

Northwood Developments Limited

Directors' report and financial statements

31 October 1998

Registered number 2832351



Northwood Developments Limited

Directors' report and financial statements

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Northwood Developments Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 October 1998.

Principal activities

The principal activity of the company is the operation of tennis and leisure club facilities.

Business review

The directors are satisfied with the results for the year.

Proposed dividend and transfer to reserves

The profit after taxation attributable to the shareholder is £1,276,000 (*10 months ended 31 October 1997: loss £391,000*) and has been transferred to reserves.

The directors do not recommend the payment of a dividend (*10 months ended 31 October 1997: £nil*).

Directors and directors' interests

The directors who held office during the year were as follows:

Mr MR Foster

Mr PR Ashworth

Mr GP Shillinglaw (resigned 19 January 1999)

None of the directors, who held office at the end of the financial year had any disclosable interest in the shares capital of the company.

The interests of the directors who are not directors of the company's ultimate parent undertaking, First Leisure Corporation PLC, in the ordinary share capital of that company are as follows:

	At end of year		At beginning of year	
	Number		Number	
	Shares	Options	Shares	Options
Mr MR Foster	8,203	104,703	4,712	101,581
Mr PR Ashworth	3,364	12,535	-	-
Mr GP Shillinglaw	1,617	57,119	2,360	57,119
	=====	=====	=====	=====

Mr PR Ashworth was granted 12,535 options during the year under the First Leisure Corporation PLC 1994 executive share option scheme. The options are exercisable from 2001 at an exercise price of £3.14 per share.

Mr MR Foster was granted 3,122 options during the year under the First Leisure Corporation PLC savings related share option scheme. The options are exercisable at the end of the three year saving period (2001) at an exercise price of £2.21 per share.

The market price of the shares at 31 October 1998 was 185p (*1997: 256p*) and the range during the year was 159p to 438p.

Northwood Developments Limited

Directors' report

Year 2000 compliance

A full audit of operating software was completed in the year to assess compliance with the Year 2000. The most significant system which was not Year 2000 compliant, was the financial accounting system, the replacement of which was operational in April 1999. The Company has adopted British Standards Institute document DISC PD2000-1 as a minimum level of compliance. In addition, all suppliers of IT related hardware and software, and suppliers of equipment containing embedded logic chips, have been asked to confirm their compliance with DISC PD2000-1.

Furthermore, assurances have been sought from general suppliers (eg liquor, food) that they will be unaffected by the Year 2000 and that there will be no interruption in the supply of their products and services. Contingency plans are being formulated for all business-critical systems in the event of an unforeseen failure. This will ensure the company's ability to continue trading as usual with minimal disruption to normal operating procedures.

Millennium compliance has been achieved for the majority of the company's systems through ongoing replacement and upgrade, instigated by operational requirement rather than Year 2000 dictate. The specific cost to the company of Year 2000 compliance will be met by the immediate parent undertaking.

Auditors

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

By order of the board



MR Foster
Director

7 Soho Street
LONDON
W1V 5FA

20 AUGUST 1999

Northwood Developments Limited

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company and of the profit or loss for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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



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Navigation Way
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Preston
Lancashire PR2 2YF

Report of the auditors to the members of Northwood Developments Limited

We have audited the financial statements on pages 5 to 14.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of 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 company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 October 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor

20 AUGUST 1999

Northwood Developments Limited

Profit and loss account

for the year ended 31 October 1998

	<i>Note</i>	Year ended 31 October 1998 £000	10 months ended 31 October 1997 £000
Turnover - continuing operations		4,503	2,772
Cost of sales		(1,392)	(1,227)
Gross profit		3,111	1,545
Administrative expenses		(1,851)	(2,160)
Operating profit/(loss) - continuing operations		1,260	(615)
Interest receivable	5	16	-
Profit/(loss) on ordinary activities before taxation	2	1,276	(615)
Tax on profit/(loss) on ordinary activities	6	-	224
Retained profit/(loss) for the financial year/period	14	1,276	(391)

