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SWAN HILL

Report & Accounts 1998

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	1998 £'000	1997 £'000
Turnover	**76,417**	88,372
Profit before taxation		
– Continuing business	**3,096**	4,582
– Discontinued operations	**0**	4,207
	3,096	8,789
Shareholders' funds	**80,005**	79,018
Net (borrowings)	**(21,820)**	(7,110)
Basic earnings per share	**4.1p**	11.8p
Basic earnings per share excluding profit on disposal of discontinued operations	**4.1p**	5.5p
Dividends per share	**3.0p**	2.75p
Net assets per share	**117p**	115p

STRATEGY

For several months your Board has been reviewing the activities of the Group and the distribution of our financial resources between them. It has concluded that, if shareholder value is to be maximised, there should be a reallocation of funds from the largely mature development portfolio within the Property Division into the Housing Division where the Board believes more attractive and consistent returns can be generated. We now intend to exploit our specialist development skills by undertaking new commercial developments on a forward funded basis only, rather than utilising significant amounts of the Group's own capital. Without such a redistribution of resources we believe the demands for funding from two capital intensive businesses will increasingly over-stretch the Group's financial capacity. This new strategy also recognises that the Group's involvement in property development, where earnings are lumpy and their timing unpredictable, is difficult for investors to value.

The key elements of the strategy will be:

- the sale of the completed property portfolio within the UK and schemes under development as they come to maturity with the aim being to realise the majority of the portfolio within the next 18 months;
- the progressive re-investment of up to £50 million into the housing business as capital is released from property disposals;
- subject to their approval and satisfying statutory requirements, the return to shareholders of around £15 million over the next 12-18 months as capital is released;
- the maintenance of the core property development team to manage the forward funded development programme which currently includes schemes at Stockton, Whiteley and Leeds and the joint venture development at Northampton;
- the sale of the completed schemes in France, with a small development team to progress the Cagnes development in the South of France through the planning process; and
- to allow a higher level of gearing as a result of the changed asset mix towards housing.

The increased capital allocation will allow the Housing Division to improve its operating leverage through its two main regions since it has an existing management structure which will allow a higher level of activity without a corresponding rise in overhead costs. This will provide the opportunity to develop new regional bases within its focused area of operations in Southern England. The progressive release of funds will enable new sites to be bought in a controlled and selective manner. We are confident that this strategy will, by enabling a further and more rapid achievement of the potential for profitable growth of the housing activities, improve both the shorter and longer term prospects for the Group. It will also enable the Group to be seen, and valued, principally as a housing business.

1998 Results

Profits before tax were £3.1 million in 1998, compared with £4.6 million in 1997 before the profit on disposal of the construction activities. As explained in our announcement in December, the results for 1998 were partly affected by the deferment of property projects into this year. The property market is now more active and we are re-marketing these schemes. At the year end Group borrowings were £22 million, representing a gearing level of 28%.

The dividend for the year as a whole has been increased by 9% to 3.0p (1997 : 2.75p). The final dividend of 1.8p will be payable on 26 May 1999 to those shareholders whose names appear on the Register of Members on 6 April 1999.

Operating Summary

The Housing Division advanced strongly in 1998 increasing its profits by over 50% from £2.8 million to £4.3 million. It has made excellent progress during the past two years in developing a product and market position towards the upper end of the market. This policy has produced a rapid and demonstrable improvement in its operating margins and returns on capital.

The Property Division contributed profits of £0.4 million, with the UK business and the French Property company trading profitably, but Carter Commercial Developments disappointingly in loss. Good progress was made in bringing many of our UK schemes towards maturity even though soft market conditions in the last quarter of 1998 caused us to withdraw certain schemes from the market in anticipation of better conditions in 1999.

Further details of the activities of the Housing Division are provided in the Operating Review together with details of the principal schemes completed by the Property Division.

Termination of Takeover Discussions

On 4 February, the Board announced that it had received unsolicited approaches which may or may not lead to an offer being made for the issued ordinary share capital of the Company. The Board has concluded that the new strategy, which has been under consideration for several months, will deliver greater value to shareholders than would be realised from pursuing the takeover proposals made to the Company. Consequently, the Board has terminated all discussions over a possible offer for the Company and will focus on implementing the new strategy.

Employees

On behalf of the Board I offer to all those employed in Swan Hill our thanks for their loyalty and hard work during the past year.

Future Prospects

Your Board believes that the new strategy addresses radically the issue of shareholder value. We consider that the changes outlined should allow investors over time to realise the full value from the Group's assets and to enjoy a more predictable earnings stream. The new direction will also allow a more rapid achievement of a proper level of return on the total assets deployed within the business without losing the benefits of retaining both residential and commercial property skills within the Group.

George Duncan

George Duncan
Chairman

3 March 1999


John Theakston

HOUSING

The Housing Division, which operates within the South of England, achieved profits of £4.3 million (1997 : £2.8 million) with a much improved operating margin particularly in the South East region. Whilst units completed of 260 were lower than the previous year, average selling prices increased from £109k to £123k, partly reflecting the move towards larger units. Operating margins for the Division improved to 14% (1997 : 7%), with the South East region returning a particularly strong result in good trading conditions. Capital employed was £38.3 million (1997 : £32.9 million).

In the last two years the Housing Division has moved rapidly from being principally a developer producing standard product in competition with the volume housebuilders to a company positioning itself in higher value housing with a more individually designed product. It is now a marketing led company where design and specification, allied with cost control, is seen as the best way of optimising returns. The template for this approach has been the South East region, where operating margins are now in excess of 15%. Average selling prices in this region have moved from £97k in 1996 to £131k in 1998 and are forecast to rise again significantly in 1999. As the Division moves forward it is applying the same approach to its South West region with the expectation that as volumes increase, and overhead recovery improves, returns will rise. We are targeting returns on capital and operating margins to be in excess of 15% for all our regions once the shift in resources has been made.

Within the existing South East region an office is being opened in Horsham to form the basis for an independent regional office controlling activity in the Sussex and West Kent area with the existing Staines office developing business to the west and south west of London. This structure reflects the essentially regional nature of housing where land buying and brand identity are dependent on local knowledge and presence.

The land bank at the year end was around 880 plots spread across some 25 sites. The target land bank remains at between 2-2½ times annual sales. In addition the Division is intending to increase its long term strategic land bank by means of option arrangements. Within each region it seeks to build clusters of activity. During the last 2 years 18 new sites have been acquired in the following locations:

South East region	**South West region**
Camberley	Devizes
East Grinstead	Droitwich
Findon	Gloucester (2 sites)
Horsham (2 sites)	Monmouth
Selsey (2 sites)	Rode
Westergate	Wells
Wokingham	Yeovil
Yateley	

During 1998 a significant proportion of our land spend was directed towards the South West region, and it is therefore our objective in the short term to focus the majority of new capital towards our operations in the South East.

We continue to focus on sites where our design and product development skills can add value, rather than those where we are in direct competition with the volume housebuilders for standard development.

David Truslove

Fergus Low

PROPERTY

The Property Division comprises three principal businesses. UK Property concentrates on development activity with a portfolio of around 20 industrial, retail and office schemes. The French property business is based in Paris and owns two industrial developments to the west of Paris and a long term scheme for office and industrial use in the south of France. Carter Commercial Developments assembles sites and obtains planning consents for the major food retailers.

For 1998 the Property Division profits were £0.4 million (1997 : £3.1 million) and capital employed £62 million (1997 : £56 million).

UK Property

The principal projects completed during 1998 included the sale of 22 acres at the Swan Valley distribution and business park in Northampton. We have achieved sales of 81 acres on this prestigious 178 acre development alongside the M1 motorway in the last three years. We also sold the residential phase of the Centaur House site in Leeds and since the year end have achieved planning and exchanged contracts for the sale of the balance of the site for a hospital. We also completed the letting and funding of a 40,000 sq ft leisure scheme in Shrewsbury and the sale of an industrial and office scheme in Cardiff and a small retail scheme in Guildford.

Amongst the projects within the Division's programme for completion in 1999 are:

- a 20,000 sq ft office scheme in Amersham, which is fully let;
- a 47,000 sq ft retail scheme in Carlisle which is partly pre-let and is under construction;
- 2 sites acquired for office development in Staines and Slough, both of which are under construction;
- an industrial scheme at Wolverhampton where the first phase for a 79,000 sq ft factory has been pre-let and is under construction.

