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Directors, Officers and Advisers

DIRECTORS

Alexander Cassels* – Chairman
Clive Preston – Managing Director

Niven Ballantyne
Edward Gilly*
Don Hanson*
Nicholas Oppenheim
Allen Robinson*
Robert Wickham*

**non-executive*

SECRETARY

Peter Smith

REGISTERED OFFICE

1 Primrose Hill
Preston
Lancashire
PR1 4BX

REGISTERED NUMBER

2188184

FINANCIAL ADVISERS

ING Barings

STOCKBROKERS

Collins Stewart & Co.

SOLICITORS

Herbert Smith

AUDITORS

KPMG Audit Plc

BANKERS

National Westminster Bank
The Royal Bank of Scotland
Bank of Scotland

REGISTRARS

Bank of Scotland
9 Haddington Place, Edinburgh, EH7 4LA
Telephone: 0131 243 5191

Chairman's Statement

Northern Leisure reports record results for the sixth consecutive year: Profit before tax and exceptional items was £14.3m (1997: £8.9m), a 61% increase over 1997 and fully diluted earnings per share on the same basis increased by 52% to 9.1p (1997: 6.0p*).

PROFITS, EARNINGS PER SHARE AND DIVIDENDS

Profit before tax increased by 65% to £14.1m (1997: £8.5m) and earnings per share increased by 47% to 9.0p (1997: 6.1p*).

As anticipated at the time of the recent bonus issue the Board recommends a final dividend of 3.5p (1997: 1.75p*) making a total distribution for the year of 5.75p* (1997: 3p*) an increase of 92%.

Given the current low level of gearing and the board's expectations for the coming year it is appropriate to maintain the final dividend per share on the enlarged share capital, effectively doubling that dividend.

TRADING

Turnover increased by 66% to £57.5m. Operating profit before central costs and interest increased by 54% to £20.9m. Sales in those outlets that traded in both periods increased by 2% and the operating profit to sales ratio was 36%.

Trading was satisfactory for the first 9 months of the year. As set out in our trading statement at the end of June, trading was slow in June but has steadily improved since that time.

ACQUISITIONS

During the year 16 new outlets were acquired at a total cost of £32m bringing the total number of outlets owned by the company at the end of the year

to 57 (1997: 41). Modernisation work is still to be carried out at a number of these units: we expect that all new outlets will make a full contribution towards the end of the current financial year.

The prospects for further acquisitions are particularly good at present as consolidation continues in this still fragmented market; due diligence work is currently being carried out on a substantial number of outlets.

MODERNISATION PROGRAMME

It is important to improve constantly the product that we offer our customers. To this end the pace of our modernisation programme has been accelerated. During the year, 8 units were modernised and work is underway on a further 10 units, all of which are expected to be completed before Christmas 1998.

FINANCE

In previous years the board's policy has been to restrict the gearing ratio to no more than 60%. Interest cover is now considered a more appropriate measurement and it is the policy of the board to restrict gearing so that interest is covered at least 5 times by profits. In 1998 interest was covered 7.1 times. Bank borrowings at the year-end amounted to £28m (1997: £26m), on which the interest rate is capped.

On 15th June, 1998 Northern Leisure made a one-for-one Bonus Issue to shareholders.

During the year £20.7m net was raised by means of a placing and open offer of 10.8m* ordinary shares and £2.4m was raised as a result of the exercise of 2.9m* A Warrants.

The accounts contain an exceptional charge of £280,000 which relates to costs incurred in connection with takeover talks.

Chairman's Statement

DIRECTORS

I am pleased to welcome Mr Don Hanson to the board as a non-executive director. Mr Hanson was a Managing Partner of Andersen Worldwide from 1989 to 1997 and Senior Partner of Arthur Andersen & Co UK from 1982 to 1989.

I was appointed Chairman of the company in 1992. In 1999 I will be approaching the age of 70 and I propose to retire from the board at the Annual General Meeting in that year. The board has agreed that Mr Hanson will succeed me as Chairman and Mr Preston will continue as Managing Director.

I am also pleased to announce that at the Annual General Meeting on 29th October, 1998 the board intends to appoint Andrew McIvor, Brendan McLoughlin and Peter Marks as executive directors and Matthew Streets as Finance Director. Each of the four are directors of Northern's principal operating subsidiary and all have worked for the company for more than five years. On the same date Niven Ballantyne, who for the last four years has been Finance Director, will become Property and Commercial Director.

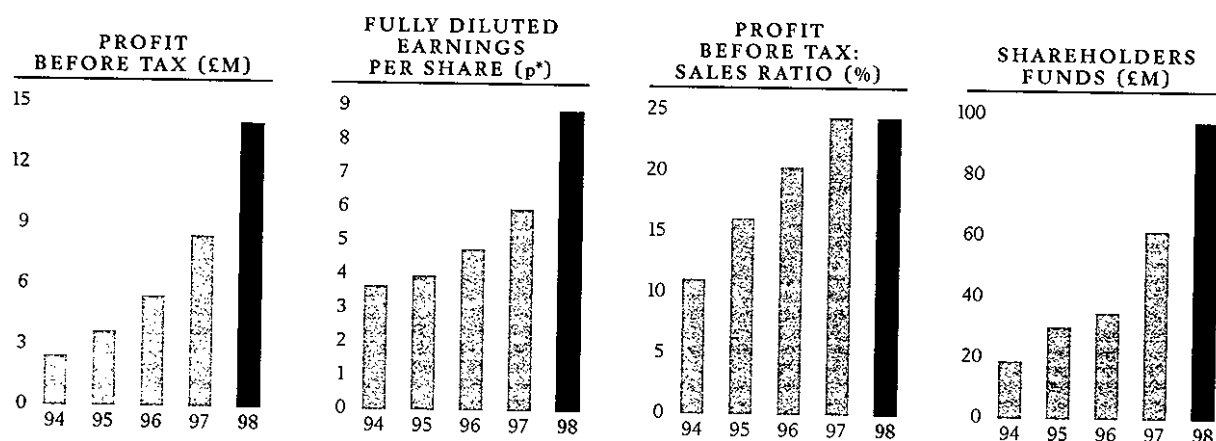
Mr Gilly and Mr Robinson are stepping down as non-executive directors at the forthcoming Annual General Meeting. Both are resident in Sydney, Australia. They have been directors for eight and two years respectively and their contributions and support have been of great assistance to the board during their service.

Mr Oppenheim was previously a non-executive director and assumed an executive role in 1992 when a change of corporate strategy was urgently required. He has effectively managed that change. He has now indicated to the board that he intends to resume his non-executive role following the Annual General Meeting in 1999.

PEOPLE

Northern Leisure is an entertainment business, and as has been said before, it is dependent for its success on its people. On behalf of shareholders I would like to thank all those who work for Northern Leisure for their efforts during the year. Without their efforts these outstanding results would not have been possible.

GROUP



ARTICLES OF ASSOCIATION

The company's Articles of Association are in need of revision to reflect current practice and a number of resolutions to accomplish this will be put forward to the Annual General Meeting.

THE FUTURE

Northern Leisure is in a strong financial position and is well protected if there is an economic downturn. The company has a sound geographically diverse portfolio of UK outlets, the majority of which dominate the late night entertainment business in

small and medium sized towns. The average spend per customer is modest at £7.26 (1997: £6.60).

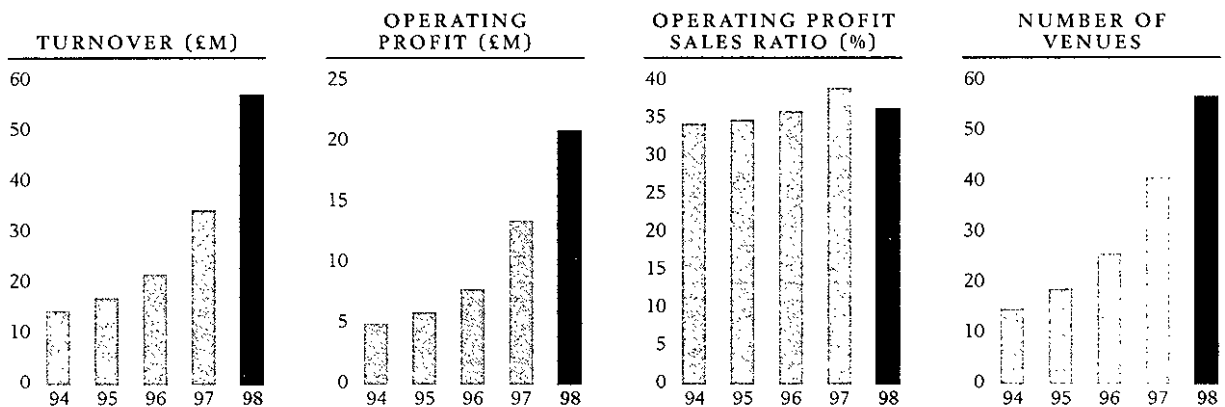
In addition, in the current year Northern Leisure will benefit from a full year contribution from recent acquisitions and expects to benefit from further acquisitions and the prospect of falling interest rates.

All of this makes the board confident about the outcome for the current year.

Alexander Cassels CHAIRMAN 28th September, 1998

*As restated for the one-for-one Bonus Issue on 15th June, 1998.

DANCING



Review of Operations

Profit before tax as a percentage of turnover held steady at 24.5% (1997: 24.6%).

Operating profit before central costs and interest as a percentage of turnover at 36.4% (1997: 39.2%) remains amongst the highest conversion rates in the leisure sector even after being adversely affected by slow trading in June. Competition continues to increase as it has done throughout the decade but with innovative marketing and focused management we continue to dominate the market in most of the towns in which we operate.

The contribution to sales of entrance fees and bar sales has been maintained at a satisfactory 31% and 65% respectively, the balance being miscellaneous sales.

Average weekly attendances at Northern outlets during August were 163,400 (1997: 121,800).

ACQUISITIONS

Northern acquired a further 16 businesses during the year (1997: 15) located in the following towns: Blackpool, Bradford, Chelmsford, Edgbaston, Gloucester, Harrogate, High Wycombe, Kettering, Luton, Mansfield, Skegness, Southport, Southend, Swindon, Yeovil and York.

Of these 11 were freehold premises; all the leases have at least 20 years to run with an average life of 41 years. A number of these businesses were purchased knowing that refurbishment would be required to achieve their full potential and this is either in progress or due to commence in the current financial year.

