</u>

The total amount of bank loans and overdrafts was as follows:

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Falling due within one year:				
Bank overdrafts	1,484	2,158	574	970
Bank loans	1,040	1,274	140	125
	<u>2,524</u>	<u>3,432</u>	<u>714</u>	<u>1,095</u>
Falling due after more than one year:				
Bank loans – repayable between one and two years	215	371	215	167
– repayable between two and five years	645	706	645	501
– repayable after five years	968	707	968	707
	<u>1,828</u>	<u>1,784</u>	<u>1,828</u>	<u>1,375</u>
Total bank borrowings	<u>4,352</u>	<u>5,216</u>	<u>2,542</u>	<u>2,470</u>

All of the bank loans are secured on specific fixed and current assets and comprise short term trade finance loans of £900,000 which carry interest at 2% above LIBOR together with £1,968,000 in respect of a loan which carries interest at a rate of 2¼% above Lloyds Bank Plc base rate and is being repaid in quarterly instalments of £16,250 increasing to quarterly instalments of £53,750 commencing July 1999. Bank overdrafts are secured by fixed and floating charges over certain assets.

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NOTES TO THE ACCOUNTS

continued

19 PROVISIONS FOR LIABILITIES AND CHARGES

	1998 £'000	1997 £'000
At 1 January	—	—
Provision made in year for onerous lease and pension commitments	113	—
At 31 December	<u>113</u>	<u>—</u>

20 SHARE CAPITAL

	1998 £'000	1997 £'000
Authorised:		
43,050,000 Ordinary shares of 10p each (1997: 43,050,000)	4,305	4,305
19,500,000 Deferred Convertible shares of 1p each (1997: 19,500,000)	195	195
	<u>4,500</u>	<u>4,500</u>
Allotted, called up and fully paid:		
40,044,092 Ordinary shares of 10p each (1997: 40,044,092)	4,004	4,004
1,800,000 Deferred Convertible shares of 1p each (1997: 1,800,000)	18	18
	<u>4,022</u>	<u>4,022</u>

Ordinary shares

At 31 December 1998 there were 650,000 options outstanding on Ordinary shares granted under the Bridgend Group PLC Executive Share Option Scheme 1985 as detailed in the Directors' Report on pages 6 to 11.

Deferred Convertible shares

Details of the Deferred Convertible shares in issue and their conversion rights are given in the Remuneration Report on pages 12 to 14.

NOTES TO THE ACCOUNTS

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RESERVES

The Group	Share Premium account £'000	Capital redemption reserve £'000	Merger reserve £'000	Profit and loss account £'000
At 1 January 1998	69	186	3,248	486
Retained loss	-	-	-	(4,541)
Release of merger reserve against diminution in value of related investment	-	-	(5,574)	5,574
Transfer of net goodwill written off	-	-	2,326	(2,326)
At 31 December 1998	69	186	-	(807)

The merger reserve arose on the share based element of the consideration for the acquisition of the leisure division and of Kingavon. The transfer between the merger reserve and the profit and loss account has been made to reflect the diminution in value of those subsidiaries which has been charged in the Company's profit and loss account for the year.

The net cumulative goodwill arising on consolidation which has been taken directly to reserves amounts to £2,326,000 at 31 December 1998 of which £3,040,000 represents positive goodwill and £714,000 negative goodwill. The net negative goodwill in the leisure division amounts to £315,000.

The Company	Share Premium account £'000	Capital redemption reserve £'000	Merger reserve £'000	Profit and loss account £'000
At 1 January 1998	69	186	5,574	390
Retained loss	-	-	-	(7,600)
Release of merger reserve against diminution in value of related investment	-	-	(5,574)	5,574
At 31 December 1998	69	186	-	(1,636)

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NET CASH INFLOW FROM OPERATING ACTIVITIES

	1998 £'000	1997 £'000
Operating (loss)/profit	(688)	603
Depreciation	377	322
Net profit on sale of tangible fixed assets	(26)	(4)
Decrease/(increase) in stock	1,165	(580)
Decrease/(increase) in debtors	920	(335)
(Decrease)/increase in creditors	(555)	83
Net cash inflow from operating activities	1,193	89

The operating cash inflows for 1998 are all in respect of continuing operations (1997: includes under operating profit an outflow of £47,000 in respect of restructuring a business acquired in that year).