Statement of total recognised gains and losses

for the year ended 31 October 1998

	Year ended 31 October 1998 £000	Restated 10 months ended 31 October 1997 £000
Retained profit/(loss) for the financial year/period	1,276	(391)
Total recognised gains and losses relating to the financial year/period	1,276	(391)
Prior year adjustment (see note 15)	(4,298)	(573)
Total recognised losses since last annual report	(3,022)	(964)

Northwood Developments Limited

Balance sheet at 31 October 1998

	Note	1998		Restated 1997	
		£000	£000	£000	£000
Fixed assets					
Tangible assets	7		10,193		10,604
Current assets					
Stocks	8	20		15	
Debtors	9	504		469	
Cash at bank and in hand		28		782	
		<u>552</u>		<u>1,266</u>	
Creditors: amounts falling due within one year	10	<u>(10,990)</u>		<u>(12,857)</u>	
Net current liabilities			(10,438)		(11,591)
Total assets less current liabilities			(245)		(987)
Creditors: amounts falling due after more than one year	11		(616)		(1,150)
Net assets			(861)		(2,137)
Capital and reserves					
Called up share capital	13		1		1
Profit and loss account	15		(862)		(2,138)
Equity shareholders' funds	14		(861)		(2,137)

These financial statements were approved by the board of directors on 20/8/1999 and were signed on its behalf by:



MR Foster
Director

Northwood Developments Limited

Notes

(forming part of the financial statements)

1 Accounting policies

Except as noted below, the following accounting policies have been applied consistently in dealing with items which are considered material in relation to the company's financial statements.

Change in accounting policy

Freehold land and buildings have been restated to historical cost. Previously they were stated at valuation. The effect of this change, which has been shown as a prior year adjustment, has been to reduce shareholders' funds at 31 October 1997 by £4,298,000 (1996: £1,270,000). The impact of restating to historical cost on the backlog depreciation charge, as referred to below, is not meaningful and cannot be readily calculated. The directors believe that this facilitates a more objective and meaningful basis for assessing shareholder returns.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards, under the historical cost accounting rules and within the requirements of the Companies Act 1985.

The company's ultimate holding company, First Leisure Corporation PLC, has informed the company that it is its present intention to provide the necessary support to enable the company to meet its liabilities as they fall due.

The company is exempt from the requirement of FRS 1 to prepare a cash flow statement as it is a wholly owned subsidiary undertaking of First Leisure Corporation PLC, and its cash flows are included within the consolidated cash flow statement of that company.

Related party transactions

The directors have taken advantage of the exemption in FRS 8, paragraph 3(c) and have not disclosed related party transactions with parent and fellow subsidiary undertakings.

Operating results

The operating results include transactions at operating units up to and including the Sunday nearest to 31 October of each year. All other transactions are included up to 31 October.

Turnover

Turnover represents the amounts (excluding value added tax) derived from the provision of goods and services to customers during the year. All turnover arises in the United Kingdom.

Cost of sales and overheads

Cost of sales includes all costs directly related to sales and all costs controllable by unit management. Overheads include all other costs.

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Notes (*continued*)

1 **Accounting policies (*continued*)**

Tangible fixed assets and depreciation

In prior years, no depreciation was provided on freehold buildings as the directors' estimates of useful life were so long, and residual values were so high, that any depreciation would have been insignificant. Following the publication of FRED17, the directors believe that best accounting practice has moved towards depreciating buildings and have therefore revised their estimates of useful economic lives and residual values. Buildings are now analysed into their primary components which are depreciated on a straight line basis over periods of between 15 to 50 years.