MODERNISATION

During the year major works were completed at Burnley, Bury, Hereford, Hull, Llandudno, Nuneaton, Southport and Wolverhampton, resulting in improved trading at all units.

Three units are currently closed undergoing a total restyling including our largest unit at Plymouth which will reopen in November as a twin scene night club plus three themed bars capable of entertaining 3,400 people at one time.

Substantial refurbishments are in progress at three other venues which are continuing to trade throughout the work period, a further four refurbishments are scheduled to be completed during October and November.

These improvements will all increase profitability.

LICENSING MATTERS

Extended Hours There has been much speculation concerning extended hours and the effect it could have on the late night entertainment industry. If change occurs, which is not expected to be in the lifetime of this parliament, the likely outcome is that drinking will be permitted for an extra hour on Friday and Saturday nights in some locations in both public houses and night clubs thus maintaining the current three hour differential.

This would be beneficial to Northern Leisure as it would permit businesses that are presently full at 2 a.m. to trade profitably for a further hour. We believe that it is unlikely that an extra hour's trading would have a material adverse effect on our businesses as the majority of our customers are already in our establishments before 11 p.m.

Sunday Dancing The move to allow public dancing on Sundays is gathering momentum and there is every possibility of the law changing in the near future. Sunday dancing has been allowed in Scotland for many years and has become the third most popular night of the week after Friday and Saturday. When Sunday dancing is permitted in England and Wales, it will be beneficial to Northern Leisure.

MINIMUM WAGE

A negligible amount of additional cost will be incurred following implementation of the minimum wage legislation in April. However, it is expected that Northern Leisure will be a net beneficiary of the legislation as many of our customers will have a little more to spend.

MANAGEMENT AND STAFF

The necessary management changes to enable Northern Leisure to continue its expansion have occurred during the year as well as further investment in IT, systems and management development.

I have succeeded Nicholas Oppenheim as Chairman of the Management Board and Peter Marks, Andrew McIvor and Brendan McLoughlin have been appointed Managing Directors.

Four additional Area Managers have been appointed bringing the total to nine. Each Area Manager reports directly to one of the two Managing Directors responsible for operations.

We now have in place sufficient management to control over seventy outlets.

Clive Preston MANAGING DIRECTOR

Report of the Remuneration Committee

During the year ended 31st August, 1998, Northern Leisure complied with Section A of the Best Practice Provisions annexed to the Listing Rules of the London Stock Exchange and, in framing its remuneration policy, has given full consideration to section B of those provisions.

The company's Remuneration Committee comprises:

Alexander Cassels
Edward Gilly
Don Hanson
Allen Robinson
Robert Wickham

All are non-executive directors of the company and have no day-to-day involvement in the running of the business. None is a director of any company of which any of the executive directors is also a director.

The Remuneration Committee meets as required but at least once a year. It is chaired by Alexander Cassels, the Chairman of the company.

The last meeting of the Remuneration Committee preceding the date of this report was on 24th September, 1998.

REMUNERATION POLICY OF

NORTHERN LEISURE

The remuneration policy of Northern Leisure as regards directors is as follows:

- (a) The Remuneration Committee is mindful of the overall cost of the directors' remuneration relative to the company's other fixed overheads. During the year under review the remuneration packages of the executive directors totalled £500,595 in aggregate, including salaries, bonuses, benefits and pensions.
- (b) The annual salary of, and the share options to be granted to, each of the executive directors is determined by the Remuneration Committee meeting once a year. Last year, Niven Ballantyne, Nicholas Oppenheim and Clive Preston received remuneration increases of 5%, 2.7% (after waiver of salary see note 8, page 11) and 4% respectively.
- (c) Bonuses are paid by the company to executive directors, other than Nicholas Oppenheim, as well as to other senior management based upon the company having met performance targets. The performance targets for the executive directors are approved by the Remuneration Committee before being implemented.

The target for Clive Preston and Niven Ballantyne was based upon the company achieving an improvement in year-on-year operating profit adjusted for various items outside their control. Clive Preston received 4% and Niven Ballantyne 1% of the calculated increase. Six other senior managers were also included in the scheme receiving ½% each. The bonus scheme for the current financial year has been changed to align participants' long term objectives with the interest of the shareholders and is based upon the group achieving an increase in year-on-year fully diluted earnings per share. Clive Preston and Niven Ballantyne receive the increase on 1,750,000 and 750,000 notional shares respectively. Six other senior managers are also included in the scheme receiving the increase on 5,500,000 notional shares in aggregate. Nicholas Oppenheim does not participate in the bonus scheme.

The bonus schemes are non-contractual and the Remuneration Committee reviews

annually their effectiveness on the profitability of the company.

Payment is made monthly with participants electing for between 25% and 75% of the bonus to be paid in cash with the balance taken as shares in the company. Shares acquired as part of the bonus payment must be retained until 31st August, 1999 for bonuses earned prior to 31st August, 1998 and for an average of two and a half years for bonuses earned after that date. These shares are bought on the open market by the company on behalf of the participants and in the case of the directors of the company these shares are bought at six monthly intervals after publication of the interim and final results.

On average such performance related payments account for approximately 49% of the total remuneration of the executive directors.

- (d) Benefits are provided by the company to executive directors. Currently these are a fully expensed car and private health insurance.
- (e) The Remuneration Committee has examined the remuneration received by directors in comparable businesses in the Leisure Industry for the purpose of monitoring overall remuneration levels against other such companies.
- (f) All executive directors with the exception of Nicholas Oppenheim participate in both the 1992 Share Option Scheme ("1992 Scheme") and the 1998 Executive Share Option Scheme ("1998 Scheme") after one year's service. No more Options will be granted under the 1992 Scheme.

1992 Scheme: Grants of 1992 Scheme options are phased over a period of four years so

that at any time only half are exercisable. The grant or exercise of 1992 Scheme options is not based on any performance related criteria. 1992 Scheme options may not be exercised until two years after the date of grant. The latter two points are not in accordance with Section B of the Best Practice Provisions. If the holder of a 1992 Scheme option resigns or is dismissed from the employment of the company he or she loses the benefit of any unexercised options which he or she holds.

The 1998 Scheme: The 1998 Scheme has been designed to align participants' long-term objectives with the interests of the shareholders and provides for the grant of both basic and super options, all of which will be subject to performance tests.

Basic options will only be exercisable on the achievement of a 3 year performance target based on an average growth in fully diluted normalised earnings per share of at least 3% per annum over the rate of increase in the retail prices index.

The initial grant of super options will require the achievement of an increase in earnings per share of 27.5% per annum compound above inflation over a fixed 5-year period if participants are entitled to exercise their options in full. Such options will not be exercisable at all if earnings per share increase by less than 12.5% per annum compound above inflation for the same period or if such earnings per share increase is not upper quartile as compared to the FTSE Mid-250.

The Scheme places limits on the number of new shares over which options may be granted of 5% of the ordinary share capital over any

Report of the Remuneration Committee

10-year period for basic options and 10% of the ordinary share capital over any 10-year period for all options (including super options).

Basic options will be granted so that they can subsist over shares worth up to 4 times the value of the participant's earnings from time-to-time. Super options will be granted so that the aggregate of basic and super options can subsist over shares worth up to 10 times the value of the participant's earnings from time-to-time. They may be replaced on exercise if the Remuneration Committee is satisfied that there has been an underlying improvement in the performance of the Company which justifies the grant of further options.

- (g) The company does not allow its executive directors to engage in any other paid work outside their work for the company, whether as non-executive directors or otherwise, without permission of the Chairman.
- (h) It is the company's policy that contracts for the employment or for the services of all executive

directors provide for periods of notice or termination of twelve months or less. All existing executive directors are employed under contracts which conform to this policy.

- (i) The company rewards the executive directors on the basis of a total remuneration package comprising salary and pension. A director nominates from the total remuneration the amount which he wishes to be regarded as pension and the company then makes a contribution to a defined contribution scheme on his behalf. Benefits actually payable are not related to the final remuneration of the member and contributions are subject to the usual Inland Revenue caps.
- (j) The remuneration of non-executive directors is determined by the full board within the limits set in the company's Articles of Association. The non-executive directors do not participate in bonus or share option schemes.

REMUNERATION OF INDIVIDUAL DIRECTORS

The tables set out below show the total remuneration as it applies to each of the directors. Executive directors are shown separately from non-executive directors.

Executive		Salary/ Fees see note 7 & 8 £	Benefits £	Profit related bonus £	Pension see (i) above £	Total £	Profit on exercise of share options see note 6 £	Change in value of share options during the year see note 5 £	Total £
Niven Ballantyne	1998	60,371	5,524	49,899	–	115,794	51,975	(13,650)	154,119
	1997	60,500	6,200	34,750	–	101,450	–	57,337	158,787
Nicholas Oppenheim	1998	84,590	6,808	–	–	91,398	–	–	91,398
	1997	82,400	5,926	–	–	88,326	–	–	88,326
Clive Preston	1998	76,553	9,434	195,995	11,421	293,403	1,103,200	(86,450)	1,310,153
	1997	83,578	8,739	141,751	11,422	245,490	–	483,550	729,040
Non executive									
Alexander Cassels	1998	25,000	–	–	–	25,000	–	–	25,000
	1997	20,000	–	–	–	20,000	–	–	20,000
Edward Gilly	1998	12,500	–	–	–	12,500	–	–	12,500
	1997	10,000	–	–	–	10,000	–	–	10,000
Allen Robinson	1998	12,500	–	–	–	12,500	–	–	12,500
	1997	10,000	–	–	–	10,000	–	–	10,000
Robert Wickham	1998	12,500	–	–	–	12,500	–	–	12,500
	1997	10,000	–	–	–	10,000	–	–	10,000

Notes:

1. Non-executive directors receive remuneration as set out above. No additional committee fees are paid. Expenses incurred in the course of a non-executive director's duties are reimbursed.
 2. All directors who received a bonus payment exceeded their financial targets.
 3. All executive directors are provided with cars as part of their remuneration package and receive private health insurance for themselves and their families.
 4. The details of the performance related bonus schemes are set out above.
 5. The value of a share option is taken to be the difference between the exercise price of the option and the market price of the shares at the end of the year multiplied by the number of shares subject to the option. The value of an option cannot fall below £nil.
 6. Of the £1,103,200 and £51,975 profit on exercise of share options £471,600 and £36,788 respectively had accrued up to 31st August, 1997.
 7. Included under Salary/Fees in 1997 for Clive Preston and Niven Ballantyne are one-off payments of £10,000 and £3,000 respectively.
 8. Nicholas Oppenheim waived £15,410 (1997: £7,600) of his remuneration in the period.
- A table setting out details of share options held by directors is given in note 19 to the accounts.