Carter Commercial Developments

Carter Commercial Developments achieved six sales during the year. It made a significant loss, however, due to the delay of a number of schemes and abortive costs in relation to those schemes which failed as the planning environment changed. The company is concentrating on 'in town' sites where planning is more readily obtainable. Its current programme comprises some 40 schemes of which many are well advanced.

French Property

Lettings of the French operation's schemes to the west of Paris have improved during the year and the sale of these properties is now being pursued. Revised planning permissions which are expected to take some time to secure are being sought in respect of the business park at Cagnes Sur Mer in the south of France.

Colin Archer

FINANCIAL REVIEW

At the year end shareholders' funds were £80 million, with borrowings rising to £22 million representing a gearing level of 28%. Group borrowings have risen as a result of developments in progress increasing from £75.7 million to £93.4 million.

Borrowings are likely to remain at around this level during the current year as further investment is made within the Housing Division. Net interest payable rose to £592k (1997 : £340k).

Bank facilities comprise £20 million of three year committed facilities and a further £15 million of overdraft facilities. The Group has extended its French Franc borrowings for a further year to provide a partial hedge against the net assets invested in France and to gain the benefit of continued interest savings due to lower rates in France.

Practical completion of the Brook House building contract, which remained the responsibility of the Group following the sale of the construction activities in January 1997, was achieved on 29 June 1998. Whilst this contract absorbed cash during the year, substantial claims have been submitted by the Group.

The tax charge is below the standard rate due to tax losses brought forward from previous years. The charge shown in the accounts relates principally to past years' overseas taxation in respect of the construction activities.

The Group has undertaken a review of the computer and operating implications of the Millennium. The necessary changes to the computer systems have been completed to ensure, as far as possible, that no problems will arise and the expenditure incurred has been contained within the normal operating levels.

Directors

EXECUTIVE DIRECTORS

J A Theakston, MA, MSc
Group Chief Executive

John Theakston, 46, was appointed Group Chief Executive on 1 January 1992 having joined the Group board in 1987 as Finance Director. He is a non-executive director of Black Sheep Brewery PLC.

C R H Archer, BA, FCA
Group Finance Director

Colin Archer, 49, joined the Group as Finance Director in 1989. He is a Fellow of the Institute of Chartered Accountants and has had wide experience both in the City and in industry.

F J Low, BLE, ARICS

Fergus Low, 40, joined the Group as Managing Director of the UK Property Division in July 1998. He brings with him wide experience of the property industry, having held Board appointments with other listed property companies.

D P Truslove, BA, ACA

David Truslove, 38, joined the Group in 1987 and after becoming Managing Director of the Housing Division in January 1998 joined the Board in July 1998.

GROUP COMPANY SECRETARY

A G Confavreux, MA, FCIS, MCIM

André Confavreux is a Fellow of the Institute of Chartered Secretaries and was appointed as Group Company Secretary in 1995. He is responsible for Group legal and secretarial matters.

NON-EXECUTIVE DIRECTORS

G Duncan, BSc (Econ), MBA, FCA
Chairman

George Duncan, 65, has been an independent non-executive Chairman since 1993. He is also Chairman of ASW Holdings PLC and Laporte plc and a non-executive director of several other public companies. Mr Duncan is Chairman of the Remuneration and Nominations Committees.

Dr M C S Dixson, BA, MA, DPhil (Oxon), FRAeS

Dr Maurice Dixson, 57, has been an independent non-executive director since 1994. He is Chief Executive of Simon Group PLC. Before joining the Simon Group he was a director of The General Electric Company plc (1990-93) and Group Managing Director of its Electronic Metrology and Components Groups.

I D Maclellan, MBA, FCA

Ian Maclellan, 51, has been an independent non-executive director since 1992. He is Chairman of the Audit Committee. Mr Maclellan is Chief Executive of Cape Plc.

Sir Idris Pearce, CBE, TD, DL, FRICS

Sir Idris Pearce, 65, has been an independent non-executive director since 1993. Sir Idris is Deputy Chairman of English Partnerships, the urban regeneration agency and a director of Millennium and Copthorne Hotels PLC and a non-executive director of several other public companies. He is Chairman of the two Swan Hill pension trustee companies.

Registered Office
Cygnet Court Portsmouth Road Esher Surrey KT10 9SG
Incorporated in England Registration number 55973

Advisers

Auditors
PricewaterhouseCoopers

Merchant Bankers
J. Henry Schroder & Co. Limited

Principal Bankers
National Westminster Bank Plc
Barclays Bank PLC

Brokers
SBC Warburg Dillon Read

Solicitors
Linklaters & Paines
Dibb Lupton Alsop

Registrars and Transfer Office
Computershare Services PLC
PO Box 82 Caxton House
Redcliffe Way Bristol BS99 7NH
Tel: 0117 930 6666

Directors' Report
for the year ended 31 December 1998

The directors present their report and the audited accounts for the year ended 31 December 1998.

Results and Dividends

The result before taxation is shown in the Group profit and loss account on page 22. The transfer to reserves in the year is £726,000 (£6,011,000). The directors recommend that a final dividend of 1.8p per Ordinary share be paid which, together with the interim dividend of 1.2p per Ordinary share, makes a total of 3.0p for the year. The final dividend, if approved, will be paid on 26 May 1999 to members on the register at the close of business on 6 April 1999.

Principal Activities and Business Review

The Group's business comprises housebuilding, property development and property investment in the United Kingdom; and property development in continental Europe. A more detailed report of the Group's activities and strategy is contained in the Chairman's Statement and the Operating and Financial Review on pages 3 to 7.

Directors

The current directors are listed on page 8. In accordance with the articles, Mr G Duncan and Mr C R H Archer retire by rotation at the annual general meeting and, being eligible, offer themselves for re-election. Mr Duncan has no service contract with the Company. Mr C R H Archer has a service contract with the Company the notice period of which is two years. Mr F J Low and Mr D P Truslove, who were appointed in the year, offer themselves for election. Mr F J Low has a service contract with the company terminable with 12 months notice while Mr D P Truslove also has a service contract with the company the notice period of which is reducing from two years to one. No director had any material interest in any contract of significance during the year to which the Company or its subsidiaries was party.

Interests of the directors (including those of their families) in the share and loan capital of the Company are shown on pages 16, 17 and 29. No director had any beneficial interest in the shares of any subsidiary company during the year. The Company maintained directors' and officers' liability insurance.

Substantial Shareholders Interests

At 23 February 1999 the following disclosures of interests pursuant to sections 198 to 208 of the Companies Act 1985 (as amended) in the Company's issued Ordinary share capital had been notified to the Company:

Phildrew Nominees Ltd	13.54%
Nortrust Nominees Ltd	11.09%
Popeshead Nominees Ltd	9.75%
MSS Nominees Ltd	7.29%
RBSTB Nominees Ltd	6.01%
Lloyds Bank Stock Exchange Branch Nominees Ltd	3.90%
Prudential Client (MSS) Nominees Ltd	3.34%
Nutraco Nominees Ltd	3.07%

Share Capital

Movements in the Company's issued share capital are shown in Note 18 on the accounts.

Employees

The Board is committed to setting the highest standards of integrity throughout the Group. Its personnel policies are set out in the Personnel Procedures Manual.

Great importance is placed by the Group on employee communication and involvement. Information concerning the Group is provided to employees through normal management channels and briefings as well as through regular circulars and by the distribution to employees of the annual report and accounts. In addition, pension newsletters are sent periodically to all employees.

The Company is committed to the provision of appropriate training and to help employees acquire the skills and experience which enable them to fulfil their role and to develop their potential.

The Company offers various share option and long term incentive schemes, the details of which are given in Note 10.

The Company provides private medical insurance cover for all full-time members of staff and their eligible dependants.

Swan Hill Group PLC, which employs the Group's UK personnel, operates a policy of equal opportunity. No job applicant or employee is to be treated less favourably than another on the grounds of sex, marital status, race, nationality, ethnic origin, colour or religious belief.

Within the limitations of its trading activities, it is the Company's policy to make every effort to engage disabled persons. If an employee becomes disabled during the period of employment every effort is made, through re-training if necessary, to enable the employee to remain with the Company. Opportunities for career advancement are available to disabled persons.

Pensions

Swan Hill Group operates two contracted-out pension schemes; one on an insured, money-purchase basis, the other on a final salary basis. Both are administered by corporate trustee companies.