Depreciation is provided by the company to write off the cost less the estimated residual value of tangible fixed assets in equal instalments over their estimated useful economic lives as follows:

Freehold buildings	-	15 to 50 years
Fixtures, fittings and equipment	-	3 to 10 years
Base stocks	-	3 years

Interest incurred on finance provided for significant fixed asset developments and refurbishments is included as part of the cost of the asset concerned until the work is complete, to the extent that this does not overstate its recoverable amount.

Stocks

Stocks are stated at the lower of cost and net realisable value.

Taxation

The charge for taxation is based on the profit for the period and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Provision is made for deferred tax only to the extent that it is probable that an actual liability will crystallise.

Pension costs

The company participates in a defined benefit pension scheme operated by First Leisure Corporation PLC. The assets of the scheme are held separately from those of the company in an independently administered fund. Contributions to the pension scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' working lives.

Actuarial valuations on an on-going basis are prepared every three years and contributions are made in accordance with the recommendation of a professionally qualified actuary using the projected unit method.

Northwood Developments Limited

Notes (continued)

1 Accounting policies (continued)

Leases

Leases which entail the company taking substantially all the risks and rewards of ownership of an asset are treated as finance leases. 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, whichever is shorter. 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 leases and the rentals are charged to the profit and loss account on a straight line basis over the life of the lease.

Membership and joining fee income

Fees for life and full memberships are recognised as follows:

- i) 20% is recognised as income in the first year;
- ii) the remaining 80% is amortised over the following 4 years;
- iii) the company's 20% commission on subsequent transfer of membership is recognised in full in the period of transfer.

Other membership fees at the club are recognised in full in the year of enrolment except where fees have been paid annually in advance. In such an event, the income is recognised over the period to which it relates and the unexpired element is held within deferred income at the period end.

2 Profit/(loss) on ordinary activities before taxation

	Year ended 31 October 1998 £000	10 months ended 31 October 1997 £000
<i>Profit/(loss) on ordinary activities before taxation is stated after charging</i>		
Depreciation and other amounts written off owned assets	512	554

Auditors' remuneration is paid by the company's ultimate parent undertaking, First Leisure Corporation PLC.

3 Remuneration of directors

In the year ended 31 October 1998, the directors were remunerated by the Company's ultimate parent undertaking, First Leisure Corporation PLC. In the 10 months ended 31 October 1997, directors' remuneration was £513,000, including pension scheme contributions of £nil. Remuneration of the chairman and highest paid director was £1,000 and £458,000 respectively.

Northwood Developments Limited

Notes (continued)

4 Staff numbers and costs

The average number of persons employed by the company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	Year ended 31 October 1998	10 months ended 31 October 1997
Operations	71	82
Administrative	8	8
	<u>79</u>	<u>90</u>

The above figures include 26 part-time employees (10 months ended 31 October 1997: 29).

The aggregate payroll costs of these persons were as follows:

	Year ended 31 October 1998 £000	10 months ended 31 October 1997 £000
Wages and salaries	1,059	969
Social security costs	105	96
	<u>1,164</u>	<u>1,065</u>

5 Interest receivable

	Year ended 31 October 1998 £000	10 months ended 31 October 1997 £000
Interest on Group loans	16	-

6 Taxation

	Year ended 31 October 1998 £000	10 months ended 31 October 1997 £000
Corporation tax	-	(224)

There is no corporation tax charge for the year (10 months ended 31 October 1997: nil) due to the availability of corporation tax losses surrendered by other group companies.

Northwood Developments Limited

Notes (continued)

7 Tangible fixed assets

	Freehold land and buildings £000	Fixtures, fittings and equipment £000	Total £000
Cost			
At 1 November 1997 as originally stated	12,265	3,300	15,565
Prior year adjustment	(4,298)	-	(4,298)
At 1 November 1997 as restated	7,967	3,300	11,267
Additions	-	101	101
At 31 October 1998	7,967	3,401	11,368
Depreciation			
At 1 November 1997	-	663	663
Charge for the year	183	329	512
At 31 October 1998	183	992	1,175
Net book value			
At 31 October 1998	7,784	2,409	10,193
At 31 October 1997 as restated	7,967	2,637	10,604

Included within land and buildings is land, which is not depreciated, of £6,188,000 (1997: £6,188,000).