Directors' Report

The directors present the Report and Accounts of Northern Leisure PLC for the 52 weeks ended 31st August, 1998.

ANNUAL GENERAL MEETING

The notice of the Annual General Meeting, which will be held at 1 Primrose Hill, Preston, Lancashire, PR1 4BX at 12 noon on 29th October, 1998 is to be found on page 37 of this report. Explanatory notes regarding the business to be carried out are to be found on page 42.

PRINCIPAL ACTIVITIES

The principal activity of the group is the operation of dancing businesses throughout Great Britain.

The group's operations during the year and its future developments are discussed in the Chairman's Statement on page 3 and the Review of Operations on page 6.

RESULTS

The results of the group for the 52 weeks ended 31st August, 1998 are set out in the consolidated profit and loss account on page 18. The profit on ordinary activities before taxation amounted to £14,065,000 (1997: £8,519,000).

DIVIDENDS

The directors recommend a final dividend of 3.5p per ordinary share to be paid on 30th October, 1998 to shareholders on the register on 9th October, 1998, which together with the interim dividend of 4.5p (2.25p as restated for the one-for-one Bonus Issue) per ordinary share paid on 1st May, 1998 makes a total of 8.0p (5.75p as restated) for the year (1997: 6.0p -3.0p as restated).

SHARE AND BONUS ISSUES

In February 1998 the company raised £20.7m net of expenses by way of a Placing and Open Offer

of 5,382,736 new ordinary shares at a price of 400p per share (before bonus issue).

The proceeds of the Placing and Open Offer have been used to provide funds to support the group's investment programme.

DONATIONS

No political contributions or donations to charity were made by the group during the period.

DIRECTORS

The names of the present directors of the company are listed on page 2. Don Hanson was appointed on 1st September, 1998. He has no service contract and being eligible offers himself for re-election. Alexander Cassels and Robert Wickham retire in accordance with the Articles of Association and, being eligible, offer themselves for re-election. Alexander Cassels and Robert Wickham both have contracts which expire on 31st August, 1999 and 31st August, 2000 respectively.

PROPOSED DIRECTORS

The proposed directors are all directors of the main operating company.

Peter Marks (37) joined the company in 1992 and has been Development Director (Acquisitions) since 1994.

Andy McIvor (39) joined the company in 1989 and has been Operations Director since 1997.

Brendan McLoughlin (39) joined the company in 1989 and has been Development Director (Existing Businesses) since 1996.

Matthew Streets (36) joined the company in 1989 and has been Accounting Director since 1994.

NON-EXECUTIVE DIRECTORS

Alexander Cassels is Chairman of Dunedin Enterprise Investment Trust PLC, an investment trust company and is a non-executive director of Rutland Trust PLC, a financial services company, and of a number of private companies.

Don Hanson is a director of Central Asian Investment Company and a number of private companies and was a Managing Partner of Andersen Worldwide from 1989 to 1997 and Senior Partner of Arthur Andersen & Co UK from 1982-1989.

Edward Gilly is Executive Chairman of Fairgill Investments Pty Limited, a private family investment company based in Sydney, Australia.

Allen Robinson is Managing Director of Bridgestar Pty Limited (a private investment vehicle of James Fairfax Esq).

Robert Wickham is a non-executive director of a number of companies including Rutland Trust PLC and Secure Trust Group PLC and, until he retired in December 1993, was General Manager of Bank of Scotland with responsibility for England.

The non-executive directors form the Audit Committee and the Remuneration Committee.

DIRECTORS' INTERESTS

The interests of the directors in the share capital of the company are shown in note 19 to the Accounts.

SUBSTANTIAL SHAREHOLDINGS

In addition to certain of the interests of directors set out in note 19 to the Accounts, as at 11th September, 1998 the company was aware of the following interests in 3% or more of the issued share capital of the company.

	Ordinary Shares	
	Number	Percentage
M&G Investment Management	10,148,640	8.23
Schroder Investment Management	6,847,228	5.55
GAIMS	4,283,996	3.47
J. O. Fairfax and family*	3,973,334	3.22
Mercury Asset Management	3,774,484	3.06

*See note 19.

CORPORATE GOVERNANCE

The group has complied with the provisions of the Code of Best Practice published by the Cadbury Committee on the Financial Aspects of Corporate

Governance throughout the period under review.

The board is committed to proper standards of corporate governance and will continue to keep arrangements and procedures under review as best practice develops. The board supports the findings contained in The Combined Code and will report on compliance with them in the financial statements for the year ended 31st August, 1999.

Going Concern After making enquiries, the directors consider 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 of preparing the accounts.

Internal Financial Controls The directors have overall responsibility for the group's system of internal financial controls, which aims to safeguard group assets, to ensure that proper accounting records are maintained and that the financial information used within the business and for publication is reliable, and for monitoring its effectiveness. The board meets regularly and has adopted a schedule of matters which are brought to it for discussion, as a means of ensuring that it maintains effective control over strategic, financial and organisational issues. The controls are designed to provide reasonable, but not absolute, assurance against material mis-statement or loss. The group has established a control framework developed over a number of years. Of particular importance are those that relate to:

Control Environment There is a clearly defined organisational structure within which individual responsibilities are identified and monitored.

Risk Assessment The board has the primary responsibility for identifying major business risks facing the group and developing policies to manage those risks. The directors have put in place risk assessment procedures which are reviewed regularly. In addition, the senior management of the individual operating businesses accept the responsibility for identifying the risks facing their particular operations and for putting in place procedures to mitigate and monitor such risks.

Directors' Report

Financial Reporting There is a comprehensive profit, cash flow and balance sheet reporting system. Monthly results are reported against budget and prior year and revised forecasts for the year are updated regularly, significant variations are examined and explained.

Main Control Procedures Each business unit has an annual budget against which monthly performance is reported. Regular operation reviews are carried out, mainly at the location of each business by senior operating executives at which progress against budget and any revised forecasts are closely examined to ensure that appropriate action is taken to capitalise on opportunities or to investigate problems. The managing director chairs bi-monthly meetings of unit managers to ensure that awareness and understanding of corporate issues are properly communicated. The issues arising from the above reviews and other substantial matters are dealt with at the monthly subsidiary management board meeting.

The control framework is communicated by various procedure manuals for accounting policies together with manuals for matters of a more operational nature.

Investment Appraisal The group has clearly defined investment criteria and guidelines for capital expenditure. These include annual capital budgets, detailed appraisal and review procedures, levels of authority and due diligence requirements where major sums are to be spent. Acquired operating units and major capital expenditure projects are subjected to post investment appraisal after an appropriate period of time has elapsed.

Compliance Reporting An internal audit function performs regular reviews of the operating units to evaluate the controls in place. The audit committee, meets and discusses issues with the group's management and the external auditors on an annual basis.

The board has reviewed the effectiveness of the group's internal financial controls.

The auditors, KPMG Audit Plc, have confirmed that in their opinion, with respect to the directors' statement as it relates to internal financial controls and going concern set out above, the directors have provided the disclosures required by the Listing Rules of the London Stock Exchange and such statements are not inconsistent with the information of which they are aware from their audit work on the financial statements; and that the directors' statement above appropriately reflects the company's compliance with the other paragraphs of the Cadbury Code of Best Practice specified by the Listing Rules for their review. They have carried out their review in accordance with the relevant guidance issued by the Auditing Practices Board, which does not require them to perform any additional work necessary to express a separate opinion on the effectiveness of either the group's system of internal financial controls or the company's corporate governance procedures, or on the ability of the group to continue in operational existence.

CREDITOR PAYMENT POLICY

The group does not follow any formal code in relation to payment of creditors however, the group's policy for settlement of debts has been set to maintain supplier relationships whilst maximising value to shareholders. The number of days purchases outstanding at the end of the financial year for the group amounted to 41 days (1997: 45 days). The company had no trade creditors at 31st August, 1998.

YEAR 2000

The board, with consulting input from KPMG, considered risks and uncertainties connected with this issue as they affect Northern's business and reviewed its internal systems in this connection in 1997.

The board has established a formal project team to take the necessary action to ensure that as far as possible all its systems are Year 2000 compliant by March 1999.

All key suppliers have been contacted and we are working together to ensure that there is continuity of supply.

There is a programme of replacing or upgrading non-compliant systems as part of Northern's ongoing programme of investment in information technology. The costs specific to addressing the Year 2000 problem are not considered material and they are charged against profits as incurred.

EURO

The directors do not believe the introduction of the Euro will have a significant impact on Northern's business, which is wholly UK based.

EMPLOYMENT POLICIES

The group acknowledges its duty to offer employment opportunities to disabled people. Where possible, employees who become disabled during the course of their employment will be retained.

It is the group's policy to carry on its business so as to avoid causing any unnecessary or unacceptable

health and safety risks to its employees and customers. To ensure that high standards are maintained a training and operational programme is pursued to maintain staff awareness of the health and safety aspects of the group's businesses.

The directors attach importance to good communications and relations with the group's employees. Where possible meetings are held in order to fulfil this objective.

AUDITORS

In accordance with Section 385 of the Companies Act 1985, a resolution is to be proposed at the forthcoming Annual General Meeting for the re-appointment of KPMG Audit Plc as auditors of the company and to authorise the directors to fix its remuneration.

1 Primrose Hill,
Preston,
Lancashire, PR1 4BX

By order of the board
Peter Smith SECRETARY
28th September, 1998

Statement of Directors' Responsibilities

The following statement, which should be read in conjunction with the statement of auditors' responsibilities included in the report of the auditors on page 17, is made with a view to distinguishing for shareholders the respective responsibilities of the directors and of the auditors in relation to the financial statements.

The directors are required by the Companies Act 1985 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 for the financial year.

In preparing the financial statements, the directors are required to select appropriate accounting policies and then apply them consistently, make judgements and estimates that are reasonable and

prudent and state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements. The directors are also required to use a going concern basis in preparing the financial statements unless this is inappropriate.

The directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy at any time the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors 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.

Report of the Auditors

to the members of Northern Leisure PLC

We have audited the financial statements on pages 18 to 35. We have also examined the amounts disclosed relating to emoluments, pension information and share options of the directors which form part of the Remuneration Committee report on page 8.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described on page 16 the company's directors are responsible for the preparation of the financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are

appropriate to the group's circumstances, consistently applied and adequately disclosed.

