55973

REPORT & ACCOUNTS 2001

Swan Hill

Distinctive by Design

DIRECTORS

Colin Archer and John Theakston

Registered Office:
Swan Court, Waterman's Business Park,
Kingsbury Crescent, Staines,
Middlesex TW18 3BA

Incorporated in England
Registration No 55973

Executive Directors

J A Theakston, MA, MSc
Group Chief Executive
John Theakston, 49, 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, 52, joined the Group as Finance Director in 1989. He is a Fellow of the Institute of Chartered Accountants.

Group Company Secretary

A G Confavreux, MA, FCIS, MCIM
André Confavreux is a Fellow of the Institute of Chartered Secretaries and was appointed Group Company Secretary in 1995.

Non-executive Directors

G Duncan, BSc (Econ), MBA, FCA
Chairman
George Duncan, 68, has been an independent non-executive Chairman since 1993. He is also Chairman of ASW Holdings PLC and Deputy Chairman of Associated British Ports Holdings PLC. Mr Duncan is Chairman of the Remuneration and Nominations Committees.

Sir Idris Pearce, CBE, TD, DL, FRICS
Sir Idris Pearce, 68, has been an independent non-executive director since 1993. Sir Idris is Chairman of DUSCO (UK) Ltd and is a director of Millennium Copthorne plc and of Innisfree Ltd. He is Chairman of the Group's pension trustee company.

I D Maclellan, MBA, FCA
Ian Maclellan, 54, has been an independent non-executive director since 1992 and is Chairman of the Audit Committee. Mr Maclellan is Chief Executive of Cape PLC.

Dr M C S Dixson, BA, MA, DPhil(Oxon), FRAeS
Dr Maurice Dixson, 60, has been an independent non-executive director since 1994. He is Chief Executive of Simon Group PLC. Before joining the Simon Group he was an executive director of The General Electric Company plc (1990-93).

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2001

The directors present their report and the audited accounts for the year ended 31 December 2001.

Results and Dividends
The result before taxation is shown in the Group Profit and Loss account on page 28. The transfer to reserves in the year is £2,395,000 (2000 : £759,000 transfer from reserves). The directors recommend that a final dividend of 2.4p per Ordinary share be paid which, together with the interim dividend of 1.6p per Ordinary share, makes a total of 4.0p for the year. The final dividend, if approved, will be paid on 24 May 2002 to members on the register at the close of business on 5 April 2002.

Principal Activities and Business Review
The Group's business comprises housebuilding and property development in the United Kingdom; and property development in continental Europe. A more detailed report on the Group's activities and strategy is contained in the Chairman's Statement and the Operating and Financial Review on pages 5 to 13.

Directors
The current directors are listed on page 15. In accordance with the articles, J A Theakston and M C S Dixson retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election. M C S Dixson has no service contract with the Company. J A Theakston has a service contract with the Company with a notice period of 2 years.

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 capital of the Company are shown in Note 8 to the accounts. No director had any beneficial interest in the shares of any subsidiary company during the year.

Sir Idris Pearce is proposing to step down from the Board at the end of the Annual General Meeting.

Substantial Shareholders' Interests
At 26 February 2002 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:

		% of share capital
Chase Nominees Limited	13,883,770	23.3%
Nortrust Nominees Limited	9,044,100	15.2%
Phildrew Nominees Limited	8,783,337	14.7%
Littledown Nominees Limited	3,120,000	5.2%

Share Capital
There were no movements in the Company's issued share capital.

Under the current authority provided by shareholders, 8,940,280 Ordinary shares may be acquired by the Company. No Ordinary shares were acquired by the Company during the year. The Company will be seeking a renewal of this authority at the next Annual General Meeting.

Employees
The Board is committed to setting the highest standards of integrity throughout the Group. Its personnel policies are set out in the Group's standard terms and conditions of employment.

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 and the interim statement. In addition, pension newsletters are sent periodically to all employees in the pension scheme, as well as to pensioners.

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, details of which are given in Note 9 to the accounts. The Company also provides private medical insurance cover for certain full-time members of staff.