NOTES TO THE ACCOUNTS

continued

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MOVEMENT IN NET BORROWINGS

	At 1 January 1998 £'000	Cash Flow £'000	At 31 December 1998 £'000
Cash:			
Cash at bank and in hand	74	11	85
Overdrafts	(2,158)	674	(1,484)
	<u>(2,084)</u>	<u>685</u>	<u>(1,399)</u>
<i>Borrowings excluding overdrafts:</i>			
Debt due within one year	(1,274)	234	(1,040)
Debt due after more than one year	(1,784)	(44)	(1,828)
Finance leases and hire purchase	(205)	(9)	(214)
	<u>(3,263)</u>	<u>181</u>	<u>(3,082)</u>
	<u>(5,347)</u>	<u>866</u>	<u>(4,481)</u>

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RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET BORROWINGS

	1998 £'000	1997 £'000
Increase/(decrease) in cash in year	685	(946)
Cash outflow/(inflow) from decrease/(increase) in borrowings excluding overdrafts	181	(1,392)
Cash outflow/(inflow) from increase/(decrease) in liquid resources	—	(414)
Change in net borrowings resulting from cash flows	866	(2,752)
Loans and finance leases acquired with businesses	—	(649)
Movement in net borrowings	866	(3,401)
Net borrowings at beginning of year	<u>(5,347)</u>	<u>(1,946)</u>
Net borrowings at end of year	<u>(4,481)</u>	<u>(5,347)</u>

NOTES TO THE ACCOUNTS

continued

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FINANCIAL COMMITMENTS

Finance leases and hire purchase

Net obligations under finance leases and hire purchase at 31 December were payable as follows:

	Group		Company	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Finance lease and hire purchase obligations falling due:				
Within one year	109	106	34	32
Over one year	105	99	18	18
	<u>214</u>	<u>205</u>	<u>52</u>	<u>50</u>

Operating leases

At 31 December the Group had annual commitments under non-cancellable operating leases as follows:

	Land and buildings		Other	
	1998	1997	1998	1997
	£'000	£'000	£'000	£'000
Operating leases which expire:				
Within one year	9	73	43	58
In the second to fifth years inclusive	—	—	97	88
Over five years	252	227	—	—
	<u>261</u>	<u>300</u>	<u>140</u>	<u>146</u>

Forward currency

At 31 December 1998 the sterling equivalent of forward foreign exchange commitments entered into by Group subsidiaries in the normal course of business amounted to £4,508,000 (1997: £4,798,000).

Contingent liability

At 31 December 1998 the Group's subsidiaries had placed committed orders with suppliers to the value of £441,000 (1997: £590,000). These orders were shipped after the year end. The Company has guaranteed overdrafts of its subsidiaries totalling £226,000 (1997: £217,000).

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PENSION SCHEMES

The Company and a number of its trading subsidiaries operate various defined contribution pension schemes for employees under which the relevant company pension commitments are limited to making pension contributions at fixed rates in accordance with the benefit terms of the pension schemes.

Brimley & Co. Limited currently also operates a defined contribution pension scheme for employees. The Company had previously operated a defined benefits pension scheme up until 30 April 1992 and a number of its present and former employees remain entitled to a preserved pension under this defined benefits scheme. The assets of this defined benefits scheme are held in a separate fund administered by an insurance company and a full actuarial valuation of the fund was undertaken in 1997. The valuation indicated that the past service liabilities of the scheme were approximately £105,000 in excess of the value of the assets and in view of the age profile of the scheme it was recommended that this deficit be funded over a 10 year term by way of equal annual contributions of £16,000. Accordingly a pension contribution of £16,000 payable by the Company has been included in the 1998 pension charge disclosed in Note 6. In addition a charge of £73,000 has been made in the 1998 accounts in respect of the estimated outstanding net deficit at 31 December 1998 and has been included in the provisions disclosed in Note 19.