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

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the company and the group as at 31st August, 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.

8 Salisbury Square,
Blackfriars,
London,
EC4Y 8BB

KPMG Audit Plc

KPMG Audit Plc
Chartered Accountants
Registered Auditor
28th September, 1998

Consolidated Profit and Loss Account

NOTES	<i>For the 52 weeks ended 31st August, 1998</i>	Year ended 31st August 1998 52 weeks £'000		Year ended 31st August 1997 52 weeks £'000	
		£'000	£'000	£'000	£'000
	TURNOVER				
2	Continuing operations				
	Ongoing operations	46,679		34,672	
	Acquired operations	<u>10,788</u>			
			57,467		34,672
2	Cost of sales		<u>(36,521)</u>		<u>(21,088)</u>
	Gross profit		20,946		13,584
	Administrative expenses		<u>(4,578)</u>		<u>(2,982)</u>
	OPERATING PROFIT				
	Continuing operations (before exceptional items)				
	Ongoing operations	13,556		10,602	
	Exceptional item:				
	Costs incurred in takeover talks	<u>(280)</u>		<u>-</u>	
		13,276		10,602	
	Acquired operations	<u>3,092</u>			
	Continuing operations (after exceptional items)		16,368		10,602
2	Profit/(loss) on sale of properties in continuing operations		<u>-</u>		<u>(400)</u>
	PROFIT ON ORDINARY ACTIVITIES BEFORE INTEREST		16,368		10,202
5	Net interest payable and other similar charges		<u>(2,303)</u>		<u>(1,683)</u>
2	PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		14,065		8,519
6	Tax on profit on ordinary activities		<u>(3,473)</u>		<u>(2,278)</u>
	PROFIT FOR THE FINANCIAL YEAR		10,592		6,241
7	Dividends		<u>(7,097)</u>		<u>(3,269)</u>
18	RETAINED PROFIT FOR THE FINANCIAL YEAR		<u>3,495</u>		<u>2,972</u>
9	EARNINGS PER ORDINARY SHARE		9.0p		6.1p*
9	FULLY DILUTED EARNINGS PER ORDINARY SHARE		8.9p		6.0p*
	DIVIDENDS PER ORDINARY SHARE		5.75p*		3.0p*

*As restated for one-for-one Bonus Share Issue.

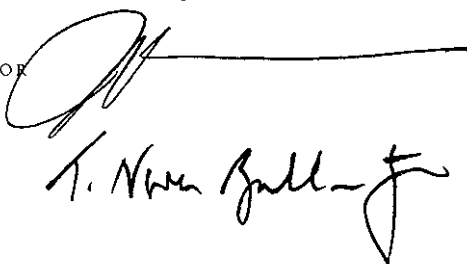
Consolidated Balance Sheet

NOTES	At 31st August, 1998	31st August 1998	31st August 1997
		£'000	£'000
	FIXED ASSETS		
10	Tangible assets	137,489	97,768
		<u>137,489</u>	<u>97,768</u>
	CURRENT ASSETS		
12	Stocks	788	465
13	Debtors: amounts due within one year	1,856	1,344
13	Debtors: amounts due after more than one year	1,471	317
		<u>3,327</u>	<u>1,661</u>
	Investments	59	79
	Cash at bank and in hand	286	162
		<u>4,460</u>	<u>2,367</u>
	CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR		
	Trade creditors	3,610	2,477
14	Other creditors	12,736	6,963
		<u>16,346</u>	<u>9,440</u>
	Net current liabilities	(11,886)	(7,073)
	TOTAL ASSETS LESS CURRENT LIABILITIES	125,603	90,695
	CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR		
15	Bank loans and overdrafts	27,705	25,998
16	PROVISIONS FOR LIABILITIES AND CHARGES	-	184
		<u>97,898</u>	<u>64,513</u>
	EQUITY CAPITAL AND RESERVES		
17	Called up share capital	12,335	5,449
18	Share premium account	39,921	23,567
18	Revaluation reserve	13,197	13,197
18	Acquisition reserve	22,320	15,670
18	Profit and loss account	10,125	6,630
		<u>97,898</u>	<u>64,513</u>

The accounts on pages 18 to 35 were approved by the Board of Directors on 28th September, 1998 and signed on its behalf by:

Nicholas Oppenheim DIRECTOR

Niven Ballantyne DIRECTOR

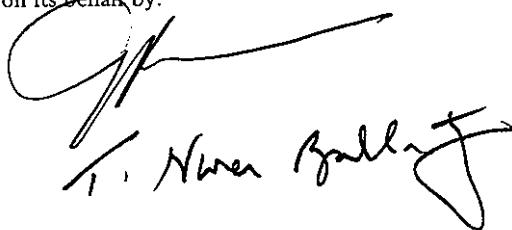


Balance Sheet

NOTES	At 31st August, 1998	31st August 1998	31st August 1997
		£'000	£'000
	FIXED ASSETS		
11	Investments	57,538	64,880
	CURRENT ASSETS		
13	Debtors: amounts due within one year	6,013	60
13	Debtors: amounts due after more than one year	1,079	652
		7,092	712
	Investments	-	79
		7,092	791
	CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR		
14	Other creditors	6,083	3,295
		6,083	3,295
	Net current assets/(liabilities)	1,009	(2,504)
	TOTAL ASSETS LESS CURRENT LIABILITIES	58,547	62,376
	CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR		
15	Bank loans and overdrafts	-	25,998
		58,547	36,378
	EQUITY CAPITAL AND RESERVES		
17	Called up share capital	12,335	5,449
18	Share premium account	39,921	23,567
18	Profit and loss account	6,291	7,362
		58,547	36,378

The accounts on pages 18 to 35 were approved by the Board of Directors on 28th September, 1998 and signed on its behalf by:

Nicholas Oppenheim DIRECTOR
Niven Ballantyne DIRECTOR



Statement of Total Recognised Gains and Losses

	Year ended 31st August 1998 52 weeks £'000	Year ended 31st August 1997 52 weeks £'000
<i>For the 52 weeks ended 31st August, 1998</i>		
Profit for the financial year	10,592	6,241
Total recognised gains for the year	<u>10,592</u>	<u>6,241</u>

Historical Cost Profits and Losses

	Year ended 31st August 1998 52 weeks £'000	Year ended 31st August 1997 52 weeks £'000
<i>For the 52 weeks ended 31st August, 1998</i>		
Historical cost profit on ordinary activities before taxation	14,065	8,519
Historical cost profit for the year retained after taxation and dividends	<u>3,495</u>	<u>2,972</u>

Movements in Shareholders' Funds

	Group		Company	
	Year ended 31st August 1998 52 weeks £'000	Year ended 31st August 1997 52 weeks £'000	Year ended 31st August 1998 52 weeks £'000	Year ended 31st August 1997 52 weeks £'000
<i>For the 52 weeks ended 31st August, 1998</i>				
Profit for the financial year	10,592	6,241	6,026	976
Dividends	(7,097)	(3,269)	(7,097)	(3,269)
Retained profit/(loss) for the financial year	3,495	2,972	(1,071)	(2,293)
New share capital issued (net of costs)	23,240	11,915	23,240	11,915
Capital reserve on acquisition of businesses	6,650	14,391	-	-
Net increase in shareholders' funds	33,385	29,278	22,169	9,622
Opening shareholders' funds	64,513	35,235	36,378	26,756
Closing shareholders' funds	<u>97,898</u>	<u>64,513</u>	<u>58,547</u>	<u>36,378</u>

Consolidated Cash Flow Statement

NOTES	<i>For the 52 weeks ended 31st August, 1998</i>	Year ended 31st August 1998 52 weeks £'000	Year ended 31st August 1997 52 weeks £'000
23A	NET CASH INFLOW FROM OPERATING ACTIVITIES	18,275	11,398
	RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
	Interest paid	(2,400)	(1,463)
	Interest received	13	11
	Bank fees on loan facilities	(112)	(95)
	NET CASH (OUTFLOW) FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	(2,499)	(1,547)
	TAXATION		
	Corporation tax paid	(1,398)	(250)
	Advance corporation tax paid	(825)	(272)
	TAX PAID	(2,223)	(522)
	CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
	Purchase of tangible fixed assets	(5,489)	(4,182)
	Sale of investments	-	52
	Sale of tangible fixed assets	1,835	2
	NET CASH (OUTFLOW) FROM CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	(3,654)	(4,128)
	ACQUISITIONS AND DISPOSALS		
	Purchases of businesses	(30,035)	(26,470)
	NET CASH (OUTFLOW)/INFLOW FROM ACQUISITIONS AND DISPOSALS	(30,035)	(26,470)
	EQUITY DIVIDENDS PAID	(4,687)	(2,451)
	NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING	(24,823)	(23,720)
	FINANCING		
	Issue of ordinary share capital	24,154	12,424
	Drawdown of loan facilities	1,707	12,233
	Expenses paid in connection with share issue	(914)	(509)
	NET CASH INFLOW/(OUTFLOW) FROM FINANCING	24,947	24,148
23B	INCREASE IN CASH	124	428

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES

The following accounting policies have been applied consistently in dealing with items which are considered material to the accounts:

- (a) The accounts are prepared under the historical cost convention adjusted for the revaluation of certain freehold and leasehold properties and in accordance with the Companies Act 1985 and applicable Accounting Standards.
- (b) The trading results include transactions at operating units up to and including the nearest Sunday to 31st August. All other transactions are included up to 31st August. The trading results of subsidiaries and businesses acquired or sold in the period and requiring to be acquisition accounted are included from or to the respective dates of acquisition or sale.
- (c) On the acquisition of a subsidiary or business the book values of the assets are adjusted, if necessary, to reflect the directors' estimate of fair values. Any goodwill or capital reserve, being the difference that arises between the fair value of consideration paid for a subsidiary or business and the fair value placed upon the assets acquired, is dealt with through reserves as it arises. When subsidiaries or businesses are sold the profit on sale is calculated as the aggregate difference between the consideration receivable and the net assets of the subsidiaries or businesses sold and the goodwill or capital reserve relating to the acquisition of those subsidiaries or businesses previously eliminated against reserves.
- (d) Turnover represents admission receipts and amounts receivable from sales of goods and services supplied to customers, excluding value added tax.
- (e) Cost of sales includes all costs incurred at operating units together with central costs directly attributable to operations.
- (f) Depreciation is provided to write down the cost or valuation to estimated residual value (based on prices prevailing at the time of acquisition or subsequent valuation) of tangible fixed assets by equal instalments over their estimated lives as follows:

Plant and machinery	10-20 years
Fixtures, fittings and equipment	3-10 years
Motor vehicles	4 years

Short leasehold properties where no rights of renewal exist under the Landlord and Tenant Acts are depreciated over the remaining period of the lease. Freehold, long leasehold and other short leasehold properties owned by the group are maintained to a high standard and accordingly the directors consider that the lives of these assets are so long and residual values, based on prices prevailing at the time of acquisition or subsequent valuation, are so high that depreciation is insignificant. Provision is made for any permanent diminution in value through the profit and loss account.

