SWAN HILL GROUP PLC

COMPANY NUMBER: 00055973

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SUMMARY OF RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2002

	2002 £'000	2001 £'000
Turnover including share of joint ventures		
– Housing	**75,695**	50,582
– Property	**1,583**	21,707
	77,278	72,289
Operating profit including share of joint ventures	**7,152**	6,430
Profit before taxation		
– Continuing operations	**5,988**	5,158
– Discontinued operations	**(72)**	(234)
	5,916	4,924
Shareholders' funds	**77,379**	75,468
Net borrowings	**(11,383)**	(25,108)
Basic earnings per share	**7.6p**	6.1p
Basic earnings per share excluding discontinued operations	**7.7p**	6.5p
Dividends per share	**4.4p**	4.0p
Net assets per share	**130p**	127p

ADVISERS

Registered Auditors:
PricewaterhouseCoopers LLP

Investment Bankers:
Schroder Salomon Smith Barney

Principal Bankers:
The Royal Bank of Scotland Group
Barclays Bank PLC

Brokers:
Brewin Dolphin Securities Limited

Solicitors:
Linklaters & Alliance

Registrars and Transfer Office:
Computershare Investor Services PLC
PO Box 82, The Pavilions, Bridgwater Road, Bristol BS99 7NH
Tel: 0870 702 0001

CHAIRMAN'S STATEMENT

Results

The Group made further good progress in its strategy of becoming a leading specialist housebuilder at the premium end of the market operating in the southern part of the country. During the year, the Group benefited from a strong market in its operating area and, as a consequence of this and investment made in previous years, the Housing division achieved strong growth with turnover rising from £50.6 million to £75.7 million. As expected, the turnover of the Property division fell to just £1.6 million, leaving Group turnover at similar levels to last year.

Profits before tax were well ahead at £5.9 million (2001 : £4.9 million). The Housing division increased its operating profits from £6.1 million to £8.5 million, an increase of 39%. The Property division made a small loss with future performance dependent on the disposal of its two residual schemes. These figures incorporate the accounting policy changes adopted at the half-year and as set out in Note 1 of the consolidated results.

Earnings per share rose from 6.1p to 7.6p, and the Board is recommending a final dividend of 2.65p (2001 : 2.4p) giving a total for the year of 4.4p (2001 : 4.0p).

Net assets were £77.4 million at the end of 2002 or 130p per share. Net borrowings decreased from £25.1 million to £11.4 million. The gearing level was 15% providing considerable flexibility to invest further within the Housing division.

Housing Activities

With a rising housing market, the Housing division performed strongly with turnover increasing to £75.7 million. The division sold 267 units (2001 : 229) at an average selling price of £258,000 (2001 : £204,000). This substantial increase in average selling price reflects the focus of the business on the premium end of the market.

Operating margins reduced from 12.1% to 11.2%, with the timing of site openings in the Horsham region affecting performance in the second six months. Both the Staines and Bristol regions performed strongly throughout the year.

The Housing division is currently selling from 13 sites. Overall, sites with an estimated sales value in excess of £175 million underpin future activity – this includes two schemes near Peterborough for around 300 units in total, which have been recently allocated within the Local Plan and have been held for many years within the long term land bank. A further 5 sites were acquired during the year. Having regard to the timing of site openings, the performance of the Housing division in 2003 will be weighted towards the second half. Overall our performance is likely to be less even than the larger volume housebuilders who have more sites under development at any time.

Property Activities

The Property division is concentrating on its two remaining principal developments. Progress has been made with further lettings (now totalling 69% of the available space achieved) at the city centre retail development at Stockton-on-Tees. Given continued progress on the lettings we would expect the Stockton scheme to be marketed for sale in late 2003. Active negotiations are also continuing for the sale of the Cagnes business and retail park in the south of France.

Pensions

In common with many other public companies, the deficit in respect of the funding of the final salary scheme increased during 2002. Under Financial Reporting Standard 17 'Retirement Benefits' the deficit had increased to £8.8 million at the end of 2002 principally due to the poor performance of world stock markets and improving mortality rates. This deficit would reduce if stock markets recovered. Following the recent triennial actuarial valuation, we have increased contribution rates to the scheme by around £0.8 million per annum.

Board Changes

Following the retirement of Sir Idris Pearce, Tony Graham, who has long experience in both residential and commercial property development, joined the Board as a non-executive director in September 2002.

Maurice Dixson, a non-executive director for the past 10 years, is intending to retire at the AGM in May 2003. He has provided sound advice and made a very valuable contribution for which we are most grateful. We have started the process of finding a successor.

After 10 years as Chairman it is my intention to retire from the Board at the AGM. I am delighted that Ian Maclellan, one of our non-executive directors, will succeed me in this role.

Prospects

The improved results achieved since the adoption of the strategy of concentrating on specialist housebuilding in the south of England confirms the validity of this policy and gives us confidence for the future of the Group in the longer term. Currently, however, there is some evidence that activity in our areas of operation is slowing with buyers becoming more cautious. It is too early to judge the impact of these factors on the remainder of the year, although the continuation of low interest rates and shortage of new homes should serve to underpin demand.

George Duncan.

George Duncan
Chairman
18 March 2003

OPERATING AND FINANCIAL REVIEW FOR 2002

HOUSING ACTIVITIES

Operating Results 2002

The Housing division increased turnover from £50.6 million to £75.7 million, with average selling prices rising as a result of the focus on building higher value houses. Operating profits also rose from £6.1 million to £8.5 million. Operating margins reduced from 12.1% to 11.2%, principally due to reduced levels of activity in the Horsham region in the second half.

Capital employed within the Housing division was £79.4 million at the year end but is expected to rise with further investment to support the continued expansion of the business. The Group has the financial capacity to acquire more sites, particularly if land prices soften in a weaker market.