Swan Hill Group PLC, which employs the Group's staff in the United Kingdom, 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, age 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 development are available to all, including disabled persons.

Pensions

The Group operates a contracted-out pension scheme on a final salary basis which is administered by a corporate trustee company. The pension scheme provides equal benefits for men and women with a retirement age of 63. Eligible scheme members are also covered under the Group's life insurance, personal accident and permanent health insurance arrangements.

During the year the Group introduced a new pension scheme which is a defined contribution plan based on a stakeholder pension contract. New staff will typically be invited to join this new plan whilst existing staff will remain in the previous 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. Group creditor days at 31 December 2001 were 23 (22). 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 suppliers.

Health & Safety

The Group'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 endangered. Health and safety specialists carry out regular audits together with the Group's insurance broker. There is a nominated director who reports regularly to the Board on health and safety matters.

Environmental Policy

The Group's environmental policy is to meet statutory requirements and to apply good environmental practices in its business operations and in the development of its products.

Donations

During the financial year the Group and its Charitable Trust made charitable donations totalling £11,000 (£20,000).

No political donations were made during the year.

Auditors

The Company's auditors, PricewaterhouseCoopers, 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 Cadogan Hotel, 75 Sloane Street, London SW1X 9SG on 15 May 2002.

By Order of the Board
A G Confavreux
12 March 2002

CORPORATE GOVERNANCE COMPLIANCE STATEMENT

The directors of the Company are committed to the principles on which the "Combined Code" (the Code) on corporate governance is based, and this statement describes the manner in which the Company has applied the principles and provisions of the Code during the year.

The directors believe that the Company complies with the principles and provisions of the Code with the following exceptions. Provision A.2.1 requires that there should be a senior independent non-executive director, other than the Chairman. The Board considers that the balance between two executive and four non-executive directors on the Board, including an independent non-executive Chairman, provides a suitable balance of power and authority and consequently it is not planning to appoint a senior non-executive director. As regards provision B.1.7 (Term of Service Contracts), the Board has adopted this provision with the exception of the notice periods within the Service Contracts for J A Theakston and C R H Archer as detailed on page 22. It believes as part of its remuneration policy and in accordance with current industry practice that these periods are not exceptional.

The Board

The Board comprises two executive and four independent non-executive directors. It is responsible for corporate governance and meets regularly to review reports from the directors and Board committees. It determines overall Group strategy and 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 monitors internal controls including the risks associated with the business. It 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 as well as significant financing matters. The Board considers and, if appropriate, approves external appointments of the directors and the terms of these.

There are three principal committees of the Board: the Audit, Remuneration and Nominations Committees.

Audit Committee

This committee is chaired by I D Maclellan and comprises the non-executive directors with the Group Chief Executive and the Group Finance Director invited to attend. 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 and the operation and effectiveness of the internal financial controls. It also considers the auditors' findings arising from the interim and final audits.

Remuneration and Nominations Committees

These committees are chaired by G Duncan and comprise the non-executive directors. The Remuneration Committee assesses the performance of the executive directors so as to determine their annual remuneration and any bonus awards and share incentives. Changes in the membership of the Board are considered by the Nominations Committee prior to making recommendations to the full Board.

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

A report from the Board on directors' remuneration and related matters may be found on pages 20 to 24.

Internal Controls

The directors are responsible for the Group's systems of internal controls which have been developed over a number of years and include a continuing process for evaluating and managing the risks faced by the Group. It should be understood that such a process is designed to manage, rather than to eliminate, risk to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The internal controls include financial, operational and compliance controls and risk management which may be summarised as follows:

Strategic review – The Group carries out an annual strategic review including consideration of business priorities and opportunities as well as longer term financial projections.

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

Financial reporting – There is a comprehensive budgeting system with the annual budget approved by the Board. The results of the 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.

Project appraisal – The Group has clearly defined guidelines for approving new projects which are subject to detailed appraisal and review of the associated risks. Actual performance is measured periodically against the original or revised appraisals.