Notes to the Accounts

- (g) Expenditure on repairs, renewals and minor items of equipment is written off in the period in which it is incurred.
- (h) Amounts payable under operating leases are charged to the profit and loss account as they fall due.
- (i) The pension cost charge in respect of defined contribution schemes and employees' personal schemes represents contributions payable to such schemes in the accounting period.
- (j) The cost of fixed assets includes interest charged on directly attributable borrowings during the development phase of a business, other costs incurred prior to opening and launch costs. It has not been the policy of the group to capitalise interest or launch costs since 1991.
- (k) Stocks are included at the lower of cost and net realisable value.
- (l) The group provides for deferred taxation arising from timing differences to the extent that the liability is expected to crystallise in the foreseeable future.
- (m) Advance Corporation Tax ("ACT") recoverable by deduction from future corporation tax is carried forward within deferred tax or as ACT recoverable within debtors as appropriate.
- (n) Debt instruments are initially recorded at the net proceeds received after deducting issue costs. Issue costs are amortised over the life of the instrument and charged to interest to arrive at a constant cost of financing over the life of the instrument.

NORTHERN LEISURE

2 TURNOVER, PROFIT ON ORDINARY ACTIVITIES AND NET ASSETS	Turnover		Net Assets	
	1998	1997	1998	1997
	52 weeks £'000	52 weeks £'000	52 weeks £'000	52 weeks £'000
A. Turnover and net assets				
Continuing operations				
Dancing	57,467	34,672	125,603	90,511
Funding			(27,705)	(25,998)
	57,467	34,672	97,898	64,513

B. Profit on ordinary activities before taxation	Profit on ordinary activities before depreciation		Depreciation		Profit on ordinary activities before taxation	
	1998	1997	1998	1997	1998	1997
	52 weeks £'000	52 weeks £'000	52 weeks £'000	52 weeks £'000	52 weeks £'000	52 weeks £'000
Continuing operations						
Dancing	23,711	14,887	2,765	1,303	20,946	13,584
Property disposals	-	(400)	-	-	-	(400)
Administration	(4,431)	(2,903)	147	79	(4,578)	(2,982)
Total continuing operations	19,280	11,584	2,912	1,382	16,368	10,202
Net interest	(2,303)	(1,683)	-	-	(2,303)	(1,683)
	16,977	9,901	2,912	1,382	14,065	8,519

All turnover and profits arise in the UK. The operating profit of acquired operations is stated after charging £7,696,000 cost of sales and £nil administration expenses.

C. The operating result is stated after charging the following:	1998	1997
	52 weeks £'000	52 weeks £'000
Cost of sales: continuing operations	36,521	21,088

D. Profit/(loss) on disposal of properties in continuing operations:	1998	1997
	52 weeks £'000	52 weeks £'000
Profit on sale and leaseback at York	478	-
Provision for loss on sale of property at Blackburn	(478)	-
Disposal of property at Preston	-	(500)
Other	-	100
	-	(400)

Notes to the Accounts

2 TURNOVER, PROFIT ON ORDINARY
ACTIVITIES AND NET ASSETS *continued*

	1998 52 weeks £'000	1997 52 weeks £'000
E. Profit on ordinary activities before taxation is stated after charging the following:		
Depreciation of tangible fixed assets	2,912	1,382
Hire of plant and machinery	302	110
Other operating leases	1,288	715
Auditors' remuneration and expenses		
As auditors	57	40
Other fees paid to the auditors and their associates	108	26

Additionally during the year £50,500 was paid to the auditors in connection with the share issue. These costs were charged against the share premium account.

3 EMOLUMENTS OF DIRECTORS EXCLUDING SHARE OPTIONS

Further details of the emoluments of the individual directors are detailed in The Report of the Remuneration Committee on page 8. In aggregate the directors' emoluments were as follows:

	1998 52 weeks £'000	1997 52 weeks £'000
Director's emoluments:		
As Directors	62	50
As Executives – remuneration	489	424
– pension contributions	11	11

A table setting out details of share options held by directors is given in note 19 to the accounts.

4 STAFF NUMBERS AND COSTS

	1998 52 weeks Number	1997 52 weeks Number
The average number of persons employed by the group, analysed by category, is as follows:		
Dancing	1,993	1,423
Administration	46	34
	2,039	1,457

The above number of employees includes 1,013 part-time employees (1997: 718)

	1998 52 weeks £'000	1997 52 weeks £'000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	9,148	5,760
Social security costs	607	369
Pension costs (see note 20)	70	72
Staff welfare and other personnel costs	31	17
	9,856	6,218

	1998 52 weeks £'000	1997 52 weeks £'000
5 NET INTEREST PAYABLE AND OTHER SIMILAR CHARGES		
On bank loans and overdrafts	2,256	1,634
Interest receivable	(13)	(11)
Fees	60	60
	2,303	1,683

	1998 52 weeks £'000	1997 52 weeks £'000
6 TAX ON PROFIT ON ORDINARY ACTIVITIES		
UK corporation tax at 31% (1997: 32.2%)	3,992	2,434
Deferred tax (see note 16)	(519)	(156)
	3,473	2,278

The charge to UK corporation tax is lower than the full theoretical charge due to the group benefiting from accelerated capital allowances that are not expected to reverse in the foreseeable future.

	1998 52 weeks £'000	1997 52 weeks £'000
7 DIVIDENDS		
Increase in 1997 dividend	33	—
Interim of 2.25p* (1997: 1.25p*) per ordinary share	2,747	1,362
Proposed final dividend of 3.5p (1997: 1.75p*) per ordinary share	4,317	1,907
	7,097	3,269

*Restated following one-for-one Bonus Issue.

	1998 52 weeks £'000	1997 52 weeks £'000
8 PROFIT FOR THE YEAR FOR THE COMPANY		
Northern Leisure PLC	6,026	976

As provided by Section 230 of the Companies Act 1985, a separate profit and loss account is not presented for Northern Leisure PLC.

9 EARNINGS PER SHARE

Earnings per ordinary share for the 52 weeks ended 31st August, 1998 are calculated on the basis of a weighted average number of ordinary shares in issue of 117,241,075 (1997: 101,527,136*) and on the profit after taxation attributable to ordinary shareholders of £10,592,000 (1997: £6,241,000).

Fully diluted earnings per share for the 52 weeks ended 31st August, 1998 are calculated on the basis of 120,836,299 (1997: 107,308,620*) ordinary shares, taking into account the outstanding 1992 Share Option Scheme options and 'A' warrants and earnings of £10,749,000 (1997: £6,459,000) taking into account the interest benefit that would arise were the shares issued and the warrants exercised, as at 1st September, 1997.

*Restated following one-for-one Bonus Issue.

Notes to the Accounts

10 TANGIBLE ASSETS	Land and Buildings			Fixtures Fittings & Equipment £'000	Total £'000
	Freehold £'000	Long Leasehold £'000	Short Leasehold £'000		
Group					
Cost or valuation					
At 1st September, 1997	51,568	7,534	27,189	17,544	103,835
Additions	24,345	3,606	4,984	11,683	44,618
Transfers	(310)	(1,058)	1,368	-	-
Disposals	(1,225)	-	-	(740)	(1,965)
At 31st August, 1998	74,378	10,082	33,541	28,487	146,488
Depreciation/Provisions					
At 1st September, 1997	-	-	-	6,067	6,067
Charge for the year	478	-	-	2,912	3,390
Disposals	-	-	-	(458)	(458)
At 31st August, 1998	478	-	-	8,521	8,999
Net book value at 31st August, 1998	73,900	10,082	33,541	19,966	137,489
Net book value at 31st August, 1997	51,568	7,534	27,189	11,477	97,768

In 1989 and 1990 the group capitalised interest on construction projects. Since then no further interest has been capitalised. An aggregate of £331,000 (1997 £331,000) such interest was capitalised and is included in the cost of fixed assets. This interest has been taken as a deduction in arriving at profits subject to corporation tax.

Land and Buildings are carried at directors' valuation on an open market value basis for existing use of the underlying businesses as at 31st August, 1994 and acquisitions are carried at fair value on acquisition.

The net book value at historical cost of the group's fixed assets can be determined by the elimination of the undermentioned revaluation surplus from the figures included in the table shown above.

	1998 £'000	1997 £'000
Land and Buildings:		
Freehold	11,023	11,023
Long Leasehold	1,130	1,130
Short Leasehold	1,094	1,094
	13,247	13,247

11 INVESTMENTS	Company		
	Subsidiary Shares £'000	Undertakings Loans £'000	Total £'000
Cost and net book value			
At 1st September, 1997	3,227	61,653	64,880
Reductions	-	(7,342)	(7,342)
At 31st August, 1998	<u>3,227</u>	<u>54,311</u>	<u>57,538</u>

Subsidiary Undertakings

The company's principal subsidiary undertaking (which has been consolidated into these accounts) is listed below together with details of its business. The share capital consists of ordinary shares all of which are wholly owned. This subsidiary is incorporated in the United Kingdom and is registered in England and Wales.