Principal Sites

The Housing division has three regional offices at Staines, Horsham and Bristol providing a balanced geographical spread across the South of England. Its principal sites open for sale or under construction in the first half of this year are located as follows:

Staines
Open for sale
Andover, Weston-on-the-Green, Weybridge, Fleet

Under construction
Sibford Ferris, Woking

Horsham
Open for sale
Horsham, Ifold, Watersfield

Under construction
Ardingly, Chislehurst, Eastergate, Kenley, Selsey, Wadhurst

Bristol
Open for sale
Bristol, Cheltenham, Clifton flats – phase 1, Portishead, Rode, Tetbury

Under construction
Clifton flats – phase 2, Clifton

There were a further 5 schemes at the year end at earlier stages of development.

Our objective remains to be a leading specialist housebuilder in the South of England with a high quality product that is design led and at the premium end of the market. Developments are usually designed for a particular location rather than imposing standard house formats.

Staines Region

The Staines region had a successful year with the completion of schemes at Staines, Chineham, Froxfield and Yateley. The Staines site was particularly important with 41 exchanges achieved during the year.

The schemes at Andover (67 units) and Weybridge (24 units) will be critical to the region's performance for 2003. The Weybridge site opened in September 2002 and three of the high value homes were sold by the end of the year. The higher value sector is suffering in current markets but we believe that we have an attractive and highly competitive product at Weybridge. We also sold 15 units at Andover which opened in May 2002, a performance ahead of our expectations.

The region is well advanced with the construction of two schemes in Oxfordshire, both of which involve substantial refurbishment work. The development at Weston-on-the-Green is close to completion with the site at Sibford Ferris due to be marketed from the early summer.

We are progressing two sites near Peterborough through the planning process. These schemes, with around 300 units for development, have been included within the adopted Local Plan. We are awaiting the outcome of detailed planning applications and are hopeful of being on site in the second half of this year.

Horsham Region

Following the completion of five sites during the year, the Horsham region is in the process of opening a number of new sites. Regional performance should, therefore, improve as new site openings gain momentum. In particular, the region has started taking sales from the substantial urban development in Horsham (61 units), a scheme for 5 units at Ifold, and a development for 7 apartments in Chislehurst. Later in the year the region is anticipating a further 5 sites opening including 45 units at Selsey, 18 units at Eastergate in Sussex and 7 large houses at Wadhurst in Kent.

Bristol Region

The Bristol region had another successful year with the principal contributors being the first phase of the apartment scheme at Clifton (37 units) as well as the mature schemes at Pershore (20 units) and Tetbury (20 units). At Clifton phase 1, 22 of the 37 units had been sold by the end of the year with a further 4 exchanges carried forward into 2003.

Substantial new sites have been opened at Rode (42 units), Portishead (43 units) and Cheltenham (15 units) which, with a housing development in Clifton, will underpin activity within the region for this year. A further 3 sites in Bristol, Gloucestershire and Cheltenham are also in the pipeline.

The region has commenced the demolition works for the next phase of the Clifton phase 2 flats development (70 units) and will start construction in the summer.

PROPERTY ACTIVITIES

Main Features of 2002

The Property division is concentrating on the development and disposal of its residual schemes, being the retail development in Stockton-on-Tees and the mixed use scheme at Cagnes in the South of France. Overall the Property division made a small loss for the year with future performance being dependent on the disposal of these schemes.

The major city centre retail development at Stockton-on-Tees is being progressed within a joint venture company, Wellington Square Development Company. The scheme comprises 180,000 sq. ft. of retail space and 800 car parking spaces with lettings of 69% of the available space achieved to date. Principal tenants include Debenhams, Dixons, Lidl, WH Smith and Superdrug, as well as River Island and Au Naturale which opened during the course of 2002. The timing of marketing the investment sale of this scheme depends on the successful conclusion of the letting programme but is likely to be in late 2003 or early 2004.

Negotiations continue for the sale of the Cagnes business and retail park in the South of France. These are likely to be protracted due to the size and complexity of the scheme which is a joint venture with the local authority. Nonetheless, positive progress has been made in 2002 towards the disposal of this scheme.

During the course of the year our former offices in Staines were sold realising a small profit. The sale proceeds, together with the reduced funding required from each partner in respect of the Stockton-on-Tees scheme, resulted in a further reduction to capital employed which since 1998 has fallen from £61 million to £11.7 million.

FINANCIAL REVIEW

Shareholders' funds increased by £1.9 million during the year with net assets per share at 130p (2001 : 127p) at the year end. Cash flows remained positive through the year with net borrowings reducing from £25.1 million to £11.4 million.

As explained in the half-year statement, the Company changed its accounting policies for the recognition of income on the sale of houses and land sales. The revised policy is in accordance with changes in industry practice and brings the point of income recognition closer to legal completion. Shareholders' funds at the beginning of the year were reduced by £1.6 million as a result of both this change and applying the new deferred tax accounting standard. The operating profits for 2002 of the Housing division rose by £1.4 million due to the high number of exchanges previously taken into the 2001 results but now accounted for in 2002.

Net borrowings of £11.4 million represented a gearing level of 15%, with net interest payable (excluding joint ventures) falling to £639,000 (2001 : £943,000). This reduction reflected lower average borrowings during the year but also lower interest rates. The level of committed facilities from our bankers was maintained at £25 million which, together with £15 million of overdraft, provided total bank facilities of £40 million. Our funding objectives and strategy are to maintain flexibility using unsecured facilities with drawings of limited duration. The Group has extended euro borrowings of £5.5 million in order to provide a hedge against the net assets invested in France and to benefit from lower interest rates.

The Group's loans to Wellington Square Development Company, the joint venture company developing the retail scheme in Stockton-on-Tees, have been further reduced to £5.3 million as the funding required from each partner is related to the level of lettings achieved. The remainder of the funding of this joint venture is provided by bank debt.