The Company's pension schemes provide equal benefits for men and women with a common normal retirement age of 63. Eligible scheme members are also covered under the Company's life assurance, personal accident and permanent health insurance arrangements.

Creditor Payment Policy

It is the Group's policy to agree payment terms with its suppliers, along with other terms and conditions, when it enters into binding purchase contracts. Its policy is to abide by the agreed payment terms provided that the supplier has delivered the goods or services in accordance with the terms and conditions of the contract. Company creditor days at 31 December 1998 were 24. This figure is calculated by dividing trade creditors by average daily purchases, after making relevant VAT adjustments. Creditor days reflect the credit periods actually given by our suppliers.

Health and Safety

The Company's policy is to ensure the health, safety and welfare of everyone engaged in or affected by its activities. In particular, it emphasises the need to eliminate risks before accidents occur and before health is damaged. There is a nominated director who reports regularly to the Board on health and safety matters.

Donations

During the financial year the Group and its Charitable Trust made charitable donations totalling £22,000 (£7,000).

No political donations were made during the year.

Auditors

The Company's auditors, PricewaterhouseCoopers, who were appointed in the year as successors to Price Waterhouse, are willing to continue in office and a resolution concerning their re-appointment and remuneration will be proposed at the annual general meeting.

Annual General Meeting

A separate circular accompanying this Report explains the special business to be considered at the annual general meeting which will be held at, 12 noon at the Howard Hotel, Temple Place, London WC2R 2PR on Wednesday 5 May 1999.

By Order of the Board

A G Confavreux
3 March 1999

A. G. Confavreux

Corporate Governance

The Combined Code and amended Stock Exchange Listing rules were only published during 1998 and formal guidance is still awaited from the Accounting Standards Board regarding internal controls. The Directors' review of internal controls may not, therefore, constitute a review for the purposes of the Combined Code as ultimately interpreted. However the Directors are satisfied that Swan Hill has complied with the provisions of the Combined Code throughout the year for internal financial controls.

A complete review of all other corporate governance requirements specified in the Combined Code has been undertaken. The Directors' believe the Company complies materially with the principles and provisions of the Code. The only exceptions relate to provision A6.2 (Rotation of Directors) where directors retire by rotation at least every three years and to recommendation A.2.1 which requires that there should be a senior independent non-executive director, other than the chairman. The current articles provide that no more than one third of directors can retire by rotation annually. Whilst this may result in some directors continuing for a fourth year before rotation, the Board believes this is satisfactory. The Board considers that having an equality of executive and independent non-executive directors on the board, including an independent non-executive chairman, provides an appropriate balance of power and authority and consequently it is not planning to appoint a senior non-executive director. As regards provision B1.7 (Term of Service Contracts), the Board has adopted this provision with the exception of Service Contracts for the Group Chief Executive and Group Finance Director. It believes as part of its remuneration policy and in accordance with current industry practice that these periods are not exceptional.

There are other provisions which are now part of the Combined Code and which, whilst applying for the year under review, could not be implemented. They relate to practices which are dependent upon the AGM and in the case of your company this was held in 1998 prior to the publication of the Combined Code; specifically provisions C2.1 (Declaration of proxy votes) and C2.4 (20 working days notice for AGM), which will be adopted this year.

THE BOARD

The Board comprises four executive and four non-executive directors. It is responsible for all elements of corporate governance and ensures compliance with these by receiving and reviewing regular reports from Board Committees or individual directors on internal financial controls. It meets regularly throughout the year to determine overall Group strategy, to review management reports and to approve major new projects and capital expenditure as well as significant financing matters. It approves annual profit and loss and cash flow budgets and monitors these, in conjunction with revised forecasts, at regular intervals against actual performance. It also sets limits for working capital and capital expenditure as part of the budgeting process and authorises major new projects or contractual obligations under the reserved powers procedures. The Board also considers and, if appropriate, approves external appointments of the executive directors and the terms of these.

During 1998 there were two principal committees of the Board; the Audit Committee and the Remuneration and Nominations Committee.

AUDIT COMMITTEE

This is chaired by Mr I D Maclellan and comprises the non-executive directors with the Group Chief Executive and the Group Finance Director in attendance. It reviews both the internal and external accounting policies and practices adopted by the Group, taking into account the implications of any changes in accounting standards, the operation and effectiveness of the internal financial controls and considers the auditors' findings arising from the interim review and final audit.

REMUNERATION AND NOMINATIONS COMMITTEE

This committee is chaired by Mr G. Duncan and comprises the non-executive directors. It assesses the performance of the executive directors so as to determine their annual remuneration and any bonus awards and share incentives. It also considers changes in membership of the Board prior to making recommendations to the full Board.

The constitution and operation of the Remuneration and Nominations Committee complies with Schedule A of the Combined Code. The Committee also confirms that full consideration has been given to Section B of the Combined Code in determining the remuneration packages for directors for 1998.

A report from the Board on directors' remuneration and related matters may be found on pages 14 to 17.

Subsequent to the year end this committee has been split into two and henceforth there will be a Remuneration Committee and a Nominations Committee both chaired by Mr G Duncan and comprising the non-executive directors.

INTERNAL FINANCIAL CONTROLS

The directors are responsible for the Group's systems of internal financial control. These have been developed over a number of years and are in place to provide reasonable but not absolute assurance against material mis-statement or loss. The control framework may be summarised as follows:

Financial Reporting – There is a comprehensive budgeting system with the annual budget approved by the board of directors. The results of each business are reported monthly and compared with the budget. Revised forecasts are prepared regularly through the year encompassing both profit and loss and cash flow reporting.

Organisation and Accountability – The organisational structure is clearly defined with a formal process in place to review operating business performance on a monthly basis.

Operating Business Controls – There are numerous business controls and procedures in place including those of a financial and insurance nature. These are monitored continuously and enhanced as appropriate. Group accounting policies for each of the business units are set down in a manual. The Group's external auditors review internal financial controls as part of their audit and provide recommendations for improvements.

Project Appraisal – The Group has clearly defined guidelines for approving new contracts or projects. These are subject to detailed appraisal and review within the context of the group reserved powers procedures. Actual performance is measured against the original appraisal.

The Audit Committee has reviewed the operation and effectiveness of these internal financial controls during 1998.

GOING CONCERN

The Combined Code requires that the directors should state in the Report and Accounts that the business is a going concern. It should be recognised that any consideration about the foreseeable future involves making a judgement, at a particular point of time, about future events which are inherently uncertain. After making enquiries, however, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

Report of the Board on Remuneration and Related Matters

Details of the directors' remuneration packages are shown below:

REMUNERATION

Excluding pension contributions paid by the Company

	Salaries and fees £'000	Benefits (i) £'000	Annual bonus (iii) £'000	Total 1998 £'000	Total 1997 £'000
Executive					
J A Theakston (iv)	**180**	**19**	**36**	**235**	216
C R H Archer	**137**	**18**	**29**	**184**	169
F J Low (appointed 1 July 1998)	**75**	**12**	**0**	**87**	0
D P Truslove (appointed 1 July 1998)	**60**	**7**	**0**	**67**	0
B T E Shrubsall (resigned 23 September 1998)	**52**	**11**	**10**	**73**	161
C J Peacock (resigned 5 December 1997)	**0**	**0**	**0**	**0**	191
Non-executive					
G Duncan (ii)	**57**	**0**	**0**	**57**	57
M C S Dixson	**18**	**0**	**0**	**18**	18
Sir Idris Pearce	**18**	**0**	**0**	**18**	18
I D Maclellan	**21**	**0**	**0**	**21**	20
Total	**618**	**67**	**75**	**760**	850

(i) Benefits include provision of a company car and fuel, life assurance and private health insurance.

(ii) In addition to the above, the Chairman is entitled to a bonus, based on a formula linked to the Company's share price, payable between November 1995 and 2002. The share price at 31 December 1998 was lower than the formula threshold.

(iii) These bonus payments refer to the year ended 31 December 1997.

(iv) Highest paid director.

Aggregate pension contributions paid by the Company total £152,000 (£113,000). Those for the highest paid director were £30,000 (£24,000). All company pension contributions are paid to the Swan Hill Staff Pension Scheme with the exception of £17,000 (£17,000) for G Duncan, £21,000 (£15,000) for C R H Archer, £8,000 (£8,000) for B T E Shrubsall and £24,000 for F J Low who was appointed a director on 1 July 1998. There are no unfunded pension arrangements.