Company	Nature of Business	Country of incorporation and operation
Northern Leisure Inc. PLC	Leisure Operator	UK

12 STOCKS	Group	
	1998 £'000	1997 £'000
Goods held for resale and consumption	<u>788</u>	<u>465</u>

13 DEBTORS	Group		Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Due within one year:				
Other debtors	44	11	6,000	-
Prepayments and accrued income	1,812	1,333	13	60
	<u>1,856</u>	<u>1,344</u>	<u>6,013</u>	<u>60</u>
Due after more than one year:				
ACT recoverable	1,079	142	1,079	477
Prepayments and accrued income	392	175	-	175
	<u>1,471</u>	<u>317</u>	<u>1,079</u>	<u>652</u>
	<u>3,327</u>	<u>1,661</u>	<u>7,092</u>	<u>712</u>

Notes to the Accounts

14 OTHER CREDITORS	Group		Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Corporation tax	2,642	1,134	-	162
Other taxes and social security	2,999	1,644	1,766	837
Wages and related costs	13	5	-	-
Accruals	2,765	1,769	-	389
Proposed dividend	4,317	1,907	4,317	1,907
Other creditors	-	504	-	-
	12,736	6,963	6,083	3,295

15 BANK LOANS AND OVERDRAFTS

On the 13th August, 1998 the existing facilities were increased. The increased £70 million facilities expire on 30th September, 2002. The bank loans and overdrafts were and are secured by a fixed and floating charge over the assets of the group and interest is payable at a rate which varies with LIBOR. The bank loans and overdrafts are borrowed by Northern Leisure Inc PLC and guaranteed by Northern Leisure PLC. The loans and overdrafts are repayable in instalments as follows:

	Group		Company	
	1998 £'000	1997 £'000	1998 £'000	1997 £'000
Within one year	-	-	-	-
One to two years	-	-	-	-
Between two and five years	27,705	-	-	-
After more than five years	-	25,998	-	25,998
	27,705	25,998	-	25,998

16 PROVISIONS FOR LIABILITIES AND CHARGES

	Deferred taxation £000
At beginning of year	184
Charge for the year in the profit and loss account	(519)
Advance Corporation Tax recoverable offset	335
At end of year	-

The amounts provided for deferred taxation and the amounts not provided at a corporation tax rate of 31% (1997: 31%) are set out below:

	1998		1997	
	Provided £'000	Unprovided £'000	Provided £'000	Unprovided £'000
Difference between accumulated depreciation and capital allowances	-	1,603	519	474
Advance Corporation Tax recoverable	-	-	(335)	-
	-	1,603	184	474

No provision for deferred taxation has been made in respect of the surplus arising on the revaluation of properties since there are capital losses available for offset and therefore it is not expected that a liability will crystallise in the foreseeable future.

17 SHARE CAPITAL	1998 Number	1997 Number	1998 £'000	1997 £'000
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The authorised and issued share capital of the company is as follows:

Authorised

Ordinary shares of 10p each	138,750,000	64,402,000	13,875	6,440
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Issued and Fully Paid

Ordinary shares of 10p each	123,352,348	54,486,906	12,335	5,449
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Shares issued during the year were as follows:	Number of shares issued	Price paid per share	Fair value of consideration £'000
Placing and Open Offer	5,382,736	400p	21,531
One-for-one Bonus Issue	61,042,307	–	–
Exercise of share options:	197,382	46p	91
	3,750	63p	2
	47,417	89p	42
	85,334	31.5p*	27
	110,000	44.5p*	49
Exercise of 'A' Warrants	Prices between		
	924,116	143.750p – 240.625p	1,742
	1,072,400	62.5p*	670
	68,865,442		24,154

*Exercised after the one-for-one Bonus Issue.

On 15th June, 1998 the company made a one-for-one Bonus Issue.

Details of the warrants and options in respect of ordinary shares outstanding as at 31st August, 1998 are as follows:

	Number outstanding	Price payable per share	Date exercisable
'A' Warrants	1,232,154	Prices between 71.875p – 120.313p	1991–1999
1992 Share Option Scheme			
Issued 1994/5	104,868	31.5p	1996–1998
Issued 1995/6	181,702	44.5p	1997–1999
Issued 1996/7	996,500	77.0p	1998–2000
Issued 1997/8	1,080,000	156.25p	1999–2001
1998 Executive Share Option Scheme – Super Options			
Issued 1997/8	3,018,000	218.25p	2003–2008

Notes to the Accounts

18 RESERVES	Share premium account £'000	Revaluation reserve £'000	Acquisition reserve £'000	Profit and loss account £'000
Group				
At 1st September, 1997	23,567	13,197	15,670	6,630
Shares issued	22,500	-	-	-
Bonus issue	(6,146)	-	-	-
Acquisition of businesses	-	-	6,650	-
Retained profit for year	-	-	-	3,495
At 31st August, 1998	39,921	13,197	22,320	10,125
Company				
At 1st September, 1997	23,567			7,362
Shares issued	22,500	-	-	-
Bonus issue	(6,146)	-	-	-
Retained loss for year	-	-	-	(1,071)
At 31st August, 1998	39,921	-	-	6,291

A total of £24,238,000 (1997: £17,588,000) in respect of premium and £736,000 (1997: £736,000) of goodwill arising on the acquisition of subsidiaries and businesses, net of goodwill attributable to subsidiaries or businesses sold, has been credited to reserves since the formation of the company.

19 DIRECTORS' INTERESTS

The interests of the directors in the ordinary shares of the company, as shown in the register maintained under the provisions of Section 325 of the Companies Act 1985, are as shown below. Unless otherwise stated the interests are beneficial.

	Ordinary Shares No.	
	31.8.98	1.9.97 as restated*
Alexander Cassels	-	-
Niven Ballantyne	32,596	47,200
Edward Gilly	3,973,334	5,600,000
Nicholas Oppenheim	14,355,516	17,312,928
- non beneficial	204,338	634,368
Clive Preston	486,192	500,612
Allen Robinson	10,000	-
- non beneficial	538,842	-
Robert Wickham	20,000	16,000

*Restated for one-for-one Bonus Issue.

The beneficial interests of Edward Gilly and the non-beneficial interest of Allen Robinson cover the same shares as the beneficial interests of J.O. Fairfax and family. Nicholas Oppenheim is interested in 1,232,154 'A' warrants with a weighted average exercise price of 94.2p and which expire on various dates between 28th October, 1998 and 30th December, 1999.

19 DIRECTORS' INTERESTS *continued*

The interests of the directors in the company's share option schemes as restated following the one-for-one Bonus Issue are set out in the table below.

	Share Option Scheme	At start of year	Granted during year	Exercised during year	At end of year	Exercise price	Date from which exercisable	Expiry date
Niven Ballantyne	1992:	45,000*		45,000*	-	44.5*		
		60,000*		-	60,000	77p*	11.10.98	10.10.2000
			60,000*	-	60,000	156.25p*	30.10.99	29.10.2001
	1998 Super:		230,000	-	230,000	218.25p	16.06.98	15.06.2008
Clive Preston	1992:	320,000*		320,000*	-	23*		
		80,000*		80,000*	-	31.5*		
		80,000*		80,000*	-	44.5*		
		380,000*		-	380,000	77p*	11.10.98	10.10.2000
	1998 Super:		640,000	-	640,000	218.25p	16.06.98	15.06.2008

The market price of the shares at 31st August, 1998 was 103.5p (1997: 126.25p*). The shares traded during the year within the range 103.5p to 298.25p*. No performance criteria attach to the operation of the 1992 share option scheme, further details relating to the performance criteria attaching to the 1998 super share option scheme are given in the Report of the Remuneration Committee on page 8.

There have been no changes in the shareholdings, options or 'A' warrants since 31st August, 1998.

*Restated for one-for-one Bonus Issue

20 PENSION SCHEMES

In April 1993 the group introduced a total remuneration package payment system for all employees enabling individuals to make their own arrangements with regard to pensions.

The company makes contributions to a defined contribution executive scheme on behalf of certain directors and to personal pension plans on behalf of other full-time employees who elect for such contributions to be made as part of their total remuneration package.

The executive scheme is administered by Trustees separately from the affairs of the group.

21 FINANCIAL COMMITMENTS

Commitments under operating leases to pay rentals during the year following the year of these accounts are given below, analysed according to the period in which each lease expires:

	1998		1997	
	Land and buildings £'000	Motor vehicles £'000	Land and buildings £'000	Motor vehicles £'000
Expiring within 1 year	-	6	-	30
Expiring in years 2-5	90	115	90	60
Expiring thereafter	1,233	-	816	-
	1,323	121	906	90

The group had £4,430,000 capital commitments (1997: £1,330,000).

Notes to the Accounts

22 CONTINGENT LIABILITIES

Guarantees for contractual payments have been provided by third parties on behalf of group companies. In the event of contractual default, counter indemnification of £322,000 would be payable.

The company has fully guaranteed the group's bank borrowings.

23 CASH FLOW STATEMENTS

	1998 52 weeks £'000	1997 52 weeks £'000
A. Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	16,368	10,602
Profit on sale of investments	–	(13)
Depreciation on tangible fixed assets	2,912	1,382
Provision against investments	20	–
(Increase)/Decrease in stocks	(5)	57
(Increase)/Decrease in debtors	(333)	287
Increase in trade creditors	1,133	1,541
(Decrease) in other creditors	(1,820)	(2,458)
NET CASH INFLOW FROM OPERATING ACTIVITIES	18,275	11,398

Certain movements in assets and liabilities disclosed above differ from the movements shown by the consolidated balance sheet as the result of accruals, prepayments and the purchase of businesses.

B. Reconciliation of net cash flow to movements in net debt	£'000
Increase in cash in the period	(124)
Cash inflow from increase in debt	1,707
Movement in net debt in the period	1,583
Net debt as at 1st September, 1997	25,836
Net debt as at 31st August, 1998	27,419

	At 1st September 1997 £'000	Cash flows £'000	At 31st August 1998 £'000
C. Analysis of net debt			
Cash at bank and in hand	162	124	286
Overdrafts	–	–	–
	162	124	286
Debt due after one year	(25,998)	(1,707)	(27,705)
	(25,836)	(1,583)	(27,419)

23 CASH FLOW STATEMENT *continued*

D. Purchase of businesses	1998 £'000
Net assets acquired:	
Tangible fixed assets (at fair value)	38,681
Stocks	318
Debtors	136
Cash	9
Creditors	(2,450)
	<u>36,694</u>
Satisfied by:	
Cash	<u>30,044</u>
Capital reserve	<u>6,650</u>

The fair value of the tangible fixed assets acquired other than through company purchases has been assessed on the basis of open market value without any regard to the vendor's book value. The net book value of the fixed assets acquired through company purchases of £7,015,000 was increased on acquisition to £9,505,000. No further adjustments were made to book values.