Pensions

The triennial actuarial valuation of the final salary pension scheme as at 5 April 2002 has been completed and shows a deterioration since 1999, principally due to the allowance by the scheme's actuary for improved mortality rates. The impact of improving mortality rates has been felt widely across UK pensions schemes. The actuary has recommended an additional annual contribution of £780,000 in order to fund this deterioration over the next six years.

Under SSAP24 criteria, the market value of the assets of £50.1 million at 5 April 2002 represented 96% of the value of accrued benefits of £52.1 million. The pension cost charged to the profit and loss account under SSAP 24 will rise from £0.7 million previously to around £1.0 million for succeeding years.

Under Financial Reporting Standard 17 'Retirement Benefits' (FRS 17), the deficit disclosed in respect of the final salary pension scheme has increased from £0.7 million to £8.8 million as at the end of 2002. The increased deficit has resulted from two principal factors. The first is the very poor performance of world stock markets during the year. The scheme is protected to some extent by having around 60% of its assets invested in fixed interest or similar securities. The second factor is the improvement in mortality rates referred to above.

Under FRS 17, the total market value of the pension scheme's assets as at 31 December 2002 was £45.1 million and the present value of its liabilities was £53.9 million. The scheme is large relative to the size of the company, because of the high number of pensioners and deferred members of the scheme who were employed by the construction business prior to its disposal in 1997.

The Group introduced a new pension scheme based on defined contributions in 2001. New staff are typically invited to join this scheme whilst existing staff at that time remain within the final salary scheme.

Executive Directors

J A Theakston, MA, MSc
Group Chief Executive
John Theakston, 50, 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, 53, 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.

Registered Office:

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

Incorporated in England Registration No 55973

Non-executive Directors

G Duncan, BSc (Econ), MBA, FCA
Chairman
George Duncan, 69, has been an independent non-executive Chairman since 1993. He is also Deputy Chairman of Associated British Ports Holdings PLC. Mr Duncan is Chairman of the Remuneration and Nominations Committees.

I D Maclellan, MBA, FCA
Ian Maclellan, 55, has been an independent non-executive director since 1992 and is Chairman of the Audit Committee. He was Chief Executive of Ibstock PLC and, more recently, Chief Executive of Cape PLC until 2002.

Dr M C S Dixson, BA, MA, DPhil(Oxon), FRAeS
Dr Maurice Dixson, 61, has been an independent non-executive director since 1994. He was an executive director of The General Electric Company plc (1990-93), and more recently, Chief Executive of Simon Group PLC until 2002.

A L Graham, FRICS
Anthony Graham, 57, joined the Board as an independent non-executive director in September 2002. He is currently a non-executive director of Great Portland Estates Plc and a number of private companies. Until 1996, he was a main board director of Chesterton International plc, the international property services group.

SWAN HILL GROUP PLC

COMPANY NUMBER: 00055973

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 DECEMBER 2002

The directors present their report and the audited accounts for the year ended 31 December 2002.

RESULTS AND DIVIDENDS

The profit before taxation is shown in the Group Profit and Loss account on page 31. The transfer to reserves in the year is £1,886,000 (2001 : £1,249,000). The directors recommend that a final dividend of 2.65p per Ordinary share be paid which, together with the interim dividend of 1.75p per Ordinary share, makes a total of 4.4p for the year. The final dividend, if approved, will be paid on 23 May 2003 to members on the register at the close of business on 4 April 2003.

PRINCIPAL ACTIVITIES, BUSINESS REVIEW AND FUTURE DEVELOPMENTS

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, Colin Archer and Ian Maclellan retire by rotation at the Annual General Meeting and, being eligible, offer themselves for re-election. Ian Maclellan has no service contract with the Company. Colin Archer has a service contract with the Company with a notice period of 2 years.

Anthony Graham joined the Board as an independent non-executive director in September 2002. Consequently he retires at the AGM and offers himself for election. Anthony Graham has no service contract with the Company.

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.

George Duncan and Maurice Dixson will be retiring from the Board at the end of the AGM on 14th May 2003. Ian Maclellan will be appointed Chairman on the same day. Sir Idris Pearce retired from the Board on 15 May 2002.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

At 5 March 2003 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	23.4%
Nortrust Nominees Limited	16.9%
Phildrew Nominees Limited	14.3%
Vidacos Nominees Limited	3.5%

PURCHASE OF OWN SHARES

Under the current authority provided by shareholders, 8,940,438 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 roles 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.

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, private medical and permanent health insurance arrangements.

The Group also operates a retirement plan which is a defined contribution plan based on a stakeholder pension contract. New staff are typically invited to join this new plan whilst existing staff remain in the previous arrangements.

Creditor Payment Policy

It is the Group's code of practice 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 2002 were 26 (2001:23). Company creditor days at 31 December 2002 were 10 (2001:10). 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 (£11,000).

No political donations were made during the year.

AUDITORS

Following the conversion of our auditors, PricewaterhouseCoopers, to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 31 January 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors of the Company will be proposed at the next 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 14 May 2003.

By Order of the Board
A G Confavreux
Company Secretary
18 March 2003

CORPORATE GOVERNANCE

COMPLIANCE STATEMENT

The directors of the Company are committed to the principles on which the "Combined Code" (the Code) 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 independent 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 23.

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, in conjunction with revised forecasts, monitors these at regular intervals against actual performance. It also monitors internal controls which includes the assessment of 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, the operation and effectiveness of the internal financial controls and considers the auditors' findings arising from their audit.

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, any bonus and option awards. 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.

The Directors' Remuneration Report is set out on pages 21 to 26.

Internal Controls

The directors are responsible for the Group's systems of internal controls which have been developed over a number of years. These include a continuing process for evaluating and managing the risks faced by the Group and have been in place for the year under review. 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 mis-statement 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 updated as appropriate. Group accounting policies for the business are set down in a manual.

