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J D Wetherspoon plc

INTERIM REPORT 1996

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Summary

Turnover up 43% to £45.2m

18 new pubs opened

Interim dividend per share up 13% to 3.1p

Before accounting adjustments:

Profits before interest and tax up 47% to £8.5m

Profits before tax up 38% to £6.6m

Earnings per share up 42% to 17.6p

Capital investment of £23.2m

Accounting adjustments:

Freehold pubs depreciated over 50 years

Leasehold pubs depreciated over life of lease

Chairman's statement

Results

I am pleased to report good progress in the first half of this financial year. Turnover rose by 43% to £45.2m. After the accounting adjustments referred to below, and assuming last year's results for the equivalent period were recalculated on the new basis, profit before tax was up 43% to £5.5m and earnings per share increased by 49% to 14.8p.

Had there been no accounting adjustments, profit before tax would have increased by 38% to £6.6m and earnings per share would have increased by 42% to 17.6p.

Capital investment totalled £23.2m and net gearing at the period end was 63%. Interest was covered 4.5 times by operating profits. Operating margins before depreciation, tax and interest were 22.4%, compared to 21.5% in the previous year.

The Company's cashflow continued to strengthen in the period, helped by the take up of the scrip dividend announced in October of last year. After capital investment of £1.1m in existing pubs, tax, interest and dividends, cashflow improved to £7.8m from £3.6m in the previous year, resulting in cashflow per share of 21.3p.

Shareholders will be aware that there has been considerable debate concerning the appropriate accounting policies for hotel, pub and restaurant companies. Having carefully reviewed the issues raised the Board has decided to depreciate freehold properties over 50 years and leasehold properties over the lease life. Renovations carried out periodically to existing pubs will now be depreciated over 6 years, reflecting actual experience, whereas they had previously been depreciated over 3 years. The net effect of these adjustments is to increase the depreciation charge by £1.0m in the period; had they applied in the first half of 1995, the reported profit before tax would have been reduced by £0.9m. As a result of these changes, annual depreciation per pub will increase from approximately £24,000 last year to approximately £45,000 this year.

Dividends

The Board has declared an interim dividend of 3.1p net, a 12.7% increase on the 2.75p paid in 1995. At this level, the dividend was covered 4.8 times, compared to 4.5 times in 1995. Shareholders will again be offered a scrip alternative to the dividend.

Continuing Progress

The Company opened 18 pubs in the half year, compared to 14 pubs in the same period last year. Initial trading levels are encouraging and the Company continues to be confident, in particular, about prospects outside London where 17 of the new outlets are located.

The 110 pubs open at the start of the period performed well, and those with a like for like sales comparison showed increases of 3%. Gross profit percentages after pub operating costs increased marginally and head office costs as a percentage of turnover have now started to decline following their rise after our relocation to Watford last year.

Prospects

The first half performance of the Company has provided a good platform for future growth, and sales in February have been in line with our budget. We have opened 3 new pubs since the period end and have licences for 22 more, most of which are outside Greater London, as well as a promising supply of sites in the pipeline.

In order to help finance our continuing development, agreement has been reached in principle for substantial additional bank facilities which, combined with our increasing organic cashflow, will allow considerable expansion in future years.

T R Martin

4 March 1996

Profit and loss account

for the six months ended 31 January 1996

	Notes	Unaudited, unadjusted half year 1996 £000	Adjustments £000	Unaudited, adjusted half year 1996 £000	Unaudited half year 1995 £000	Audited full year 1995 £000
Turnover from continuing operations		45,180	0	45,180	31,574	68,536
Operating profit	2,3	8,464	(1,028)	7,436	5,771	12,232
Net interest payable		(1,889)	0	(1,889)	(1,015)	(2,519)
Profit on ordinary activities before taxation		6,575	(1,028)	5,547	4,756	9,713
Tax on profit on ordinary activities	4	(128)	0	(128)	(251)	(755)
Profit on ordinary activities after taxation		6,447	(1,028)	5,419	4,505	8,958
Dividends		(1,136)	0	(1,136)	(1,004)	(2,927)
Retained profit		5,311	(1,028)	4,283	3,501	6,031
Earnings per Ordinary 10p share	5	17.6p	(2.8)p	14.8p	12.4p	24.6p
Net dividend per share		3.1p		3.1p	2.75p	8.0p

Statement of total recognised gains and losses

for the six months ended 31 January 1996

	Unaudited, adjusted half year 1996 £000	Unaudited half year 1995 £000	Audited full year 1995 £000
Profit for the financial period after taxation	5,419	4,505	8,958
Unrealised surplus on revaluation of properties	0	0	309
Total recognised gains relating to the period	5,419	4,505	9,267