Analysis of the net outflow of cash in respect of the purchase of businesses:

	1998 £'000
Cash consideration	30,044
Cash acquired	(9)
Net outflow	<u>30,035</u>

Six Year History

GROUP PROFIT AND LOSS ACCOUNT	1998 52 weeks £'000	1997 52 weeks £'000	1996 53 weeks £'000	1995 52 weeks as restated £'000	1994 52 weeks as restated £'000	1993 52 weeks as restated £'000
Turnover						
Continuing operations	57,467	34,672	21,981	17,246	14,772	13,695
Discontinued operations	-	-	4,871	5,992	7,940	9,501
	<u>57,467</u>	<u>34,672</u>	<u>26,852</u>	<u>23,238</u>	<u>22,712</u>	<u>23,196</u>
Operating profit						
Continuing operations: dancing	20,946	13,584	7,942	6,030	5,085	4,370
administration	(4,578)	(2,982)	(2,336)	(2,315)	(2,539)	(2,523)
Discontinued operations	-	-	1,487	1,534	1,928	2,538
	<u>16,368</u>	<u>10,602</u>	<u>7,093</u>	<u>5,249</u>	<u>4,474</u>	<u>4,385</u>
Sale of properties and operations						
Continuing operations	-	(400)	(100)	415	504	-
Discontinued operations	-	-	107	48	(74)	(703)
	<u>-</u>	<u>(400)</u>	<u>7</u>	<u>463</u>	<u>430</u>	<u>(703)</u>
Profit before interest	<u>16,368</u>	<u>10,202</u>	<u>7,100</u>	<u>5,712</u>	<u>4,904</u>	<u>3,682</u>
Net interest payable	(2,303)	(1,683)	(1,586)	(1,941)	(2,363)	(3,019)
Profit before taxation	<u>14,065</u>	<u>8,519</u>	<u>5,514</u>	<u>3,771</u>	<u>2,541</u>	<u>663</u>
Taxation	(3,473)	(2,278)	(785)	(300)	(93)	-
Profit for the financial period	<u>10,592</u>	<u>6,241</u>	<u>4,729</u>	<u>3,471</u>	<u>2,448</u>	<u>663</u>
Dividend per ordinary share*	5.75p	3.0p	2.13p	2.0p	1.0p	-
Earnings per ordinary share*	9.0p	6.1p	4.9p	4.2p	3.8p	1.2p
Fully diluted earnings per ordinary share*	8.9p	6.0p	4.8p	4.0p	3.7p	1.0p
GROUP BALANCE SHEETS	1998 £'000	1997 £'000	1996 £'000	1995 £'000	1994 £'000	1993 £'000
Fixed assets	137,489	97,768	52,313	52,542	45,890	49,143
Current assets	4,460	2,367	2,805	2,723	1,352	1,774
Creditors and provisions	(16,346)	(9,624)	(5,770)	(4,329)	(3,635)	(3,170)
Net borrowings	(27,705)	(25,998)	(14,113)	(20,423)	(24,530)	(30,475)
Shareholders' funds	<u>97,898</u>	<u>64,513</u>	<u>35,235</u>	<u>30,513</u>	<u>19,077</u>	<u>17,272</u>

*As restated for one-for-one Bonus Issue.

Notice of Annual General Meeting

Notice is hereby given that the eleventh Annual General Meeting of Northern Leisure PLC will be held at 1 Primrose Hill, Preston, Lancashire PR1 4BX on Thursday 29th October, 1998 at 12 noon for the transaction of the following business:

ORDINARY BUSINESS

Resolution 1

To receive and adopt the directors' report and the statement of accounts for the 52 weeks ended 31st August, 1998, with the Auditors' report thereon.

Resolution 2

To declare a final dividend of 3.5p per share making, with the restated interim dividend of 2.25p per share already paid, a restated total of 5.75p for the year on the ordinary shares in the company.

Resolution 3

To re-elect Mr A. Cassels as a director of the company.

Resolution 4

To re-elect Mr R. Wickham as a director of the company.

Resolution 5

To elect Mr D. Hanson as a director of the company.

Resolution 6

To elect Mr M. Streets as a director of the company.

Resolution 7

To elect Mr P. Marks as a director of the company.

Resolution 8

To elect Mr B. McLoughlin as a director of the company.

Resolution 9

To elect Mr A. McIvor as a director of the company.

Resolution 10

THAT, KPMG Audit Plc be and are hereby re-appointed auditors of the company to hold office from the conclusion of this meeting until the conclusion of the next general meeting at which accounts are laid before the company at a remuneration to be fixed by the directors.

Notice of Annual General Meeting

SPECIAL BUSINESS

To consider and, if thought fit, pass the following resolutions of which resolution 11, 14 and 15 shall be proposed as special resolutions and resolutions 12 and 13 shall be proposed as ordinary resolutions:

Resolution 11

SPECIAL RESOLUTION

THAT, the Articles of Association of the company be and they are hereby amended as follows:

- (i) by the addition of the words "and Article 12" after the word "Act" in the first line of Article 6;
- (ii) by the deletion of Articles 9 and 10 and the consequent renumbering of the Articles subsequent to them and the amendment to all cross referencing to such Articles in the amended Articles of Association of the company (such renumbering and amended cross referencing not to take effect until the conclusion of all of the business of the meeting at which this resolution is proposed);
- (iii) by the deletion of the word "Statutes" in the third line of Article 12 and the substitution therefor of the word "Act";
- (iv) by the addition of the words "provided that such refusal does not prevent dealings in the shares from taking place on an open and proper basis" at the end of Article 38;
- (v) by the deletion of Article 48A and the addition of a new Article 48(d) as follows:

"(d) increase its share capital by such sum to be divided into shares of such amount as the resolution shall prescribe.";

and the consequent deletion of the word "and" at the end of sub-paragraph (b) of Article 48 and the deletion of the full stop at the end of sub-paragraph (c) of Article 48 and the substitution therefor of ": and".
- (vi) by the deletion of Article 55 and the addition of a new Article 55 as follows:

"55. The Board may call an extraordinary general meeting whenever it thinks fit, and, on the requisition of members in accordance with the Act, it shall forthwith and in any event within twenty-one days from the date of deposit of the requisition proceed to convene an extraordinary general meeting for a date not more than twenty-eight days after the notice convening the meeting.";
- (vii) by the deletion of the word "subsidiaries" in each place such word occurs in Articles 86, 91 and 128 and the substitution therefor of the words "subsidiary undertakings";
- (viii) by the deletion of the word "subsidiary" in each place such word occurs in isolation of the word "undertakings" in Articles 86, 87 and 116 and the substitution therefor of the words "subsidiary undertaking";
- (ix) by the addition of the words "and subsidiary undertaking" has the same meaning as in the "Act" at the end of Article 91;
- (x) by the deletion of Article 95 and the substitution therefor of the following:

"95. A Director shall vacate his office at the conclusion of the annual general meeting commencing next after he attains the age of 70 and section 293 of the Act shall apply accordingly."
- (xi) by the deletion of the figure "£50,000" in Article 108 and the substitution therefor of the figure £100,000;
- (xii) by the deletion of the words "not, while holding" in the second line of Article 111 and the substitution therefor of the words "notwithstanding the holding of" and the deletion of the word "or" in the third line of

that Article and the substitution therefor of the words "and shall" and the deletion of the words "but shall (subject to the provision of any contract between himself and the Company) be subject to the same provision as to resignation and removal as the other Directors" in the forth, fifth and sixth lines of that Article;

(xiii) by the deletion of Article 134 and the consequent renumbering of the Articles subsequent to it and the amendment to all cross referencing to such Articles in the amended Articles of Association of the Company (such renumbering and amended cross referencing not to take effect until the conclusion of all of the business of the meeting at which this resolution is proposed);

(xiv) by the deletion of the words "conclusion of the Annual General Meeting next" in Article 160(a) and the substitution therefor of the words "beginning of the fifth Annual General Meeting";

(xv) by the addition of a new Article 166(2) as follows:

"(2) Any notice to be given to a member may be given by reference to the register of members as it stands at any time within the period of twenty-one days before the notice is given; and no change in the register after that time shall invalidate the giving of the notice."

and the numbering of opening paragraph of that Article as "(1)";

(xvi) by the addition of the words "or in any way uncredited" after the words "uncashed" in the fifth line of Article 168(a) and the deletion of the word "London" in the second line of paragraph (b) of that Article and the substitution therefor of the word "National";

(xvii) by the deletion of Article 169 and the substitution therefor of the following:

"169. To give effect to any such sale the Company may in the case of a share in certified form appoint any person to execute as transferor an instrument of transfer of the said share and in the case of a share in uncertificated form, the Company may take such other steps (including the giving of directions to or on behalf of the holder, who shall be bound by them) as it thinks fit to effect the transfer and such instrument of transfer or such other steps shall be as effective as if it had been executed or they had been taken by the holder of or person entitled by transmission to such shares. The title of the transferee shall not be affected by any irregularity or invalidity in the proceedings relating thereto."

(xviii) by the deletion of the words "section 582 of the Act" at the end of the second sentence of Article 176 and the substitution therefor of the words "section 110 of the Insolvency Act 1986";

(xix) by the deletion of the words "section 582 of the Act" in the second line of Article 177 and the substitution therefor of the words "section 110 of the Insolvency Act 1986" and by the deletion of the words "the said section" in the last line of that Article and the substitution therefor of the words "section 111 of the Insolvency Act 1986".

AND THAT the share capital of the company be and it is hereby confirmed as being £13,875,000 divided into 138,750,000 ordinary shares of 10p each and the increases in share capital resolved upon on 7th November, 1997 and 15th June, 1998 be and they are hereby ratified and that accordingly Article 8 of the Articles of Association be and it is hereby deleted and the following Article substituted in its place:

"8. The authorised share capital of the company is divided into Ordinary Shares of 10p each."

Notice of Annual General Meeting

Resolution 12

ORDINARY RESOLUTION

THAT, subject to and conditional upon the passing of Resolution 11 above the authorised share capital of the Company be and it is hereby increased from £13,875,000 to £17,500,000 by the creation of 36,250,000 additional ordinary shares of 10p each in the capital of the Company.

Resolution 13

ORDINARY RESOLUTION

THAT, subject to and conditional upon the passing of Resolutions 11 and 12 above, for the purposes of Section 80 of the Companies Act 1985, the directors be and they are hereby generally and unconditionally authorised to exercise all the powers of the company to allot relevant securities (within the meaning of the said Section 80) up to a maximum of 47,725,000 Ordinary Shares of 10p each of the company provided that:

- (i) this authority shall expire at the conclusion of the next Annual General Meeting of the company after the passing of this resolution or 15 months from the passing of this resolution, whichever is the earlier, except that the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry, and the directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred hereby not expired; and
- (ii) this authority shall replace any existing like authority, which is hereby revoked with immediate effect.