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.

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 to:

(i) Select suitable accounting policies and then apply them consistently;
(ii) Make judgements and estimates that are reasonable and prudent;
(iii) State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
(iv) Prepare the financial statements on the going concern basis unless it is inappropriate to assume 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 Company and 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.

By Order of the Board
A G Confavreux
Company Secretary
18 March 2003

THE DIRECTORS' REMUNERATION REPORT

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 so as to attract, retain and incentivise high calibre staff, recognising that they are key to the success of the business. Consistent with this policy, benefit packages awarded to directors are intended to be competitive and comprise a mix of performance-related and non-performance-related remuneration designed to incentivise directors, but not to detract from the goals of corporate governance. Remuneration for the executive directors comprises annual salaries and short term bonuses, based on the Company's performance in the previous year, together with Long Term Incentive Plans (LTIPs). Annual bonuses for directors are restricted to a maximum of 25% of base salary with greater emphasis placed on LTIPs as a means of aligning Directors' remuneration to overall company performance. It is intended to continue with this remuneration policy.

Members of the Remuneration Committee

The Committee is chaired by G Duncan and comprises the non-executive directors – I Maclellan, M C S Dixson, A L Graham (appointed 4 September 2002) and Sir Idris Pearce (resigned 15 May 2002).

The Committee is advised internally by J A Theakston, the Group Chief Executive. During the year it has instructed and taken advice from the following parties (who also act as advisers to the Company):-

Inbucon Meis – advice on executive remuneration and option schemes.

Linklaters & Alliance – legal advice.

Watson Wyatt LLP – pension and actuarial advice.

DIRECTORS' REMUNERATION *(audited)*

Details of the directors' remuneration in respect of qualifying services are shown below:

	Salary and fees £'000	Benefits (iii) £'000	Bonuses (v) £'000	Total 2002 £'000	Total 2001 (v) £'000
Executive					
J A Theakston (vi)	**206**	**25**	**0**	**231**	244
C R H Archer	**157**	**21**	**0**	**178**	188
Non-executive					
G Duncan (iv)	**65**	**0**	**0**	**65**	63
M C S Dixson	**23**	**0**	**0**	**23**	21
A L Graham (appointed 4 September 2002)	**8**	**0**	**0**	**8**	0
Sir Idris Pearce (resigned 15 May 2002)	**10**	**0**	**0**	**10**	26
I D Maclellan	**25**	**0**	**0**	**25**	23
	494	**46**	**0**	**540**	565

(i) As set out in previous annual reports, the Company entered into a special bonus arrangement with F J Low (a director until 31 October 2001) in order to facilitate the implementation of its strategy to realise its UK commercial portfolio over time in an effective manner. The total bonus due to F J Low under these arrangements was anticipated to be £685,000, of which £375,000 was paid by 31 December 2001, with the remainder accrued in 2001 and paid in 2002. An additional amount may accrue on the final settlement of the residual property projects.

(ii) The remuneration table shown above excludes pension contributions paid by the Company. Aggregate pension contributions paid by the Company in respect of the directors total £127,000 (£198,000).

(iii) Benefits include provision of a company car and fuel, life insurance, permanent health 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 on or before the AGM in 2003.

(v) Bonuses are included on an accruals basis with the 2001 comparative figures adjusted accordingly.

(vi) Highest paid director.

(vii) There were no payments for loss of office during the year.

Service Contracts

Details of the Directors' service contracts are as follows:

	Contract date	Unexpired term	Notice period	Contractual termination payment
J A Theakston	31 May 1996	Rolling contract	24 months	18 months salary plus pension contributions
C R H Archer	31 May 1996	Rolling contract	24 months	18 months salary plus pension contributions

Pension contributions on termination for J A Theakston are set at 24 months of company contributions and, for C R H Archer, at 18 months of contributions in respect of his entitlement under the pension scheme and 12 months in respect of other pension entitlements.

It is Group policy for newly appointed directors 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. J A Theakston and C R H Archer have previously reduced the notice period under their service contracts from three to two years without compensation. The Remuneration Committee does not currently feel it appropriate that the notice period for existing executive directors should be further reduced.

G Duncan's letter of appointment provides for 12 month's notice period. There is no notice period within the letters of appointment for other non-executive directors.

Performance Related Bonus Scheme

The maximum bonus payable annually in arrears to executive directors under the Scheme is 25% of base salary with the amount of bonus paid dependent on the Group's profitability. These bonus arrangements are not pensionable.

Pensions *(audited)*

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 (excluding inflation)	Accumulated accrued pension at year end
		£'000	£'000 per annum	£'000 per annum
J A Theakston	50	10	8	96
C R H Archer	53	5	4	40

(i) The accumulated 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. 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. 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.

(ii) The position regarding transfer values at the beginning and end of the year and the resultant increase in the transfer value less directors' own contributions was as follows:

	Increase in accrued pension during the year £'000 per annum	**Transfer value at beginning of year £'000**	**Transfer value at end of year £'000**	**Resultant increase in transfer value less directors' contributions £'000**
J A Theakston	9	970	924	(56)
C R H Archer	4	443	461	13

The transfer values shown are the cash equivalents that the directors were entitled to transfer to another pension arrangement in lieu of their accrued pension benefits.

(iii) Company pension contributions are paid to the Swan Hill Pension Scheme, with the exception of payments of £19,000 (£18,000) to G Duncan and £32,000 (£43,000) to C R H Archer. There are no unfunded pension arrangements.

SHARE SCHEMES *(audited)*

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 in respect of the directors. Details of the Option Schemes and the Restricted Share Scheme are shown in Note 9 to the accounts.