NOTES TO THE ACCOUNTS

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PRINCIPAL TRADING SUBSIDIARIES

The Group's principal trading subsidiaries at 31 December 1998 were as follows:

Wholesale Distribution:

Kingavon Limited*

Car Accessories

Parkside, Duke Street, Ipswich, Suffolk, IP3 0AF

Tel: 01473 219131

Brimley & Co. Limited*

Electrical wholesaling

187-189 Cleveland Street, Birkenhead, Merseyside, L41 3QN

Tel: 0151 650 0022

John Sydney Limited*

Bathroom and kitchen fittings

3-4 Denbigh Hall, Bletchley, Milton Keynes, Bucks, MK3 7QT

Tel: 01908 274111

Leisure:

Stocks Hotel & Country Club Limited

Hotel and golf club

Stocks Road, Aldbury, Nr Tring, Herts, HP23 5RX

Tel: 0144 2851 341

Bridgend Leisure Limited

Trading as:

Cloisters Wood Country Club

Sports and leisure club

Wood Lane, Stanmore, Middx, HA7 4LF

Tel: 0181 954 7699

Notes:

1. The issued Ordinary share capital of each company listed above is wholly owned by Bridgend Group PLC, as indicated*, or by one of its wholly owned subsidiaries.
2. The companies are all registered in England and Wales and operate wholly or mainly in the country of registration.

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RELATED PARTY TRANSCATIONS

The proposed sale of Stocks Hotel and Country Club to Ashdown Forest Golf Hotel Limited as detailed in the Directors' Report on page 6, is a related party transaction under the Listing Rules of the London Stock Exchange as Kanawa Limited, which is a 21.8 per cent. Shareholder in the Company, is deemed to be an associate of Ashdown.

Apart from that disclosed in note 8 there are no material related party transactions which require disclosure in these accounts.

BRIDGEND GROUP

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FIVE YEAR FINANCIAL SUMMARY

SUMMARY CONSOLIDATED PROFIT AND LOSS ACCOUNTS

Year ended 31 December	1998 £'000	1997 £'000	1996 £'000	1995 £'000	1994 £'000
Turnover					
Continuing operations	22,947	24,001	14,122	15,577	17,479
Discontinued Operations	—	—	—	—	45
	<u>22,947</u>	<u>24,001</u>	<u>14,122</u>	<u>15,577</u>	<u>17,524</u>
Operating (loss)/profit before exceptional items	(450)	650	222	373	465
Write-down of hotel property	(3,540)	—	—	(3,414)	—
Cost of business restructure and redundancy	(136)	(47)	—	—	—
Costs relating to aborted disposals/acquisitions	(102)	—	(34)	—	—
Settlement regarding aborted capital project	—	—	—	—	(58)
Operating (loss)/profit	<u>(4,228)</u>	<u>603</u>	<u>188</u>	<u>(3,041)</u>	<u>407</u>
Share of associate's pre-tax results	—	—	17	30	—
Profit on disposal of investments	144	—	189	—	—
Loss on sale of subsidiary	—	—	—	(17)	—
(Loss)/profit before interest	<u>(4,084)</u>	<u>603</u>	<u>394</u>	<u>(3,028)</u>	<u>407</u>
Net interest payable	<u>(457)</u>	<u>(375)</u>	<u>(246)</u>	<u>(354)</u>	<u>(379)</u>
(Loss)/profit on ordinary activities before taxation	<u>(4,541)</u>	<u>228</u>	<u>148</u>	<u>(3,382)</u>	<u>28</u>
Taxation on ordinary activities	—	—	—	—	(15)
(Loss)/profit for the financial year	<u>(4,541)</u>	<u>228</u>	<u>148</u>	<u>(3,382)</u>	<u>13</u>
Dividends	—	(93)	(55)	(55)	(55)
Retained (loss)/profit for the year	<u>(4,541)</u>	<u>135</u>	<u>93</u>	<u>(3,437)</u>	<u>(42)</u>
(Loss)/earnings per Ordinary share	<u>(11.3p)</u>	<u>0.6p</u>	<u>0.5p</u>	<u>(12.3p)</u>	<u>0.1p</u>
(Loss)/earnings per Ordinary share adjusted to exclude exceptional items	<u>(2.3p)</u>	<u>0.8p</u>	<u>0.0p</u>	<u>0.2p</u>	<u>0.3p</u>
Dividends per Ordinary share	<u>0.0p</u>	<u>0.2p</u>	<u>0.2p</u>	<u>0.2p</u>	<u>0.2p</u>