Operating business controls – There are various business controls and procedures in place including those of a financial, health and safety, environmental and insurance nature. These are monitored regularly and are adapted as appropriate. Group accounting policies for the business are set down in a manual. The Group's external auditors review certain internal financial controls as part of their audit and provide recommendations for improvements.

The Board reviews annually the operation and effectiveness of the internal controls including the need for an internal audit function. The Board believes that the Group is not of sufficient size and complexity to require such a function.

Going Concern

The Code requires that the Board 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 in time, about future events which are inherently uncertain. After making enquiries, however, the Board has 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

Remuneration Policy

The objective of the Group's remuneration policy is to pay salaries and benefits in line with other UK companies of a similar size and complexity.
The remuneration of the executive directors is reviewed annually by the Remuneration Committee, which is made up of all the non-executive directors. It takes 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.

Details of the directors' remuneration are shown below:

	Salary and fees	Benefits (iii)	Bonuses (v)	Payment under contractual arrangements	Total 2001	Total 2000
	£'000	£'000	£'000	£'000	£'000	£'000
Executive						
J A Theakston	200	22	20	0	242	262
C R H Archer	152	19	14	0	185	203
F J Low (i) (vi) (resigned 31 October 2001)	142	21	325	167	655	291
D P Truslove (resigned 30 June 2000)	0	0	0	0	0	374
Non-executive						
G Duncan (iv)	63	0	0	0	63	61
M C S Dixson	21	0	0	0	21	20
Sir Idris Pearce	26	0	0	0	26	25
I D Maclellan	23	0	0	0	23	22
	627	62	359	167	1,215	1,258

(i) The contractual arrangements with F J Low provided for a fixed term of employment to 31 October 2001 with the Company contracted to pay him a further twelve months salary (£167,000 included in the above table) at his date of leaving together with applicable pension contributions and amounts paid and to be paid under the special bonus arrangements both of which are referred to below.

(ii) The remuneration table shown above excludes pension contributions paid by the Company.

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

(iv) 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 1995 and 2002.

(v) The bonuses paid to J A Theakston and C R H Archer were determined in the year and relate to the year ended 31 December 2000. The bonus paid to F J Low is related to the special bonus arrangements referred to on page 22.

(vi) Highest paid director.

Aggregate pension contributions paid by the Company in respect of the directors total £198,000 (£221,000). Those for the highest paid director were £53,000 (£32,000). Company pension contributions are paid to the Swan Hill Pension Scheme, with the exception of payments of £18,000 (£18,000) to G Duncan, £43,000 (£68,000) to C R H Archer and £53,000 (£32,000) to F J Low. There are no unfunded pension arrangements.

Pensions

The executive directors 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	Increase in accrued pension during the year	Accumulated accrued pension at year end
		£'000	£'000	£'000
J A Theakston	49	10	8	87
C R H Archer	52	7	4	39

(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 at 50% of the director's pension. 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) The directors have the option to pay Additional Voluntary Contributions but neither such contributions nor the resulting benefits are included in the table above.

Performance Related Bonus Scheme

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

As set out in previous annual reports the Company, following its announced change of strategy during 1999, entered into a special bonus arrangement with F J Low in order to facilitate the implementation of its strategy to realise the majority of its UK commercial portfolio over time in an effective manner. The arrangements provided for a bonus to be paid related to the aggregate cash receipts generated by the disposal of properties within the UK commercial portfolio. Bonus started to be earned at £20 million of cumulative proceeds. If aggregate proceeds of £65 million were achieved a cumulative bonus of £875,000 would be earned. Of the total potential bonus, £500,000 was related to the achievement of the last £10 million of proceeds between £55 million and £65 million.

The total bonus due to FJ Low under these arrangements is anticipated to be £685,000, of which £375,000 had been paid by 31 December 2001 with the remainder accrued in 2001 and payable in 2002. A further bonus may accrue on the final settlement of the residual property projects.

None of these bonus arrangements are pensionable.

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 on pages 23 and 24. Details of the Option Schemes and the Restricted Share Scheme are shown in Note 9 to the accounts.