Vesting of shares under the Restricted Share Scheme 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. The TSR is compared to a peer group comprising the FTSE Small Caps index (excluding investment companies) of 270 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 a further year. Should it fail again, the award lapses in total. No allocations vested in 2002.

There has been no variation to the terms and conditions of the Restricted Share Scheme during the year. The performance criteria (Total Shareholder Return) for this scheme attached to each award have not varied since inception although the peer group has changed to reflect a change in the housing sector or the company's position relative to its standing as a small caps company. TSR is chosen as it is a commonly used measure of performance by a large number of companies and aligns the interest of shareholders with the vesting of awards.

No new options have been granted under the Executive Share Option Schemes since 1994 when the Restricted Share Scheme was introduced. In common with other executive option schemes at that time, no other performance criteria beyond the share price applied to grants under this scheme.

PERFORMANCE GRAPH

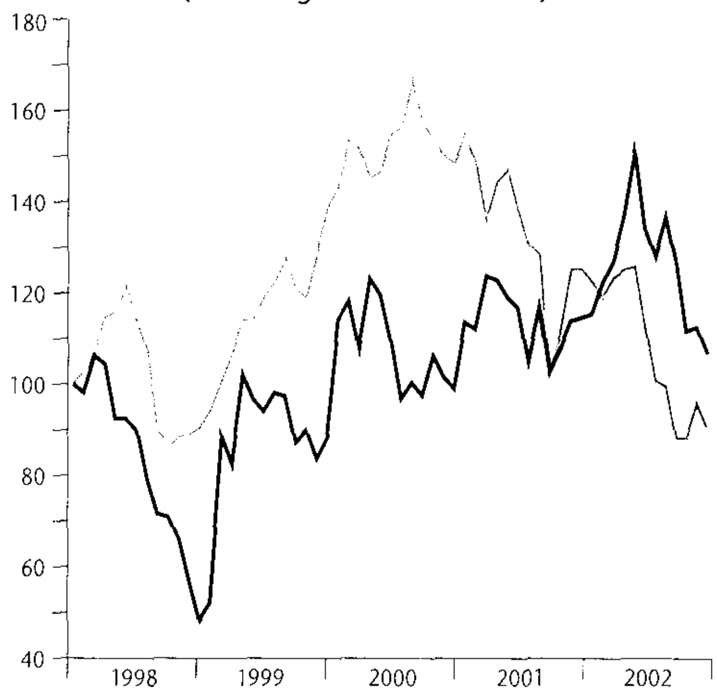
January 1998 = 100

In the opinion of the directors, the Small Caps index (excluding investment trusts) is the most appropriate index against which to measure Total Shareholder Return (TSR) for the last 5 years having regard to the size of the Company.

Swan Hill Group. – Total Return Index

FTSE Small Caps excluding investment trusts – Total Return Index

TSR: Swan Hill Group vs FTSE Small Caps Index (excluding investment trusts)



Source: Datastream

SHARE OPTIONS *(audited)*

	At 1 Jan 2002	Granted (Lapsed) in year	Exercised	At 31 Dec 2002	Exercise Price (p)	Date Exercisable	Expiry Date
J A Theakston							
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
	275,000	0	0	275,000			
C R H Archer							
ESOS No 2	100,000	0	(60,000)[i]	40,000	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
	150,000	0	(60,000)	90,000			

[i] C R H Archer exercised his options on 27 March 2002 and sold these shares on the same day at a price of 82p realising a gain of £14,400.

The market price of the shares at 31 December 2002 was 65.5p and the range during 2002 was 65.5p to 96.5p.

RESTRICTED SHARE SCHEME *(audited)*

	Number of Shares allocated				Range of value at vesting of total allocation[ii]
	At 1 Jan 2002	Allocated in year	Lapsed in year	At 31 Dec 2002	£'000
J A Theakston	525,000	125,000[i]	(100,000)	550,000	0-360
C R H Archer	425,000	75,000[i]	(75,000)	425,000	0-278
	950,000	200,000	(175,000)	975,000	

[i] The market price for shares on the date of allocation was 85.0p.

[ii] The maximum value has been based on the share price as at 31 December 2002 of 65.5p and assumes full vesting.

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

On behalf of the Board

G Duncan

Chairman of the Remuneration Committee

INDEPENDENT AUDITORS' REPORT

To The Members Of Swan Hill Group PLC

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes. We have also audited the disclosures required by Part 3 of Schedule 7A to the Companies Act 1985 contained in the directors' remuneration report ("the auditable part").

Respective Responsibilities Of Directors And Auditors

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

Our responsibility is to audit the financial statements and the auditable part of the directors' remuneration report in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the auditable part of the directors' remuneration report have been 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 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 directors' report, the unaudited part of the directors' remuneration report, the chairman's statement, the operating and financial review, and the corporate governance statement.

We review whether the corporate governance statement reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control 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 and the auditable part of the directors' remuneration report. 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 and the auditable part of the directors' remuneration report 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 at 31 December 2002 and the profit and cash flows of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- those parts of the directors' remuneration report required by Part 3 of Schedule 7A to the Companies Act 1985 have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

PricewaterhouseCoopers LLP

18 March 2003

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 and in accordance with applicable accounting standards in the United Kingdom.

Accounting Policies

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

At the time of the half year results, the Company announced changes to the accounting policies relating to income and profit recognition. The sale of houses is now recognised when contracts are exchanged and building has been completed prior to final decorating and finishing. With respect to land sales, income is recognised on completion. The impact on the results for 2002 is an increase in operating profits of £1.4 million (2001 : a reduction of £1.2 million). The revised policy is in accordance with changes in industry practice of bringing the point of income recognition closer to legal completion.

The company has also adopted Financial Reporting Standard 19 'Deferred Tax' which results in a tax charge closer to the current rate of corporation tax. The impact on the results for 2002 is an increase in taxation of £0.8 million (2001 : a reduction of £0.3 million).