SUMMARY GROUP BALANCE SHEETS

Year ended 31 December	1998 £'000	1997 £'000	1996 £'000	1995 £'000	1994 £'000
Fixed assets	3,250	6,815	6,508	8,505	14,083
Net current assets	2,266	3,079	2,209	414	140
Creditors: amounts falling due after more than one year	(1,933)	(1,883)	(813)	(1,116)	(2,947)
Provisions for liabilities and charges	<u>(113)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(27)</u>
Net assets	<u>3,470</u>	<u>8,011</u>	<u>7,904</u>	<u>7,803</u>	<u>11,249</u>

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the Annual General Meeting of Bridgend Group PLC will be held at Stocks Hotel & Country Club, Stocks Road, Aldbury, Nr Tring, Hertfordshire on 19 July 1999 at 10.00 am or such later time as the Extraordinary General Meeting scheduled for the same date should have concluded or been adjourned.

The Annual General Meeting will be held for the following purposes:

ORDINARY BUSINESS

1. To receive and adopt the Directors' Report and the audited accounts for the year ended 31 December 1998.
2. To re-elect Mr C.G. Stainforth as a Director.
3. To re-elect Mr M.A. Bretherton as a Director.
4. To reappoint KPMG Audit Plc as auditors of the Company
5. To authorise the Directors to fix the remuneration of the auditors.

SPECIAL BUSINESS

6. To consider and, if thought fit, pass the following resolution which will be proposed as a special resolution:
That the authority conferred on the Company by Special Resolution of the Company dated 4 May 1990 and renewed and extended by Special Resolutions of the Company dated 23 May 1991, 28 May 1992, 19 July 1993, 14 July 1994, 21 July 1995 11 July 1996, 13 May 1997 and 28 May 1998 to make market purchases of its own Ordinary shares be and is hereby further renewed and extended to the extent it has not previously been utilised for a further period commencing on the date hereof and expiring on the conclusion of the Annual General Meeting for 2000.

Thompson House
20-22 Curtain Road
London
EC2A 3NQ
24 June 1999

By order of the Board
F.C. Flood
Secretary

Notes

A member of the Company entitled to attend and vote at the meeting may appoint one or more proxies to attend and vote on a poll instead of him. A proxy need not be a member of the Company.

The Company pursuant to Regulation 34 of the Uncertificated Securities Regulations 1995, specifies that only those shareholders registered in the register of members of the company as at 6pm on 15 July 1999 shall be entitled to attend or vote at the aforesaid general meeting in respect of the number of shares registered in their name at that time. Changes to entries on the relevant register of securities after 6pm on 15 July 1999 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

The following will be available for inspection at Thompson House, 20-22 Curtain Road, London EC2A 3NF, during normal business hours every weekday (Saturdays and public holidays excluded) from the above date to the date of the Annual General Meeting and at Stocks Hotel & Country Club during and for 15 minutes immediately prior to the Annual General Meeting.

- (i) A register showing the transactions of each Director and, so far as he is aware, the transactions of his family in the Company's shares.
- (ii) Contracts of service in respect of Mr M.A. Bretherton and Mr C.P. Whiley which can be terminated by either the Director or the Company giving to the other not less than two years' notice in writing, the contract between the Company and Y-Lee Limited for the services of C.P. Whiley which also requires that either party to give the other two years notice of termination in writing, together with the contract between the Company and Denfurlong (Consultants) Limited for the services of Mr C.G. Stainforth which is for a rolling period of two years' notice on either side.