Directors' Share Options

	At 1 Jan 2001	Granted (Lapsed) in year	Exercised	At 31 Dec 2001	Exercise Price (p)	Date Exercisable	Expiry Date
J A Theakston							
ESOS	37,097	(37,097)	0	0	274.3	29.5.94	29.5.01
ESOS No 2	200,000	0	0	200,000	58.0	3.5.96	3.5.03
ESOS No 2	75,000	0	0	75,000	127.0	25.4.97	25.4.04
SRSOS – 1993	27,043	(27,043)	0	0	62.4	1.11.04	1.5.05
	339,140	(64,140)	0	275,000			
C R H Archer							
ESOS	35,549	(35,549)	0	0	274.3	29.5.94	29.5.01
ESOS No 2	100,000	0	0	100,000	58.0	3.5.96	3.5.03
ESOS No 2	50,000	0	0	50,000	127.0	25.4.97	25.4.04
	185,549	(35,549)	0	150,000			
F J Low							
SRSOS – 1993	28,698	(28,698)	0	0	58.8	1.11.05	1.5.06

The market price of the shares at 31 December 2001 was 74.5p and the range during 2001 was 65.5p to 89p.

Restricted Share Scheme

	Number of Shares allocated				Range of value at vesting of total allocation*
	At 1 Jan 2001	Allocated in year	Lapsed in year	At 31 Dec 2001	£'000
J A Theakston	440,986	150,000	(65,986)	525,000	0-391
C R H Archer	375,460	100,000	(50,460)	425,000	0-317
F J Low	100,000	0	0	100,000	0-75
	916,446	250,000	(116,446)	1,050,000	

*The maximum value has been based on the share price as at 31 December 2001 (74.5p) and assumes full vesting.

Subject to the conditions being met, shares vest either 3 or 4 years after the date of allocation.

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 confirm that they have complied with the above requirements in preparing the financial statements.

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.

To the Members of Swan Hill Group PLC

We have audited the financial statements on pages 26 to 52.

Respective Responsibilities of Directors and Auditors

The directors' responsibilities for preparing the annual report and financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities on page 24.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, United Kingdom Auditing Standards issued by the Auditing Practices Board and the Listing Rules of the Financial Services Authority.

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 1985. 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. The other information comprises only the Chairman's Statement, Operating and Financial Review, Directors' Report, Corporate Governance and the Report of the Board on Remuneration and Related Matters.

We review whether the corporate governance statement on page 18 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statement on internal controls covers all risks and controls, or to form an opinion on the effectiveness of the Company's or Group's corporate governance procedures or its risk and control procedures.

Basis of Audit Opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material 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 the Group as at 31 December 2001 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
London

12 March 2002

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 in the United Kingdom. The Group has adopted the transitional approach as prescribed by FRS17 "Post-retirement Benefits" for the year (see note 7). FRS18 "Accounting policies" has been adopted in the current year and did not require any changes to accounting policies.

The principal accounting policies, which have been applied consistently, are set out below.

Consolidation

The consolidated accounts comprise the accounts of the Company and its subsidiaries drawn up to 31 December 2001. 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 capitalised and then amortised over its useful economic life for future acquisitions.

Turnover and Profit Recognition

Turnover comprises the sale value of houses exchanged which are substantially complete, which is defined as being roofed and watertight.

Turnover also comprises the sales value of property developments and property rents receivable.

The Group recognises any lease incentives for lessees in accordance with UITF 28. The cost of all lease incentives is offset against the total rent due and the net rental income is then allocated evenly over the period from the commencement of the rent free period to the date of the next rent review or lease end date.

All turnover is reported net of value added tax.

Pensions

During the year the Group operated a final salary pension scheme covering eligible staff employees. The scheme's funds are administered by the Trustee and are independent of the Group's finances.

The 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. 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 life of employees who are members of the scheme, whilst they are working for the Company.

The Group also introduced a defined contribution plan for new employees. Contributions to this plan, as well as to personal pension schemes, are charged to the profit and loss account in the year in which they are payable.