Cash flow statement

for the six months ended 31 January 1996

	Notes	Unaudited half year 1996 £000	£000	Unaudited half year 1995 £000	£000	Audited full year 1995 £000	£000
Net cash inflow from operating activities	6	12,759	12,759	7,884	7,884	19,762	19,762
Returns on investments and servicing of finance							
Interest received		41		22		55	
Interest paid		(2,240)		(1,253)		(2,803)	
Dividends paid		(1,386)		(1,597)		(2,601)	
Net cash outflow from returns on investment and servicing of finance		(3,585)	(3,585)	(2,828)	(2,828)	(5,349)	(5,349)
Taxation							
Advance corporation tax paid		(346)	(346)	(399)	(399)	(655)	(655)
Investing activities							
Purchase of tangible fixed assets for existing pubs		(1,051)		(1,045)		(2,864)	
Proceeds of sale of tangible fixed assets		3		7		11	
		(1,048)	(1,048)	(1,038)	(1,038)	(2,853)	(2,853)
Net cash inflow available for new pub developments, before financing			7,780		3,619		10,905
Investment in new pubs and pub extensions		(22,187)		(16,018)		(34,756)	
Net cash outflow from investing activities		(23,235)		(17,056)		(37,609)	
Net cash outflow before financing		(14,407)		(12,399)		(23,851)	
Financing							
Issue of Ordinary shares		7		141		527	
Advances under secured bank loans		10,000		0		20,000	
Repayments of secured bank loans		(722)		(785)		(1,581)	
Net cash inflow/(outflow) from financing	7	9,285		(644)		18,946	
Decrease in cash equivalents	8	(5,122)		(13,043)		(4,905)	
Cash flow per Ordinary 10p share	5		21.3p		10.0p		30.0p

Summarised balance sheet

as at 31 January 1996

	Notes	Unaudited half year 1996 £000	Unaudited half year 1995 £000	Audited full year 1995 £000
Fixed assets				
Tangible assets	9	153,668	112,911	133,196
Current assets				
Stocks		1,207	1,083	885
Debtors		1,727	1,132	2,720
Cash		4,359	1,725	8,824
		7,293	3,940	12,429
Creditors due within one year	10	(18,935)	(13,399)	(18,532)
Net current liabilities		(11,642)	(9,459)	(6,103)
Total assets less current liabilities		142,026	103,452	127,093
Creditors due after one year	10	(57,964)	(27,438)	(47,854)
		84,062	76,014	79,239
Capital and reserves				
Called up share capital		3,663	3,631	3,654
Share premium account		43,564	42,671	43,034
Revaluation reserve		15,511	15,202	15,511
Profit and loss account		21,324	14,510	17,040
Equity shareholders' funds	11	84,062	76,014	79,239

4 March 1996.

Notes

1. Basis of preparation

The interim report for the six months ended 31 January 1996 is unaudited and does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. It has been prepared under the historical cost convention modified by the revaluation of freehold and leasehold properties, and on a basis consistent with the accounting policies for the year ended 31 July 1995, except for the matter referred to in note 2 below. The results for the year ended 31 July 1995 and the balance sheet at that date are an extract from the statutory accounts for that year, which have been filed with the Registrar of Companies and on which the Company's auditors gave an unqualified report under Section 235 of the Companies Act 1985 which did not contain a statement under Section 237(2) or (3) of that Act. The results for the six months ended 31 January 1995 are an extract from the unaudited interim report for that period, presented in the revised reporting format used in the audited 1995 statutory accounts.

2. Accounting adjustments

The Directors have decided that, with effect from 1 August 1995, the Company will depreciate all freehold buildings over fifty years and leasehold buildings over the lease term. In prior periods, such properties were not depreciated. Additionally, major renovations to trading properties will henceforward be depreciated over six years, whereas previously they were depreciated over three years. UK generally accepted accounting principles do not allow the previous years' figures to be restated for these changes, and hence the comparative figures have not been adjusted.

3. Operating Profit

	Unaudited, unadjusted half year 1996 £000	Adjustments £000	Unaudited, adjusted half year 1996 £000	Unaudited half year 1995 £000	Audited full year 1995 £000
Turnover	45,180	0	45,180	31,574	68,536
Cost of sales	(32,948)	(1,028)	(33,976)	(23,109)	(50,178)
Gross profit	12,232	(1,028)	11,204	8,465	18,358
Administrative expenses	(3,768)	0	(3,768)	(2,694)	(6,126)
Operating profit	8,464	1,028	7,436	5,771	12,232

4. Taxation

The tax charge in the period represents irrecoverable ACT on the declared interim dividend, less ACT saved on the 1995 final dividend as a result of the take up of the scrip dividend alternative. There is no charge to corporation tax on the trading profits of the period due to the availability of tax allowances relating to capital expenditure in the current and past periods.