PENSIONS

All the executive directors with the exception of F J Low are members of the Swan Hill Pension Scheme which is a defined benefits scheme. The following table shows the directors' own pension contributions, the increase in the accrued entitlement during the year and the accrued entitlement at the end of the year.

	Age at year end	Directors' own contributions in the year+ £'000	Increase in accrued pension during the year+ £'000	Accumulated total accrued pension at year end* £'000
J A Theakston	46	9	7	59
C R H Archer	49	7	3	27
D P Truslove (appointed 1 July 1998)	38	3	6	18
B T E Shrubsall (resigned 23 September 1998)	58	6	2	31

\+ or from date of appointment
* or at date of resignation

(i) The increase in accrued pensions during the year excludes any increase for inflation.

(ii) The accumulated total accrued pension entitlement is that which would be paid annually on retirement at age 60 on the assumption that service terminated at the end of the year, or at actual termination if earlier. Early payment of a deferred pension before age 60 is calculated by applying a reduction of currently 3% for each year between retirement and age 60. On death before or after retirement, a spouse's pension is payable of 50% of the director's pension. The spouse's pension in the case of C R H Archer is increased from 50% to 2/3rds. Child allowances are payable as is a return of the director's gross Scheme contributions. All pensions in excess of guaranteed minimum pensions in payment are guaranteed to increase in line with the annual rate of price inflation subject to a maximum increase of 4.5% p.a. on pension accrued to 5 April 1997, and 5% p.a. on pension accrued from 6 April 1997. Further increases can be paid at the discretion of the Trustee and the Company.

Cash equivalent calculations take into account discretionary pension increases up to the level of inflation subject to a maximum of 5% p.a., the early retirement provision outlined above and discretionary dependants' pensions.

(iii) On his resignation on 23 September 1998, B T E Shrubsall exchanged his accumulated total accured pension shown above for an immediate pension (before commutation) of £31,000 p.a. On his death, a spouse's pension is payable of 50% of his pension together with child allowances. Pension increases are payable as described in (ii) above.

(iv) The directors have the option to pay Additional Voluntary Contributions but neither such contributions nor the resulting benefits are included in the table above.

BASE SALARY

The Company has set as its objective the payment of salaries and benefits in line with other UK companies of a similar size and complexity. The base salaries of the executive directors are reviewed annually by the Remuneration and Nominations Committee. They take into account any responsibility changes since the last review and, from time to time, external independent advice as to salary levels appropriate to each director's responsibilities within the Group.

PERFORMANCE RELATED BONUS SCHEME

Maximum bonuses payable annually in arrears to executive directors under the Scheme are between 25% and 35% of base salary. The level of bonus is split between a number of objectives including financial measures of the Group's performance.

THE CHAIRMAN AND OTHER NON-EXECUTIVE DIRECTORS

Non-executive directors receive a fee plus their expenses for attending Board and Committee meetings. The fees are reviewed annually by the Board.

Report of the Board on Remuneration and Related Matters
continued

SERVICE CONTRACTS

J A Theakston and C R H Archer have contracts with two-year periods of notice which is believed to be appropriate in the current commercial circumstances. It is Group policy for newly appointed executives to be offered service contracts with a notice period of up to one year. However, in exceptional circumstances it may be appropriate to offer initial notice periods of longer than one year to recruit new directors.

SHARE SCHEMES

Options granted to and exercised under the Company's Executive Share Option and Savings-Related Share Option Schemes and of the shares allocated under the Restricted Share Scheme are set out below. Details of the Option Schemes and the Restricted Share Scheme are shown in Note 10.

DIRECTORS' SHARE OPTIONS

	At 1.1.98	Granted (Lapsed) in year	Exercised	At 31.12.98	Exercise Price (p)	Date Exercisable	Expiry Date
J A Theakston							
ESOS	26,028	–	–	26,028	267.98	14.11.92	14.11.99
ESOS	5,206	–	–	5,206	274.71	8.11.93	8.11.00
ESOS	37,097	–	–	37,097	274.27	29.5.94	29.5.01
ESOS No 2	200,000	–	–	200,000	58.00	3.5.96	3.5.03
ESOS No 2	75,000	–	–	75,000	127.00	25.4.97	25.4.04
	343,331	–	–	343,331			
C R H Archer							
ESOS	41,645	–	–	41,645	336.17	22.5.93	22.5.00
ESOS	35,549	–	–	35,549	274.27	29.5.94	29.5.01
ESOS No 2	100,000	–	–	100,000	58.00	3.5.96	3.5.03
ESOS No 2	50,000	–	–	50,000	127.00	25.4.97	25.4.04
	227,194	–	–	227,194			
F J Low	Nil	–	–	Nil			
D P Truslove							
ESOS	10,411	–	–	10,411	274.71	8.11.93	8.11.00
ESOS	2,000	–	–	2,000	87.00	25.10.97	25.10.04
SRSOS	2,336	–	–	2,336	62.01	7.8.98	7.2.99
SRSOS	1,811	–	–	1,811	79.50	7.8.99	7.2.00
SRSOS - 1993	3,363	–	–	3,363	80.00	7.9.99	7.3.00
SRSOS - 1993	18,412	–	–	18,412	71.20	7.12.02	7.6.03
	38,333	–	–	38,333			

	At 1.1.98	Granted (Lapsed) in year	Exercised	At 31.12.98	Exercise Price (p)	Date Exercisable	Expiry Date
B T E Shrubsall							
ESOS	221,386	–	–	221,386	87.45	11.5.95	23.9.99
ESOS No 2	200,000	–	–	200,000	58.00	3.5.96	23.9.99
ESOS No 2	50,000	–	–	50,000	127.00	25.4.97	23.9.99
	471,386	–	–	471,386			

The market price of the shares at 31 December 1998 was 37p and the range during 1998 was 32.5p to 94.5p.

RESTRICTED SHARE SCHEME

	Number of shares allocated 1998	Number of shares allocated 1995-1997	Number of shares allocated Total	Period before vesting years	Range of value at vesting of total allocation* £'000
J A Theakston	100,000	178,999	278,999	3-4	0-103
C R H Archer	75,000	137,240	212,240	3-4	0-79
F J Low	100,000	–	100,000	3-4	0-37
D P Truslove	50,000	25,303	75,303	3-4	0-28
	325,000	341,542	666,542		

*The maximum value has been based on the share price as at 31 December 1998 (37p) and assumes full vesting.

Directors' Responsibilities

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

(i) to select suitable accounting policies and then apply them consistently;

(ii) to make judgements and estimates that are reasonable and prudent;

(iii) to state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;

(iv) to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group 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 Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors' Report

To the Members of Swan Hill Group PLC

We have audited the financial statements on pages 22 to 39 which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out on pages 20 and 21.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for preparing the Annual Report, including as described on page 17 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

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

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on page 12 reflects the company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the company's or group's corporate governance procedures or its internal controls.

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 misstatements, 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 of the Group as at 31 December 1998 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
No. 1 London Bridge
London SE1 9QL
3 March 1999

SWAN HILL

Accounts 1998

Accounting Policies

BASIS OF ACCOUNTING

The accounts have been prepared in accordance with the requirements of the Companies Act 1985 using the historical cost basis of accounting modified to include the revaluation of certain assets and in accordance with applicable accounting standards.

CONSOLIDATION

The consolidated accounts comprise the accounts of the Company and its subsidiaries drawn up to 31 December 1998.

In accordance with Section 230 of the Companies Act 1985 a separate Profit and Loss Account for the parent Company has not been presented.

Purchases of companies are accounted for under the acquisition method. Goodwill arising on consolidation in respect of acquisitions prior to 1 January 1998 has been written off to reserves. Following the issuance of FRS10 goodwill will be amortised over its useful economic life for future acquisitions.

TURNOVER

Turnover comprises the sales value of houses completed and property developments in the course of development and property rents receivable. It is reported net of value added tax.

PENSIONS

The Group operates two pension schemes covering all eligible staff employees: a final salary scheme and a money purchase scheme. The schemes' funds are administered by trustees and are independent of the Group's finances. The final salary scheme is fully funded and contributions are paid to the scheme in accordance with the recommendations of independent actuaries to provide retirement benefits based on projected final salaries. The money purchase scheme is an insured scheme to which the Company makes contributions which are charged against the profits in the year in which they are payable. Company costs relating to the final salary scheme are charged to the profit and loss account so as to spread the cost of pensions over the average expected working lives, with the Company, of employees who are members of the scheme.