Note 22 shows the impact on shareholders' funds of these changes to accounting policies.

Both these changes have been reflected by means of prior period adjustments with the 2001 figures restated accordingly.

Consolidation

The consolidated accounts comprise the accounts of the Company and its subsidiaries drawn up to 31 December 2002. 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

The sale of houses is recognised when contracts are exchanged and building has been completed prior to final decorating and finishing. In respect of land sales, income is recognised on completion.

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 employees. The scheme's funds are administered by the Trustee and are independent of the Group's finances.

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 has adopted the transitional approach as prescribed by FRS17 "Post-retirement Benefits" for the year which is referred to in Note 7.

The Group also operated 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.

Fixed Assets

Depreciation 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-$33\frac{1}{3}$%

Fixed asset investments are stated at cost less any provision for impairment.

Leased Assets

Rentals paid under operating leases are charged to the profit and loss account on a straight line basis.

Stocks And Work In Progress

Work in progress on commercial and residential 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.

Employee Share Trust

Shares held by the Employee Share Trust are subject to annual impair reviews and written down to the lower of the market value at the bal sheet date and the exercise price of any options to which the shares h been matched.

Joint Venture

The appropriate share of the results of the joint venture is included in consolidated profit and loss account. Investment in the joint venture i shown in the consolidated balance sheet using the gross equity meth

Deferred Taxation

Deferred taxation is recognised as a liability or asset if transactions ha occurred at the balance sheet date that give rise to an obligation to p more taxation in the future, or a right to pay less taxation in the futu An asset is not recognised to the extent that the transfer of economic benefits in the future is uncertain. Deferred tax assets and liabilities a discounted.

Foreign Currencies

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

SWAN HILL GROUP PLC

COMPANY NUMBER: 00055973

GROUP PROFIT AND LOSS ACCOUNT

FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	2002 £'000	2001 (restated) £'000
Turnover including share of joint ventures	1	77,278	72,289
Less: share of turnover of joint ventures – continuing		(778)	(301)
Group turnover – continuing		76,500	71,988
Group operating profit – continuing	6	6,613	5,212
Share of operating profit in joint ventures		539	1,218
Total operating profit: Group and share of joint ventures	1	7,152	6,430
Profit on disposal of property and other fixed assets		145	53
Loss on disposal of discontinued operations	6	(72)	(234)
Profit on ordinary activities before interest	1	7,225	6,249
Net interest payable and amounts written off investments – Group	2	(751)	(1,007)
– joint ventures	2	(558)	(318)
Profit on ordinary activities before taxation		5,916	4,924
Tax on ordinary activities	3	(1,425)	(1,311)
Profit on ordinary activities after taxation		4,491	3,613
Dividends	4	(2,605)	(2,364)
Retained profit for the financial year	20	1,886	1,249
Basic earnings per Ordinary share	5	7.6p	6.1p
Diluted earnings per Ordinary share	5	7.6p	6.1p
Basic earnings per Ordinary share excluding discontinued operations	5	7.7p	6.5p

SWAN HILL GROUP PLC

COMPANY NUMBER: 00055973

BALANCE SHEETS

As At 31 December 2002

	Note	Group 2002 £'000	Group 2001 (restated) £'000	Company 2002 £'000	Company 2001 (restated) £'000
Fixed assets					
Tangible assets	10	784	1,978	35	49
Investments	11				
Investments in joint ventures:				0	100
Share of gross assets		0	17,963	0	0
Less: share of gross liabilities		0	(17,937)	0	0
		0	26	0	100
Own shares		292	454	292	454
Investment in subsidiary companies		0	0	16,135	16,666
		292	480	16,427	17,220
		1,076	2,458	16,462	17,269
Current assets					
Stocks	12	79,415	94,232	0	0
Debtors: Amounts falling due within one year	13	19,804	10,266	71,834	84,960
Debtors: Amounts falling due after one year	14	5,655	8,037	300	400
Cash at bank and in hand		397	199	0	0
		105,271	112,734	72,134	85,360
Creditors: Amounts falling due within one year	16	(28,507)	(39,179)	(15,402)	(27,999)
Net current assets		76,764	73,555	56,732	57,361
Total assets less current liabilities		77,840	76,013	73,194	74,630
Provision for joint venture deficit:					
Share of gross assets	11	18,390	0	0	0
Less: share of gross liabilities		(18,470)	0	0	0
		(80)	0	0	0
Provisions for liabilities and charges	18	(381)	(545)	0	0
Net assets		77,379	75,468	73,194	74,630
Capital and Reserves					
Called up share capital	19	14,912	14,910	14,912	14,910
Share premium account	20	42,887	43,085	42,887	42,886
Capital redemption reserve	20	2,432	2,432	2,432	2,432
Other reserves	20	220	21	0	0
Profit and loss account	20	16,928	15,020	12,963	14,402
Equity shareholders' funds	21	77,379	75,468	73,194	74,630

The accounts on pages 29 to 58 were approved by the Board of Directors on 18 March 2003 and were signed on its behalf by:

G Duncan, Director

C R H Archer, Director

GROUP CASH FLOW STATEMENT

For The Year Ended 31 December 2002

	Note	2002	2002	2001 (restated)	2001 (restated)
		£'000	£'000	£'000	£'000
Net cash inflow from operating activities	25(a)		17,390		805
Amounts received from joint ventures and associates			0		1,020
Returns on investments and servicing of finance					
Interest received		28		46	
Interest paid		(757)		(1,054)	
Net cash outflow from returns on investments and servicing of finance			(729)		(1,008)
Taxation			(1,136)		(892)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(377)		(451)	
Disposal of tangible fixed assets		1,447		104	
Disposal of own shares		35		0	
Net cash inflow/(outflow) for capital expenditure and financial investment			1,105		(347)
Acquisitions and disposals					
Disposals of subsidiaries and investments			(129)		(221)
Equity dividends paid to shareholders			(2,455)		(2,245)
Cash inflow/(outflow) before financing			14,046		(2,888)
Financing					
Issue of shares		3		0	
(Decrease)/increase in debt due within one year		(4,286)		5,102	
Net cash (outflow)/inflow from financing			(4,283)		5,102
Increase in net cash	25(c)		9,763		2,214
Opening net overdraft			(16,478)		(18,692)
Closing net overdraft			(6,715)		(16,478)
Net overdraft			(6,715)		(16,478)
Debt due within one year			(4,668)		(8,630)
Total net borrowings			(11,383)		(25,108)