Resolution 14

SPECIAL RESOLUTION

THAT subject to and conditional upon the passing of Resolutions 11, 12 and 13 above, the directors be and they are hereby authorised pursuant to Section 95 of the Companies Act 1985 to allot equity securities (within the meaning of section 94 of that Act) pursuant to the authority conferred on the directors by resolution 13 above as if the provisions of section 89(1) of that Act did not apply to the allotment and so that:

- (i) this authority shall expire at the conclusion of the next Annual General Meeting of the company after the passing of this resolution or 15 months from the passing of this resolution, whichever is the earlier, except that the company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry, and the directors may allot relevant securities in pursuance of any such offer or agreement as if the authority conferred hereby had not expired;
- (ii) this authority is limited to:
 - (a) the allotment of equity securities in connection with or pursuant to a rights issue or open offer in favour of holders of equity securities where the equity securities respectively attributable to the interests of all such holders are proportionate (or as nearly as may be) to the respective number of equity securities held by them but subject to such exclusions as the directors may deem necessary to deal with legal or practical problems arising under the laws of or the requirements of any regulatory body or any stock exchange in, any territory;
 - (b) the allotment (otherwise than pursuant to sub-paragraph (a) above) for cash to any person or persons of equity securities up to an aggregate maximum nominal amount of £615,000; and
- (iii) this authority shall replace any existing like authority, which is hereby revoked with immediate effect.

Resolution 15

SPECIAL RESOLUTION

THAT pursuant to Article 50 of the company's Articles of Association and in accordance with section 166 of the Companies Act 1985, the company be generally and unconditionally authorised during the period expiring on the date of the next Annual General Meeting of the company after the passing of this resolution or 18 months from the passing of this resolution, whichever is the earlier, to make market purchases (as defined in section 163 of the said Act) of the company's Ordinary Shares on such terms and in such a manner as the directors may determine, provided that this authority shall:

- (i) be limited to a maximum of 6,150,000 Ordinary Shares of 10p each having nominal value of £615,000;
- (ii) not permit the payment by the company of less per share than the par value thereof or more per share than 105 per cent of the average of the middle market quotations of the company's Ordinary Shares as derived from the London Stock Exchange Daily Official List for the 10 business days immediately preceding the date of any proposed purchase (in each case exclusive of expenses);
- (iii) only be exercised if so to do would result in an increase in earnings per share and is in the best interests of the shareholders of the company generally; and
- (iv) permit the company to complete a purchase of Ordinary Shares after the expiry of this authority if the contact for such purchase was concluded before such expiry.

Registered Office:
1 Primrose Hill, Preston,
Lancashire, PR1 4BX

By order of the Board
Peter Smith SECRETARY
28th September, 1998

Explanatory Notes

EXPLANATORY NOTES:

General:

- (1) Any member entitled to attend and vote at the above meeting ("AGM") is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him. A proxy need not be a member of the company. A form of proxy is enclosed for your use.
- (2) To be valid, forms of proxy together with, if appropriate, the powers of attorney or other authority, if any, under which they are signed, or a notarially certified copy thereof should be sent to the offices of the company's registrars, Bank of Scotland, 9 Haddington Place, Edinburgh EH7 0LA, so as to arrive not later than 48 hours before the time appointed for the meeting. Completion and return of a form of proxy will not preclude a member from attending and voting at the meeting should he wish to do so.
- (3) Copies of the following documents will be available for inspection at the company's registered office during usual business hours on any weekday (Saturdays excepted) and will be produced and be available for inspection for 15 minutes prior to and during the AGM.
 - (i) copies of all contracts of service whereunder directors of the company are employed by the company or any Subsidiary;
 - (ii) the Memorandum and Articles of Association of the company;
 - (iii) copies of the audited accounts of the company and its subsidiaries for the last two financial years.
- (4) To have the right to attend and vote at the AGM (and also for the purposes of calculating how many votes a person may cast) a person must have his/her name entered on the register of ordinary shareholders of the company by no later than 5 pm on Tuesday 27th October, 1998. Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend or vote at the AGM.

Resolutions 3 & 4; Re-election of directors

Mr Cassels and Mr Wickham shall retire by rotation at the AGM and shall be offered for re-election in accordance with the Articles of Association.

Resolution 5; Election of director

Mr Hanson was appointed to the board on 1st September, 1998 and is being proposed for election to the board at the AGM in accordance with the Articles of Association.

Resolutions 6-9; Election of new directors

The persons named in these resolutions are all recommended by the board for election as directors of the company.

Resolution 11; Amendments to the Articles of Association

This resolution authorises certain amendments to the existing Articles of Association of the company. The amendments have been proposed for the following reasons:-

- (a) to incorporate changes necessary to comply fully with the requirements of the listing rules of the London Stock Exchange, the Companies Act 1985 (as amended), guidelines issued by the Investor Protection Committees of the Association of British Insurers and the National Association of Pension Funds ("the IPCs"), the Principles of Good Governance and Code of Best Practice of the London Stock Exchange ("the Combined Code");

- (b) to facilitate more easily particular aspects of the company's procedures and business;
- (c) to make amendments to facilitate the trading of the company's shares on CREST.
- (d) to regularise the authorised share capital of the company on the basis that the resolutions to increase the authorised share capital of the company passed on 7th November, 1997 and 15th June, 1998 were proposed and passed as ordinary resolutions whereas under Article 48A they should have been proposed and passed as special resolutions. The resolution also proposes the amendment of Article 48A to allow (in line with market practice) future increases in the company's authorised share capital to be by ordinary resolution and of Article 8 to reflect the fact that the 'A' ordinary shares in the capital of the company have now been converted into ordinary shares so that the authorised share capital of the Company now consists only of ordinary shares;

Particular amendments to the Articles of Association merit further explanation (using the sub paragraph numbering of Resolution 11 as it appears in the Notice of AGM):

- (ii) Articles 9 and 10 of the company's current Articles of Association set out the rights attaching to the 'A' Ordinary shares. Article 10 also sets out the rights attaching to the 'A' Warrants of the company. All the 'A' Warrants remaining in issue are registered in the name of Mr J.N. Oppenheim, a director of the company and, since 1 July, 1995, the company has had no power to issue further 'A' Warrants except in accordance with the rights of the existing 'A' Warrants.
Because Article 9 and those parts of Article 10 which relate to 'A' Ordinary Shares are now redundant (following the conversion of 'A' Ordinary Shares into Ordinary Shares), it is considered appropriate to delete Articles 9 and 10 and to enshrine those provisions of Article 10 which relate to the 'A' Warrants remaining in issue in a separate warrant instrument (the "Instrument"). Mr Oppenheim has agreed in writing to the deletion of that Article and the creation of the Instrument. The Instrument has been approved by the board of directors and has been executed by the company but will only come into effect on the passing of Resolution 14 proposed in the Notice of AGM;
- (v) This amendment is being proposed to allow future increases in the company's authorised share capital to be by ordinary resolution which is in line with common practice.
- (vi) The time limits contained in the amendment to Article 55 comply fully with the provisions of section 368 of the Companies Act 1985.
- (x) This amendment is being proposed to require directors to retire at the annual general meeting following their 70th birthday in accordance with the provisions of Section 293 of the Companies Act 1985.
- (xi) It is considered necessary to bring the provisions of Article 108 (which currently limits aggregate directors' fees, in the absence of provision for special services, to £50,000) into line with current practice by increasing such limit to £100,000;
- (xii) The effect of the amendment to Article 111 is to make all directors subject to retirement by rotation in accordance with Article 101 and to remove the concession in respect of the Chief Executive and Managing or Joint Managing Director of the company previously incorporated into Article 111. This is a requirement of the Combined Code.
- (xiii) It is now a requirement of the London Stock Exchange that a company should have no power in its Articles of Association to relax the restrictions on a Director's right to vote at a meeting of the Board.

Explanatory Notes

Such restrictions are contained in Article 128, and Article 134 currently allows such relaxation. It is therefore proposed that Article 134 is deleted.

- (xiv) Guidelines issued by the IPCs allow for the Board's authority to offer scrip dividends to last for up to five years. The amendment to Article 160 will provide for such authority to be given for a five year period.
- (xviii) & The amendments to Articles 176 and 177 are required because sections 110 and 111 of the Insolvency Act
(xix) 1986 now apply in place of section 582 of the Companies Act 1985.

A print of the Articles of Association of the company as amended in accordance with resolution 11 may be inspected during normal business hours at the registered office of the company and at the offices of Herbert Smith, Exchange House, Primrose Street, London EC2A 2HS on any weekday (Saturdays excepted) for the period up to and including the date of the AGM and at the AGM.

Resolution 12; Authority to increase authorised share capital

This resolution is being proposed to increase the authorised share capital from £13,875,000 to £17,500,000 by the creation of 36,250,000 additional ordinary shares of 10p each. This represents a 26.13% increase in the current authorised share capital of the Company. After taking into account 1,232,154 ordinary shares reserved for the exercise of 'A' warrants and 5,381,070 reserved pursuant to the company's share option schemes, the company will have 45,034,428 unissued and uncommitted ordinary shares representing 25.73% of the company's enlarged authorised share capital. The increase is necessary to maintain the authorised but unissued share capital of the company at a flexible level taking into account shares reserved for options and warrants.

Resolution 13; Authority to allot relevant securities

This resolution authorises the directors to allot up to 47,725,000 Ordinary Shares representing 38.68 per cent of its current issued ordinary share capital and which takes into account 6,613,224 shares reserved for options and 'A' warrants. The directors do not currently intend to exercise this authority except in the case of an exercise of share options or 'A' Warrants. This authority expires at the conclusion of the company's next Annual General Meeting or 15 months after the resolution is passed, whichever is the earlier.

Resolution 14; Disapplication of statutory pre-emption rights

This resolution authorises the directors to make allotments of shares for cash otherwise than to existing shareholders in proportion to their existing holdings in certain circumstances when the directors consider it necessary to do so and allows them to issue for cash other than on a pro-rata basis up to a maximum of 6,150,000 ordinary shares (representing approximately 5 per cent of the current issued ordinary share capital of the company). This authority expires at the conclusion of the next Annual General Meeting or 15 months after the resolution is passed whichever is earlier.

Resolution 15; Purchase of own shares by the company

The resolution authorises the directors to make market purchases of up to 6,150,000 of the company's shares representing approximately 5 per cent of its current issued ordinary share capital. The directors have no immediate intention of exercising this authority and would only do so where they considered that the effect of such purchases would be to increase earnings per share and that such purchases would be in the best interests of the shareholders generally.