DEPRECIATION

This is provided under the straight line method at the following rates to write off the depreciable element of the cost or valuation of the Group occupied freehold and leasehold properties and the cost of plant and equipment over their expected useful lives:

Group occupied properties	2%
Plant and machinery	12½-33⅓%
Fixtures and fittings	10-33⅓%

The same depreciation criteria are applied to assets acquired under finance leases as to those assets owned by the Group.

The land upon which the Group occupied properties stand is not depreciated. In addition, no depreciation is provided for freehold and long leasehold investment properties not occupied by the Group. In the opinion of the directors, this departure from the requirements of the Companies Act 1985, which requires all properties to be depreciated, is necessary for the accounts to show a true and fair view in accordance with applicable accounting standards. Depreciation is one of the many factors reflected in the annual valuation of investment properties and this cannot reasonably be separately identified or quantified.

LEASED ASSETS

Costs of operating leases are charged to the profit and loss account as they are incurred.

STOCKS

Commercial and residential developments, small tools and stocks are valued at the lower of cost and net realisable value.

INVESTMENTS

The interest of the Group in associated companies is stated using the equity accounting method. The Group's share of the results is included in the profits or losses on ordinary activities before taxation based on audited accounts.

DEFERRED TAXATION

Deferred taxation arising as a result of timing differences between the profit as computed for taxation purposes and that stated in the accounts is provided under the liability method. No provision is made for taxation on net surpluses arising from the revaluation of investment properties.

FOREIGN CURRENCIES

Balance sheets of overseas subsidiaries are translated into sterling at the rate of exchange ruling at 31 December each year and trading profits or losses are converted at average rates prevailing during the accounting period. Surpluses or deficits arising therefrom are taken directly into reserves. Realised gains or losses on exchange are included in the profits or losses on ordinary activities before taxation unless they arise from hedging transactions relating to investments in overseas subsidiaries, when they are taken directly into reserves.

LONG TERM CONTRACTS

Profit on long term contracts is recognised on a prudent basis as work is carried out and once the final outcome can be assessed with reasonable certainty. Full provision is made for all foreseeable losses.

Group Profit and Loss Account

for the year ended 31 December 1998

	Note	Total 1998 £'000	Total 1997 £'000
Turnover	2	**76,417**	88,372
Cost of Sales		**(65,384)**	(77,493)
Gross profit		**11,033**	10,879
Administrative expenses		**(7,377)**	(7,057)
Operating profit		**3,656**	3,822
Income from interest in associated undertakings		**32**	1,100
Trading profit	2	**3,688**	4,922
Profit on disposal of discontinued operations	1	**0**	4,207
Net interest (payable)	3	**(592)**	(340)
Profit on ordinary activities before tax		**3,096**	8,789
Taxation on ordinary activities	4	**(329)**	(876)
Profit on ordinary activities after tax		**2,767**	7,913
Dividends – equity and non-equity	5	**(2,041)**	(1,902)
Retained profits	19	**726**	6,011

Basic earnings per Ordinary share	6	**4.1p**	11.8p
Basic earnings per Ordinary share excluding profit on disposal of discontinued operations	6	**4.1p**	5.5p
Diluted Earnings per Ordinary share	6	**4.1p**	11.8p
Diluted Earnings per Ordinary share excluding profit on disposal of discontinued operations	6	**4.1p**	5.5p

Movements on reserves are detailed in Note 19.

Historical cost profits and losses do not differ materially from those disclosed above.

Balance Sheets

as at 31 December 1998

	Note	Group 1998 £'000	Group 1997 £'000	Company 1998 £'000	Company 1997 £'000
Fixed assets					
Tangible assets	11	**13,068**	12,772	**148**	146
Investments	12	**700**	579	**17,345**	17,245
		13,768	13,351	**17,493**	17,391
Current assets					
Stocks	13	**93,396**	75,722	**0**	0
Debtors: Amounts falling due within one year	14	**26,998**	17,578	**68,839**	63,586
Debtors: Amounts falling due after one year	15	**377**	359	**0**	0
Investments	16	**0**	1,288	**0**	103
Cash at bank and in hand		**536**	209	**2,429**	0
		121,307	95,156	**71,268**	63,689
Creditors: Amounts falling due within one year	17	**(55,070)**	(29,489)	**(21,240)**	(13,740)
Net current assets		**66,237**	65,667	**50,028**	49.949
Total assets less current liabilities		**80,005**	79,018	**67,521**	67,340
Represented by:					
Capital and Reserves					
Called up share capital	18	**17,340**	17,340	**17,340**	17,340
Share premium account	19	**43,082**	43,082	**42,883**	42,883
Other reserves	19	**21**	21	**0**	0
Profit and loss account	19	**19,562**	18,575	**7,298**	7,117
Total shareholders' funds		**80,005**	79,018	**67,521**	67,340

Details of the split between equity and non-equity shareholders' funds are shown in Note 18.

Approved by the Board of Directors on 3 March 1999.

G Duncan
Director

G Duncan

C R H Archer
Director

Group Cash Flow Statement
for the year ended 31 December 1998

	Note	1998 £'000	1998 £'000	1997 £'000	1997 £'000
Net cash (outflow) inflow from operating activities	26(a)		**(12,367)**		1,905
Returns on investments and servicing of finance					
Interest received		**127**		207	
Interest paid		**(702)**		(546)	
Dividends received from associated undertaking		**1,193**		0	
Dividends paid on non-equity shares		**(12)**		(12)	
			606		(351)
Taxation			**(529)**		(59)
Capital expenditure					
Purchase of tangible fixed assets		**(500)**		(8,300)	
Disposal of tangible fixed assets		**8**		665	
			(492)		(7,635)
Acquisitions and disposals					
Acquisition of subsidiaries		**0**		(83)	
Acquisition of an associated undertaking		**0**		(2)	
Net proceeds from sale of subsidiaries		**0**		2,087	
			0		2,002
Equity dividends paid			**(1,928)**		(1,755)
Cash (outflow) before financing			**(14,710)**		(5,893)
Financing					
Issue of Ordinary share capital	18	**0**		152	
Increase in debt due within one year		**410**		6,045	
			410		6,197
(Decrease) increase in cash in the year			**(14,300)**		304

Statement of Total Recognised Gains and Losses
for the year ended 31 December 1998

	Group 1998 £'000	Group 1997 £'000	Company 1998 £'000	Company 1997 £'000
Profit on ordinary activities after tax	**2,767**	7,913	**2,222**	1,217
Translation differences on foreign currency net investments	**667**	(1,145)	**0**	0
Hedging (losses) gains on foreign currency borrowings	**(406)**	696	**0**	0
Total gains and losses recognised in the year	**3,028**	7,464	**2,222**	1,217

Notes on the Accounts

1. Disposal of Construction Activities

The disposal of the construction activities was completed in January 1997.

The Group retains the financial liability for the construction works at Brook House, a development of flats, offices and retail premises in London. To the extent that aggregate recoveries are achieved in relation to a limited number of other construction contracts (the Shared Contracts), the improvement will be shared equally between the Group and the purchaser of the construction activities.

Practical completion of the Brook House contract was completed on 29 June 1998. The Group will be seeking its proper entitlement under this contract which may lead to litigation. The position will be reviewed at the end of this process and when the final position is known on recoveries from the Shared Contracts.

2. Segmental Analysis

	Turnover		Trading Profit	
	1998	1997	**1998**	1997
	£'000	£'000	**£'000**	£'000
Principal activities				
Property	**44,308**	48,789	**400**	3,141
Housing	**32,109**	39,583	**4,342**	2,772
	76,417	88,372	**4,742**	5,913
Group and other costs			**(1,054)**	(991)
Trading profit			**3,688**	4,922
Geographical areas				
United Kingdom	**75,914**	87,866	**4,572**	5,802
Rest of European Union	**503**	506	**170**	111
	76,417	88,372	**4,742**	5,913
Group and other costs			**(1,054)**	(991)
Trading profit			**3,688**	4,922

	Net Assets	
	1998	1997
	£'000	£'000
Principal activities		
Property	**61,972**	55,988
Housing	**38,329**	32,876
	100,301	88,864
Other	**1,524**	(2,736)
	101,825	86,128
Bank borrowings	**(21,820)**	(7,110)
Net Assets	**80,005**	79,018

Notes on the Accounts
continued

2. Segmental Analysis continued

	Net Assets	
	1998	1997
	£'000	£'000
Geographical areas		
United Kingdom	**91,635**	76,520
Rest of European Union	**10,190**	19,608
	101,825	86,128
Bank borrowings	**(21,820)**	(7,110)
Net Assets	**80,005**	79,018

The geographical analysis of turnover by destination is not materially different from the analysis by geographical origin shown above.