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%
Short leasehold properties	Over the term of the lease
Plant and machinery	$12\frac{1}{2}$-$33\frac{1}{3}$%
Fixtures and fittings	10-$33\frac{1}{3}$%

Investment Properties

Investment properties are accounted for in accordance with SSAP19 "Accounting for investment properties (revised)". Investment properties are revalued annually.

No depreciation is provided in respect of 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 and Work in Progress

Work in progress on residential and commercial developments is valued at the lower of cost and net realisable value. Costs of residential developments include appropriate direct overheads but exclude interest. Residential properties received in part exchange against the sale of houses are recorded in work in progress and held at the lower of cost and net realisable value.

Associates and Joint Ventures

The appropriate share of results of associates and joint ventures is included in the consolidated profit and loss account. Investments in associates and joint ventures are shown in the consolidated balance sheet using the gross equity method.

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 profit or loss on ordinary activities before taxation unless they arise from hedging transactions relating to investments in overseas subsidiaries, when they are taken directly into reserves.

GROUP PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2001

	Note	2001 £'000	2000 £'000
Turnover including share of joint ventures	1	77,665	59,582
Less: share of turnover of joint ventures		(301)	0
Group turnover – continuing		77,364	59,582
Operating profit before exceptional items	6	7,481	7,490
Reorganisation costs		(1,101)	(635)
Group operating profit – continuing	6	6,380	6,855
Share of operating profit in joint ventures		1,218	85
Total operating profit: group and share of joint ventures	1	7,598	6,940
Profit/(loss) on disposal of property and other fixed assets		53	(719)
Loss on disposal of discontinued operations	6	(234)	(2,425)
Profit on ordinary activities before interest	1	7,417	3,796
Net interest payable and similar charges – Group	2	(1,007)	(1,453)
– joint ventures	2	(318)	0
Profit on ordinary activities before tax		6,092	2,343
Taxation on ordinary activities	3	(1,333)	(974)
Profit on ordinary activities after tax		4,759	1,369
Dividends	4	(2,364)	(2,128)
Retained profit/(loss)	19	2,395	(759)
Basic earnings per Ordinary share	5	8.1p	2.3p
Diluted earnings per Ordinary share	5	8.0p	2.3p
Basic earnings per Ordinary share excluding discontinued operations	5	8.4p	6.4p

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

BALANCE SHEETS
AS AT 31 DECEMBER 2001

	Note	Group 2001 £'000	Group 2000 £'000	Company 2001 £'000	Company 2000 £'000
Fixed assets					
Tangible assets	10	1,978	1,932	49	106
Investments	11				
Investments in associates and joint ventures				100	100
Share of gross assets		17,963	11,818		
Less: share of gross liabilities		(17,937)	(11,640)		
		26	178	100	100
Own shares		454	455	454	455
Investment in subsidiary companies		0	0	16,666	16,666
		480	633	17,220	17,221
		2,458	2,565	17,269	17,327
Current assets					
Stocks	12	91,099	87,740	0	0
Debtors: Amounts falling due within one year	13	15,474	10,986	84,960	78,415
Debtors: Amounts falling due after one year	14	7,589	10,591	0	0
Cash at bank and in hand		199	393	0	0
		114,361	109,710	84,960	78,415
Creditors: Amounts falling due within one year	15	(39,179)	(36,854)	(27,999)	(23,306)
Net current assets		75,182	72,856	56,961	55,109
Total assets less current liabilities		77,640	75,421	74,230	72,436
Provisions for liabilities and charges	17	(545)	(694)	0	0
Net assets		77,095	74,727	74,230	72,436
Represented by: Capital and Reserves					
Called up share capital	18	14,910	14,910	14,910	14,910
Share premium account	19	43,085	43,085	42,886	42,886
Capital redemption reserve	19	2,432	2,432	2,432	2,432
Other reserves	19	21	21	0	0
Profit and loss account	19	16,647	14,279	14,002	12,208
Equity shareholders' funds	20	77,095	74,727	74,230	72,436

Approved by the Board of Directors on 12 March 2002

G Duncan, Director C R H Archer, Director