5. Earnings and cash flow per share

The calculation of earnings per share on the net basis, after accounting adjustments, is based on profits on ordinary activities after taxation for the period of £5.419m (1995: £4.505m) and on 36,587,426 Ordinary shares (1995: 36,256,160) being the weighted average number of Ordinary shares in issue and ranking for dividend during the period. If all outstanding share options had been exercised during the period there would have been no material dilution in earnings per share. The calculation of earnings per share before accounting adjustments of £1.028m is based on pro-forma profits on ordinary activities after taxation of £6.447m.

The calculation of cash flow per share is based on the net cash generated by business activities and available for investment in new pub developments, and extensions to the trading area of existing pubs, after funding all interest, tax and dividend payments and all other reinvestment in pubs open at the start of the period. It is calculated before taking into account inflows and outflows of financing from outside sources, and is based on the same number of shares in issue as for the calculation of earnings per share.

The total number of Ordinary shares in issue at 31 January 1996 was 36,634,130.

6. Net cash inflow from operating activities

	Unaudited half year 1996 £000	Unaudited half year 1995 £000	Audited full year 1995 £000
Operating profit	7,436	5,770	12,232
Depreciation of tangible fixed assets	2,702	1,029	2,397
Gain on sale of tangible fixed assets	(3)	(6)	(9)
Change in stocks	(322)	(479)	(281)
Change in debtors	993	414	(1,174)
Change in creditors	1,953	1,156	6,597
	12,759	7,884	19,762

7. **Analysis of changes in financing during the period**

	Share capital (including premium) £000	Loans £000	Total £000
Balance at start of period	46,688	48,244	94,932
Cash inflows from financing during the period	7	9,278	9,285
Ordinary shares issued in relation to scrip dividend	532	-	532
Balance at end of period	47,227	57,522	104,749

8. **Analysis of the balance of cash and cash equivalents**

	Unaudited half year 1996 £000	Audited full year 1995 £000	Change in period £000
Cash at bank and in hand	4,359	8,824	(4,465)
Bank overdrafts	(657)	-	(657)
	3,702	8,824	(5,122)

9. **Fixed assets**

Opening book value	133,196	96,547	96,547
Additions	23,174	17,393	38,739
Revaluation	0	0	309
Depreciation	(2,702)	(1,029)	(2,399)
Closing book value	153,668	112,911	133,196

10. **Bank loans and overdrafts**

Amounts due within one year	1,106	2,639	1,411
Amounts due in 1-2 years	1,924	1,104	1,266
Amounts due in 2-5 years	10,596	4,824	8,265
Amounts due after 5 years	43,896	21,510	37,302
	56,416	27,438	46,833
	57,522	30,077	48,244

11. Reconciliation of movements in shareholders' funds

	Unaudited half year 1996 £000	Unaudited half year 1995 £000	Audited full year 1995 £000
Opening shareholders' funds	79,239	72,372	72,372
Total recognised gains relating to the period	5,419	4,505	9,267
Dividends	(1,136)	(1,004)	(2,927)
Allotments (net of expenses)	540	141	527
Net addition to shareholders' funds	4,823	3,642	6,867
Closing shareholders' funds	84,062	76,014	79,239

12. Dividend

The dividend of 3.1p will be paid on 17 May 1996 to those shareholders who are on the register on 19 March 1996.

Review report to the Directors of J D Wetherspoon plc

We have reviewed the interim report for the six months ended 31 January 1996 set out on pages 2 to 7 which is the responsibility of, and has been approved by, the Directors. Our responsibility is to report on the results of our review.

Our review of the interim report was carried out having regard to the bulletin 'Review of Financial Information', issued by the Auditing Practices Board. This review consisted principally of applying analytical review procedures to the underlying financial data, assessing whether accounting policies have been consistently applied and making enquiries of management responsible for financial and accounting matters. The review excluded audit procedures such as tests of control and verification of assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with Auditing Standards. Accordingly we do not express an audit opinion on the interim report.

On the basis of our review:

- in our opinion, except for the matter referred to in note 2, the interim report has been prepared using accounting policies consistent with those adopted by the Company in its financial statements for the year ended 31 July 1995 and;
- we have not become aware of any material modifications that should be made to the interim report as presented.

Coopers & Lybrand

Coopers & Lybrand
Chartered Accountants
London

4 March 1996