Included in the results of the UK Property division is the share of profits from associated companies of £32,000 (£1,100,000).

3. Net Interest Payable

	1998	1997
	£'000	£'000
Interest payable on:		
Bank loans and overdrafts	**(719)**	(542)
All other loans	**(1)**	(5)
	(720)	(547)
Interest receivable	**128**	207
	(592)	(340)

4. Taxation

	1998	1997
	£'000	£'000
Taxation charge on profit on ordinary activities comprises:		
UK corporation tax at the rate of 31.0% (31.5%) based on the taxable result for the year	**0**	0
Prior year adjustment	**13**	0
Tax payable on associated undertakings' profits	**(3)**	(350)
Advance corporation tax written back (irrecoverable)	**92**	(478)
	102	(828)
Overseas taxation – current	**(79)**	(48)
– in respect of prior years	**(352)**	0
	(329)	(876)

5. Dividends

	1998 £'000	1997 £'000
On non-equity Preference shares:		
4.9p paid per share (4.9p)	**12**	12
On equity Ordinary shares:		
Interim paid 1.2p per share (1.1p)	**812**	774
Final proposed 1.8p per share (1.65p)	**1,217**	1,116
	2,041	1,902

6. Earnings Per Share

The basic earnings per Ordinary share is calculated in accordance with FRS14 on the profit for the year, before dividends on Ordinary shares, of £2,755,000 (£7,901,000) and 67,611,000 (66,948,000) being the weighted average number of Ordinary shares in issue less the weighted average of those owned by the Employee Share Trust.

The basic earnings per Ordinary share excluding profit on disposal of discontinued operations is calculated in accordance with FRS14 on the profit for the year, before dividends on Ordinary shares, of £2,755,000 (£3,694,000) and 67,611,000 (66,948,000) being the weighted average number of Ordinary shares in issue less the weighted average of those owned by the Employee Share Trust.

The introduction of FRS14 has not had a significant effect on the calculation of basic earnings per Ordinary share.

The calculation of diluted earnings per Ordinary share is adjusted further by a factor representing the difference between the average market price of shares in the year and the option price of shares under option where the average market price is greater than the option price. This amounted to 62,000 (219,000) shares.

7. Profit (Loss) on Ordinary Activities Before Tax

	1998 £'000	1997 £'000
The profit is stated after crediting:		
Net operating rents receivable	**846**	926
(Loss) on disposal of fixed assets	**0**	(49)
and after charging:		
Depreciation on owned assets		
Plant and equipment	**193**	80
Properties	**116**	143
Auditors' remuneration	**119**	108
Fees payable to auditors for non-audit work in the UK		
Taxation	**170**	264
Disposal of construction activities	**0**	244
Others	**9**	5
Hire of plant on operating leases	**410**	468
Directors' emoluments (excluding pension contributions)	**760**	850

Net rents receivable are shown after charging £828,000 (£799,000) payable for operating leases on land and buildings.

Audit fees payable by Swan Hill Group PLC total £40,000 (£50,000).

Notes on the Accounts
continued

8. EMPLOYEE INFORMATION

	1998 Numbers	1997 Numbers	1998 £'000	1997 £'000
(a) The average number of persons employed by the group during the year is analysed below:				
Property	**57**	53		
Housing	**97**	103		
	154	156		

	1998 £'000	1997 £'000
(b) Group employment costs:		
Gross salaries and wages	**4,958**	4,965
Employers' National Insurance Contributions or foreign equivalents	**470**	489
Employers' pension costs	**207**	43
	5,635	5,497

The Group operates two funded pension schemes which are open to eligible employees.

The Swan Hill Pension Scheme is a final salary scheme. The Company pays contributions to the fund in order to provide security for existing pensions and the accrued benefits of current and former employees.

The charge to the profit and loss account is such as to spread the cost of pensions over the working lives of employees who are members of the Scheme. The cost of accruing benefits for the year was £475,000 (£379,000). The charge is reduced by the amortisation over 11 years of the past service surplus and the pension provision included in creditors. This amounts to £352,000 (£392,000) for the year resulting in a pension charge of £123,000 (£13,000 credit). The charge has been determined on the advice of qualified actuaries, who are partners of Watson Wyatt Partners, and is based on the most recent actuarial review of the Scheme, which took place as at 17 January 1997 using the projected unit method and allowing for the effect of the transfer out of members as a result of the disposal of the construction activities. The most significant long-term actuarial assumptions were that the rate of return on investments would be 9% per annum, the rate of increase in pay levels would be 6.5% per annum and the rate of pension increases would be 4% per annum. Assets were valued assuming notional reinvestment of 15% of the fund in long-dated index-linked Government stocks, 35% in long-dated fixed interest Government stocks and 50% in the FT-Actuaries All-Share Index with future dividends assumed to increase at 5% per annum in the long term, with an adjustment for short term dividend increase prospects and for the abolition of UK equity dividend tax credits in the 1997 Budget. Company contributions amounted to £475,000 (£276,000) for the year. An amount of £880,000 (£1,232,000) which represents accumulated pension costs in excess of Company contributions has been included in creditors.

The results of the actuarial review showed that the value of the assets at 17 January 1997 represented 104% of the value of the accrued benefits, after allowing for expected future increases in earnings. After allowing for the transfer out referred to above, the market value of the Scheme's assets was £40.6 million at 17 January 1997.

The Swan Hill No.2 Pension Scheme is a money purchase scheme and the Company's contributions of £6,000 (£11,000) are charged to the profit and loss account in the year in which they are payable.

9. DIRECTORS' INFORMATION

(a) Remuneration

This is shown in the Report of the Board on Remuneration and Related Matters.

(b) Directors' beneficial interests in Ordinary shares

	As at 1 January 1998 or date of appointment	As at 31 December 1998
G Duncan	20,000	20,000
J A Theakston	4,542	29,542
C R H Archer	1,927	1,927
Dr M C S Dixson	10,000	10,000
F J Low	Nil	Nil
I D Maclellan	6,000	6,000
Sir Idris Pearce	1,500	1,500
D P Truslove	3,259	25,659

Details of Directors' share options are shown in the Report of the Board on Remuneration and Related Matters.

No changes in directors' interests took place between 1 January and 3 March 1999 inclusive.

There are no non-beneficial interests held by directors.

10. SHARE OPTION SCHEMES

The Board recognises the importance of encouraging employees to have the opportunity to participate in the Company's affairs. Accordingly it offers a convenient and tax effective way to save and acquire Ordinary shares with the Savings-Related Share Option Schemes. It has also introduced the Restricted Share Scheme to motivate executives through direct association with the success of the Group. This replaced the existing Executive Share Option Scheme and links potential reward more closely with the Company's performance against that of its peer group.

	Exercisable			Option price* (p)	Number of shares*
Swan Hill Group PLC Savings-Related Share Option Scheme (SRSOS)			7.8.99	79.50	1,811
			7.8.98	62.01	2,336
Swan Hill Group PLC 1993 Savings-Related Share Option Scheme (SRSOS – 1993)			7.9.99	80.00	26,387
			7.8.00	61.00	19,227
			7.8.01	78.40	20,592
			7.12.02	71.20	81,882
			1.6.03	66.70	126,318
Swan Hill Group Executive Share Option Scheme (ESOS)	14.11.92	to	14.11.99	267.98	26,028
	22.5.93	to	22.5.00	336.17	41,645
	8.11.93	to	8.11.00	274.71	26,028
	29.5.94	to	29.5.01	274.27	72,646
	11.5.95	to	11.5.02	87.45	221,386
	25.10.97	to	25.10.04	87.00	56,500
Swan Hill Group PLC Executive Share Option Scheme No.2 (ESOS No.2)	3.5.96	to	3.5.03	58.00	515,500
	25.4.97	to	25.4.04	127.00	175,000
					1,413,286

*adjusted for the rights issue in June 1994 where appropriate.

Notes on the Accounts
continued

10. SHARE OPTION SCHEMES continued

The Swan Hill Group PLC Savings-Related Share Option Scheme and the Swan Hill Group PLC 1993 Savings-Related Share Option Scheme were adopted by the Company on 13 June 1983 and 8 June 1993 respectively and options granted under these Schemes are normally exercisable following the fifth anniversary of the date on which the related savings contract commenced.