STATEMENT OF GROUP TOTAL RECOGNISED GAINS AND LOSSES

For The Year Ended 31 December 2002

	Note	2002	2001
			(restated)
		£'000	£'000
Profit on ordinary activities after taxation		**4,491**	3,613
Translation differences on foreign currency net investments		**354**	(139)
Hedging differences on foreign currency borrowings		**(332)**	112
Total gains and losses recognised in the year		**4,513**	3,586
Prior year adjustment	22	**(1,627)**	0
Total gains and losses recognised since previous financial statements		**2,886**	3,586

NOTES TO THE FINANCIAL STATEMENTS

1. Segmental Analysis

	2002	2001
		(restated)
	£'000	£'000
Turnover – by principal activity		
Housing	75,695	50,582
Property	1,583	21,707
Continuing operations	77,278	72,289
Turnover – by geographical area		
United Kingdom	77,058	72,112
Rest of European Union	220	177
Continuing operations	77,278	72,289
Operating profit – by principal activity		
Housing	8,487	6,100
Property including share of joint ventures	(332)	1,310
Group costs	(1,003)	(980)
Total operating profit: Group and share of joint ventures	7,152	6,430
Profit on disposal of property and other fixed assets	145	53
Continuing operations	7,297	6,483
Loss on disposal of discontinued operations	(72)	(234)
Profit on ordinary activities before interest	7,225	6,249
Operating profit – by geographical area		
United Kingdom	8,287	7,349
Rest of European Union	(59)	(120)
	8,228	7,229
Group costs	(1,003)	(980)
Profit on ordinary activities before interest	7,225	6,249

1. *Segmental Analysis* *(continued)*

	2002	2001 (restated)
	£'000	£'000
Net assets – by principal activity		
Housing	**79,380**	88,064
Property	**11,680**	13,896
Group	**(2,298)**	(1,384)
	88,762	100,576
Net bank borrowings	**(11,383)**	(25,108)
Net assets	**77,379**	75,468
Net assets – by geographical area		
United Kingdom	**83,075**	94,976
Rest of European Union	**5,687**	5,600
	88,762	100,576
Net bank borrowings	**(11,383)**	(25,108)
Net assets	**77,379**	75,468

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

2. Net Interest Payable and Amounts Written off Investments

	2002 £'000	2001 £'000
Group		
Interest receivable	(28)	(41)
Amounts written off own shares held	64	0
Interest payable on bank loans and overdrafts	667	984
Unwinding of discount in lease provision	48	64
	751	1,007
Joint Ventures		
Interest receivable	(52)	(8)
Interest payable on bank loans	610	326
	558	318

3. Taxation

		2002 (restated) £'000	2001 £'000
(a)	Taxation charge on profit on ordinary activities comprises:		
	Current Tax		
	UK corporation tax at the rate of 30% (30%) based on the taxable result for the year	**738**	1,434
	In respect of prior years	**(92)**	(125)
	Tax (recoverable)/payable on profits of joint ventures	**(14)**	21
		632	1,330
	Overseas taxation – current	**11**	8
	– relief for overseas tax	**(11)**	(5)
		632	1,333
	Deferred Tax (Note 15)		
	Reversal/(origination) of timing differences	**793**	(22)
		1,425	1,311
(b)	The tax for the period is lower than the standard rate of corporation tax in the UK (30%) due to:		
	Profit before taxation	**5,916**	4,924
	Expected tax charge at 30%	**1,775**	1,477
	Relating to prior years	**(92)**	(125)
	Tax (recoverable)/payable on profits of joint ventures	**(14)**	21
	Overseas tax including foreign exchange movements	**(155)**	14
	Disallowed items	**202**	223
	Capital allowances in excess of depreciation	**(120)**	(167)
	Utilisation of tax losses	**(74)**	(460)
	Adjustment in respect of change in accounting policy	**(890)**	350
		632	1,333

4. Dividends

	2002 £'000	2001 £'000
On equity Ordinary shares:		
Interim paid 1.75p per share (1.6p)	**1,035**	946
Final proposed 2.65p per share (2.4p)	**1,570**	1,418
	2,605	2,364

5. 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 £4,491,000 (£3,613,000) and 59,155,000 (59,106,000) being the weighted average number of Ordinary shares in issue excluding those owned by the Employee Share Trust.

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 179,000 (184,000) shares.

The basic earnings per Ordinary share excluding discontinued operations is calculated on the profit for the year (before dividends on Ordinary shares) of £4,563,000 (£3,847,000) and excludes losses from discontinued operations of £72,000 (£234,000), and 59,155,000 (59,106,000) being the weighted average number of Ordinary shares in issue excluding those owned by the Employee Share Trust.

6. Profit on Ordinary Activities Before Tax

		2002	2001 (restated)
		£'000	£'000
(a)	Operating profit:		
	Operating profit is derived as follows:		
	Group turnover	**76,500**	71,988
	Cost of sales	**(61,874)**	(58,464)
	Gross profit	**14,626**	13,524
	Administrative expenses	**(8,013)**	(8,312)
	Group operating Profit	**6,613**	5,212
	Operating profit is stated after crediting:		
	Operating rents receivable	**704**	740
	and after charging:		
	Depreciation of fixed assets	**269**	302
	Loss on disposal of fixed assets	**0**	1
	Auditors' remuneration – audit services	**101**	101
	– taxation and other services	**122**	160
	Hire of plant on operating leases	**370**	340
	Other operating lease rentals	**1,247**	1,102
	Directors' emoluments (excluding pension contributions)	**540**	565

Audit fees payable by Swan Hill Group PLC total £37,000 (£42,000).