Notwithstanding the change in accounting policy to restate freehold and long leasehold land and buildings to historical cost, the directors intend to continue the practice of periodically reviewing the carrying value of the property.

The company's freehold and long leasehold land and buildings were last valued on 30 May 1997 by Conrad Ritblat, Chartered Surveyors, in accordance with the RICS Statement of Asset Valuation Practice and Guidance notes. The basis of valuation adopted was their open market value for existing use as a fully equipped and operational business entity. The valuation of the property showed an increase of £1,289,000 relative to original cost and an overall valuation surplus relative to the current book value of 1,472,000.

8 Stocks

	1998 £000	1997 £000
Goods for resale	20	15

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Notes (continued)

9 Debtors

	1998 £000	1997 £000
Trade debtors	381	172
Other debtors	16	209
Prepayments and accrued income	107	88
	<u>504</u>	<u>469</u>

10 Creditors: amounts falling due within one year

	1998 £000	1997 £000
Trade creditors	88	260
Amounts due to parent and fellow subsidiary undertakings	9,573	11,342
Other creditors	4	140
Accruals and deferred income	1,325	1,115
	<u>10,990</u>	<u>12,857</u>

11 Creditors: amounts falling due after more than one year

	1998 £000	1997 £000
Deferred income	616	1,150
Total creditors	<u>11,606</u>	<u>14,007</u>

12 Deferred tax

As a result of the projected high level of expenditure on additions to fixed assets which attract capital allowances, the timing differences between depreciation and taxation allowances are not expected to reverse in the foreseeable future. Consequently no provision for deferred taxation is required.

Deferred tax unprovided relating to accelerated capital allowances amounts to £1,151,000 (1997: £1,125,000).

Northwood Developments Limited

Notes (continued)

13 Called up share capital

	1998 £000	1997 £000
<i>Authorised</i>		
1,000 ordinary shares of £1 each	1	1
<i>Allotted, called up and fully paid</i>		
1,000 ordinary shares of £1 each	1	1

14 Reconciliation of movements in equity shareholders' funds

	1998 £000	Restated 1997 £000
Profit/(loss) for the financial year/period	1,276	(391)
Opening shareholders' funds (originally £2,161,000 before deducting prior year adjustment of £4,298,000)	(2,137)	(1,746)
Closing shareholders' funds	(861)	(2,137)

15 Reserves

	Revaluation reserve £000	Profit and loss account £000
At 1 November 1997 as previously stated	4,298	(2,138)
Prior year adjustment	(4,298)	-
At 1 November 1997 as restated	-	(2,138)
Retained profit for the financial year	-	1,276
At 31 October 1998	-	(862)

The prior year adjustment in respect of tangible fixed assets of £4,298,000 relates to the change in accounting policy detailed in note 1.

16 Pension scheme

The company's ultimate parent undertaking, First Leisure Corporation PLC, operates a defined benefit pension scheme for all permanent employees who meet certain age criteria. The assets of the scheme are held separately from those of First Leisure Corporation PLC. The most recent actuarial valuation was at 1 July 1995. Further details are disclosed in the accounts of the ultimate parent undertaking, First Leisure Corporation PLC.

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

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Notes *(continued)*

17 **Ultimate parent undertaking**

The company is a subsidiary undertaking of Riverside PLC, a company registered in England and Wales.

The ultimate parent undertaking is First Leisure Corporation PLC which is registered in England and Wales.

The largest and smallest group in which the results of the company are consolidated is that headed by First Leisure Corporation PLC. The consolidated accounts of this group are available to the public and may be obtained from:

7 Soho Street
LONDON
W1V 5FA.