The Swan Hill Group Executive Share Option Scheme and the Swan Hill Group PLC Executive Share Option Scheme No.2 were adopted by the Company on 14 June 1985 and 5 April 1993 respectively. An option granted under these Schemes is normally exercisable in whole or in part between the third and the tenth anniversaries of the date of its grant.

EMPLOYEE SHARE TRUST

The Swan Hill Group PLC Employee Share Trust (the Trust) is a discretionary trust which was established on 5 April 1993 for the benefit of employees of the Group. Swan Hill Group Share Scheme Trustees Limited, a wholly owned subsidiary of the Company, is the sole trustee of the Trust, the directors of which are the non-executive directors of Swan Hill Group PLC.

In conjunction with the Trust the Company also established the Swan Hill Group PLC Executive Share Option Scheme No 2 (the Scheme). The Scheme has been approved by the Inland Revenue. The exercise of options granted under the Scheme may be satisfied by the transfer of shares held by the Trust to beneficiaries. The Company may make loans to the Trust to enable the Trust to purchase and hold on trust Ordinary shares in the Company on behalf of the beneficiaries.

During 1993 and 1994 the Company made interest free loans of £780,000 to the Trust, repayable upon demand, which the Trust has used to purchase Ordinary shares of the Company; the Trustees have waived dividends to all except 0.001p per share on these shares. The Trust currently holds 745,000 Ordinary shares of the Company, over which there are outstanding options relating to 690,500 shares. The proceeds received by the Trust on the transfer of shares to employees, following the exercise of options, must be used by the Trust to repay the loan to the Company.

RESTRICTED SHARE SCHEME

The Company adopted a new long term incentive scheme on 6 June 1995. Under this scheme annual awards of restricted shares may be made to senior executives. The Scheme provides for an allocation of shares to directors and executives, as determined by the Remuneration Committee. Between 1995 and 1998 19 participants were allocated a total of 1,439,248 restricted shares, which included the executive directors. Of these allocations 404,473 have lapsed, leaving a balance outstanding of 1,034,775. The number of shares allocated to each executive director and their value is shown in the Report of the Board on Remuneration and Related Matters.

Vesting of these shares depends on the Company's performance. The Company's performance is measured over a 3 or 4 year period using Total Shareholder Return (TSR), a basis used by many other companies. This TSR is compared to a peer group of some 50 companies. If the Company's TSR is equal to the median of the peer group, 25% of the allocation vests rising to 100% if the Company's TSR reaches the upper quartile. Participants are required to hold a proportion of such shares for a minimum of 2 years from the date of vesting.

The performance is first measured after 3 years. If it fails to achieve the median of the peer group TSR it is re-measured after 4 years. Should it fail again, the award lapses in total.

11. TANGIBLE ASSETS

	Properties Freehold £'000	Properties Long Leasehold £'000	Properties Short Leasehold £'000	Plant, Fixtures and Fittings £'000	Total £'000
(a) The Group					
At 1 January 1998					
Valuation	11,498	0	1,011	0	12,509
Cost	0	0	0	1,055	1,055
	11,498	0	1,011	1,055	13,564
Additions	191	281	10	129	611
Disposals	(6)	0	0	(27)	(33)
At 31 December 1998	11,683	281	1,021	1,157	14,142
Being					
Valuation	11,683	281	1,021	0	12,985
Cost	0	0	0	1,157	1,157
	11,683	281	1,021	1,157	14,142
Depreciation					
At 1 January 1998	138	0	528	126	792
Charge for the year	43	0	73	193	309
Disposals	0	0	0	(27)	(27)
At 31 December 1998	181	0	601	292	1,074
Net book value					
At 31 December 1998	11,502	281	420	865	13,068
At 31 December 1997	11,360	0	483	929	12,772

(b) The freehold properties owned at 31 December 1998 have been revalued to a net book value of £11,502,000. The properties have been incorporated at valuations made by a Chartered Surveyor who is an employee of the Group on an open market basis at 31 December 1998 (those in the Group's occupation having been valued in their existing use).

(c) The historical cost of all Group properties at 31 December 1998 amounted to £14,936,000 (£14,605,000) against which depreciation of £780,000 (£666,000) would have been provided under SSAP12.

(d) The gross amounts of assets let or to be let on operating leases was £7,295,000 and the accumulated depreciation thereon was £709,000 at 31 December 1998.

Notes on the Accounts
continued

11. TANGIBLE ASSETS continued

	Fixtures and Fittings £'000
(e) The Company	
Cost at 1 January 1998	**164**
Additions	**41**
At 31 December 1998	**205**
Depreciation at 1 January 1998	**18**
Charge for the year	**39**
At 31 December 1998	**57**
Net book value	
At 31 December 1998	**148**
At 31 December 1997	146

12. FIXED ASSET INVESTMENTS

	Quoted Securities £'000	Own Shares £'000	Associated Companies £'000	Subsidiary Companies £'000	Total £'000
(a) The Group					
At 1 January 1998	0	579	0	0	579
Disposals	0	(3)	0	0	(3)
Transfer from current asset investments	3	0	121	0	124
At 31 December 1998	3	576	121	0	700
(b) The Company					
At 1 January 1998	0	579	0	16,666	17,245
Disposals	0	(3)	0	0	(3)
Transfer from current asset investments	3	0	100	0	103
At 31 December 1998	3	576	100	16,666	17,345

(c) The following are the operating subsidiary companies of Swan Hill Group PLC at 31 December 1998 which principally affected the profits and assets of the Group. Those companies marked with an asterisk (*) are owned directly by Swan Hill Group PLC and the remainder by subsidiaries. All companies are incorporated in England, except where indicated, operate within their country of incorporation and are wholly owned.

Property Development
*Swan Hill Property Holdings Ltd
Swan Hill Developments Limited
Swan Hill France SA (incorporated in France)
Carter Commercial Developments Ltd

Housebuilding
*Swan Hill Homes Limited

Property Investment
Swan Hill Properties Ltd
Cygnet Corporate Centres Limited

(d) Own shares are held by the Employee Share Trust (Note 10) and have a nominal value of £186,000.

(e) The quoted securities are shares in companies listed on The London Stock Exchange with a market value of £2,000 (£2,000).

	Proportion of share capital owned by Swan Hill Group PLC	Country of Incorporation and Operation	Total issued Ordinary Shares £'000
Associated undertakings			
Brewery Wharf (Leeds) Ltd*	50	England	1

* This shareholding is owned by a subsidiary of Swan Hill Group PLC. The company has the form but not the substance of a joint venture and is accounted for as such in accordance with FRS9.

Notes on the Accounts
continued

13. STOCKS

	Group 1998 £'000	Group 1997 £'000	Company 1998 £'000	Company 1997 £'000
Commercial developments	**45,436**	39,016	**0**	0
Residential developments	**47,960**	36,706	**0**	0
Net work-in-progress	**93,396**	75,722	**0**	0

14. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 1998 £'000	Group 1997 £'000	Company 1998 £'000	Company 1997 £'000
Trade debtors	**4,214**	5,468	**2**	2
Amounts recoverable on contracts	**17,607**	7,777	**3,024**	0
Shared equity housing sales	**173**	425	**3**	4
Amounts owed by Group companies	**0**	0	**61,767**	63,162
Amounts owed by associated undertakings	**344**	621	**0**	0
Taxation recoverable	**382**	415	**56**	56
Prepayments and accrued income	**2,345**	1,625	**192**	249
Dividends receivable	**0**	0	**2,900**	0
Other debtors	**1,933**	1,247	**895**	113
	26,998	17,578	**68,839**	63,586

15. DEBTORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	Group 1998 £'000	Group 1997 £'000	Company 1998 £'000	Company 1997 £'000
Shared equity housing sales	**249**	334	**0**	0
Other	**128**	25	**0**	0
	377	359	**0**	0

16. CURRENT ASSET INVESTMENTS

	Group 1998 £'000	Group 1997 £'000	Company 1998 £'000	Company 1997 £'000
Associated undertakings				
At 1 January 1998	**1,285**	533	**100**	100
Additions at cost	**0**	2	**0**	0
Share of retained earnings	**29**	750	**0**	0
Distribution received	**(1,193)**	0	**0**	0
Transfer to fixed asset investment	**(121)**	0	**(100)**	0
At 31 December 1998	**0**	1,285	**0**	100
Quoted securities				
At 1 January 1998	**3**	3	**3**	3
Transfer to fixed asset investment	**(3)**	0	**(3)**	0
At 31 December 1998	**0**	3	**0**	3
Total				
At 31 December 1998	**0**	1,288	**0**	103

Notes on the Accounts
continued

17. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 1998 £'000	Group 1997 £'000	**Company 1998 £'000**	Company 1997 £'000
Bank loans and overdrafts	**22,356**	7,319	**15,477**	6,755
Payments received on account and advance payments	**14,828**	6,213	**0**	0
Trade creditors	**9,812**	4,687	**29**	149
Amounts owed to Group companies	**0**	0	**1,707**	0
Amounts owed to associated undertakings	**89**	1,261	**85**	1,258
Taxation on profits	**227**	468	**187**	468
Social Security and other taxation	**31**	83	**0**	48
Dividends payable	**1,217**	1,116	**1,217**	1,116
Pension fund accrual (Note 8)	**880**	1,232	**880**	1,232
Accruals and other creditors	**5,630**	7,110	**1,658**	2,714
	55,070	29,489	**21,240**	13,740

18. CALLED UP SHARE CAPITAL

	Authorised £'000	**Issued allotted and fully paid 1998 £'000**	Issued allotted and fully paid 1997 £'000
Non-equity 4.9% (formerly 7%)			
Cumulative Preference shares of £1 each	250	**250**	250
Equity Ordinary shares of 25p each	25,000	**17,090**	17,090
	25,250	**17,340**	17,340

The non-equity Preference shares carry a right to a fixed annual cumulative dividend of 4.9p (net) per share payable in arrears in equal instalments on 30 June and 31 December. Following the abolition of Advanced Corporation Tax in April 1999 the dividend will revert to 7% per annum. The Preference shares were issued at par and rank ahead of the Ordinary shares on a winding-up in respect of 100p per share together with any arrears and accruals of dividend to the date of repayment. The shares, which are not redeemable, do not entitle the holders to attend and/or vote at any general meetings of the Company.

The outstanding share options are detailed in Note 10.

No Ordinary shares were issued and allotted in respect of options exercised in 1998.

19. RESERVES

	Share Premium Account £'000	Other Reserves £'000	Profit & Loss Account £'000	Total £'000
The Group				
At 1 January 1998	**43,082**	**21**	**18,575**	**61,678**
Transfer from the Profit and Loss Account	**0**	**0**	**726**	**726**
Translation difference on foreign currency net investments	**0**	**0**	**261**	**261**
At 31 December 1998	**43,082**	**21**	**19,562**	**62,665**
The Company				
At 1 January 1998	**42,883**	**0**	**7,117**	**50,000**
Transfer from the Profit and Loss Account	**0**	**0**	**181**	**181**
At 31 December 1998	**42,883**	**0**	**7,298**	**50,181**

The cumulative amount of goodwill written off to reserves is £1,186,000 at 31 December 1998.

20. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group 1998 £'000	Group 1997 £'000	**Company 1998 £'000**	Company 1997 £'000
Profit (loss) for the financial year	**2,767**	7,913	**2,222**	1,217
Dividends	**(2,041)**	(1,902)	**(2,041)**	(1,902)
	726	6,011	**181**	(685)
Goodwill on acquisition written off	**0**	(8)	**0**	0
Translation differences on foreign currency investments	**261**	(449)	**0**	0
Proceeds of the issue of new share capital	**0**	1,902	**0**	1,902
Purchased goodwill written back	**0**	2,870	**0**	0
Net addition to shareholders' funds	**987**	10,326	**181**	1,217
Opening shareholders' funds	**79,018**	68,692	**67,340**	66,123
Closing shareholders' funds	**80,005**	79,018	**67,521**	67,340

Of the shareholders' funds shown above £250,000 (£250,000) relates to non-equity shareholders.

Notes on the Accounts
continued

21. RELATED PARTY TRANSACTIONS

HBG Higgs & Hill

As part of the sale and purchase agreement for the disposal of the construction business, Swan Hill Group PLC retained the financial liability for the construction works at Brook House and will participate in a share of the recoveries from a limited number of construction contracts. Work has continued throughout the year to finalise these matters but has not yet been concluded.

22. COMMITMENTS FOR CAPITAL EXPENDITURE

Commitments contracted for at 31 December 1998 but not provided for in these accounts were £nil (£nil).

23. PROVISIONS FOR LIABILITIES AND CHARGES

Full potential deferred taxation in relation to accelerated capital allowances and other timing differences is £nil (£nil).

24. COMMITMENTS FOR OPERATING LEASES

Commitments contracted for at 31 December 1998 but not provided for in these accounts were £804,000 (£868,000) per annum. Those referring to land and buildings fell into the following expiry bands: one year £6,000 (£6,000); two to five years £44,000 (£86,000); over five years £358,000 (£420,000); and those for motor cars £396,000 (£356,000) in years two to five.

25. CONTINGENT ITEMS

(a) The Company

The Company has guaranteed the bank overdrafts of subsidiary companies.

(b) Disposal of Construction Activities

Swan Hill Group PLC gave certain warranties and indemnities in connection with its companies and assets sold including an environmental indemnity. HBG (UK)'s rights to claim under the warranties and indemnities are subject to certain limitations. In particular, warranty claims must individually exceed £75,000 before claims accrue against Swan Hill. The maximum liability of Swan Hill under the warranties and indemnities is limited to £1,500,000. HBG (UK) have reserved their position with regard to warranty claims but the company does not believe it has any liability.

26. CASH FLOW NOTES

	1998 £'000	1997 £'000
(a) Reconciliation of operating profits to cash flow from operating activities		
Operating profit	**3,688**	4,922
Share of associated undertakings' profits	**(32)**	(1,100)
Depreciation charge	**309**	223
Loss on sales of tangible fixed assets	**1**	50
(Increase) in stocks	**(17,113)**	(2,808)
(Increase) decrease in debtors	**(9,772)**	3,494
Increase (decrease) in creditors	**10,552**	(2,876)
Cash flow from operating activities	**(12,367)**	1,905

	1998 £'000	1997 £'000
(b) Reconciliation of net cash flow to movements in net debt		
(Decrease) increase in cash	**(14,300)**	304
Increase in debt due within one year	**(410)**	(6,045)
Change in net debt	**(14,710)**	(5,741)
Net debt at 1 January 1998	**(7,110)**	(1,369)
Net debt at 31 December 1998	**(21,820)**	(7,110)

	At 1.1.98 £'000	Cashflows £'000	At 31.12.98 £'000
(c) Analysis of changes in net debt			
Cash in hand and at bank	**209**	**327**	**536**
Overdrafts	**(1,274)**	**(14,627)**	**(15,901)**
	(1,065)	**(14,300)**	**(15,365)**
Debt due within one year	**(6,045)**	**(410)**	**(6,455)**
Total	**(7,110)**	**(14,710)**	**(21,820)**

Five Year Review

	1994 £m	1995 £m	1996 £m	1997 £m	**1998** **£m**
Turnover					
Continuing business	56	60	82	88	**76**
Discontinued operations	232	292	263	0	**0**
	288	352	345	88	**76**
	£'000	£'000	£'000	£'000	**£'000**
Profit (loss) on ordinary activities before tax					
Continuing business	2,650	1,763	1,977	4,582	**3,096**
Discontinued operations	(1,316)	(9,376)	(5,851)	4,207	**0**
Profit (loss) on ordinary activities	1,334	(7,613)	(3,874)	8,789	**3,096**
Taxation charge	(439)	(272)	(1,030)	(876)	**(329)**
Profit (loss) on ordinary activities after taxation	895	(7,885)	(4,904)	7,913	**2,767**
Basic earnings (loss) per Ordinary share	1.6p	(12.1)p	(7.5)p	11.8p	**4.1p**
Diluted earnings (loss) per Ordinary share	1.6p	(12.0)p	(7.5)p	11.8p	**4.1p**
Dividends per Ordinary share	2.5p	2.5p	2.5p	2.75p	**3.0p**

The figures for 1994 and 1995 have been restated to reflect the disposal of the construction business in 1997. Earnings per share are shown in accordance with FRS14 and the figures for earlier years have been restated.

Financial Diary

Annual General Meeting	5 May 1999
Announcement of Results	Interim – mid September Final – mid March
Dividends	Ordinary shares: Interim – December Final – May Preference shares: 30 June and 31 December

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