(b) Loss on disposal of discontinued operations:

The loss on disposal of discontinued operations of £72,000 (loss of £234,000) relates to residual costs in respect of the disposal of the construction activities in 1997.

7. Employee Information

(a) The average number of persons employed by the Group during the year are analysed below:

	2002	2001
	Number	Number
Housing	123	121
Property	6	10
	129	131

(b) Group employment costs including executive directors:

	2002	2001
	£'000	£'000
Gross salaries and wages	**4,810**	4,803
Employer's National Insurance Contributions or foreign equivalents	**482**	490
Employer's pension costs	**863**	812
	6,155	6,105

During the year the Company operated a final salary pension scheme covering eligible employees. 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 £674,000 (£690,000). The charge is adjusted by the amortisation over the future average working lifetime of current members of any past service surplus or deficit that has not been previously recognised in the pension provision included in creditors. This leads to an increase of £99,000 (a reduction of £25,000) for the year, resulting in a pension charge of £773,000 (£665,000). The charge has been determined on the advice of qualified actuaries, who are partners of Watson Wyatt Partners LLP, using the projected unit method and is based on the most recent actuarial valuation of the scheme, which took place as at 5 April 2002. The most significant long-term actuarial assumptions were that the rates of return on new and existing investments would be 6% per annum, the rate of increase in pay levels would be 4.5% per annum and the rate of pension increases would be 2.5% per annum. Assets were valued at market value. Company contributions amounted to £690,000 (£730,000) for the year. An amount of £722,000 (£640,000) which represents accumulated pension costs in excess of Company contributions has been included in creditors.

The results of the actuarial valuation for assessing the charge under SSAP24 'Accounting for Pension Costs' showed that the value of the assets at 5 April 2002 represented 96% of the value of the accrued benefits, after allowing for expected future increases in earnings. The market value of the scheme's assets (excluding money purchase assets) was £50.1 million at 5 April 2002. This was £0.8 million short of the value of the accrued benefits treating active members as leaving service. In order to increase the security of members' benefits, the Company is making additional payments to the scheme of £780,000 per annum for six years from 1 January 2003.

The Company also operates a defined contribution plan based on a stakeholder pension contract and contributes to certain personal pension schemes. The Company's contributions to these are charged to the profit and loss account in the year in which they are payable and amounted to £90,000 (£147,000).

The disclosures required in relation to the final salary scheme under the transitional arrangements within FRS17 'Retirement Benefits' have been based on the most recent full actuarial valuation at 5 April 2002 updated to 31 December 2002. The financial assumptions used were:

	2002 % per annum	**2001 % per annum**
Price inflation	**2.25**	2.5
General salary and wage inflation	**4.25**	4.5
Pension increases	**2.25**	2.5
Discount rate	**5.6**	5.7

The scheme's assets and the expected rates of return are:

	2002 Expected rate of return % per annum	**2002 Market value £m**	**2001 Expected rate of return % per annum**	**2001 Market value £m**
Equities	**8.4**	**16.1**	7.9	21.0
Bonds	**4.9**	**27.0**	5.4	26.5
Property	**6.9**	**1.2**	6.9	1.1
Cash	**3.8**	**0.8**	4.5	1.1
Total (excluding money purchase assets)		**45.1**		49.7

Excluding money purchase assets and liabilities, the total market value of the scheme's assets as at 31 December 2002 was £45.1 million (£49.7 million) and the present value of its liabilities was £53.9 million (£50.4 million), resulting in a deficit of £8.8 million (£0.7 million). After allowing for a deferred tax asset of £2.6 million (£0.2 million), the net pension liability was £6.2 million (£0.5 million) which reduces both net assets and reserves if consolidated.

Had FRS17 been adopted in full, the following amounts would have been included in the financial statements:

	2002
Analysis of the amount charged to operating profit	£m
Current service cost	(0.7)
Past service cost	–
Total operating charge	(0.7)
Analysis of the amount credited to other finance income	£m
Expected return on scheme assets	3.2
Interest on scheme liabilities	(2.8)
Net return	0.4
Net charge for year	(0.3)
Analysis of the loss recognised in statement of total recognised gains and losses (STRGL)	£m
Actual return less expected return on scheme assets	(5.9)
Experience gains arising on scheme liabilities	0.1
Changes in assumptions underlying the present value of scheme liabilities	(2.7)
Actuarial loss recognised in STRGL	(8.5)
Experience gains and losses	
Difference between the expected and actual return on scheme assets	£(5.9)m
Percentage of scheme assets at 31 December 2002	13.1%
Experience gains on scheme liabilities	£0.1m
Percentage of scheme liabilities at 31 December 2002	0.2%
Total actuarial loss recognised in STRGL	£(8.5)m
Percentage of scheme liabilities at 31 December 2002	15.8%
Movement in deficit during the year	£m
Deficit in scheme at beginning of the year	(0.7)
Movement in year:	
Current service cost	(0.7)
Contributions paid	0.7
Other finance income	0.4
Actuarial loss	(8.5)
Deficit in scheme at end of the year	(8.8)

8. Directors' Information

(a) **Remuneration**

Aggregate information with respect to Directors' Remuneration is set out on pages 22 to 25.

(b) ***Directors' beneficial interests in Ordinary shares***

	As at 1 January 2002 ***or date of appointment, if later***	**As at 31 December 2002**
	Number	**Number**
G Duncan	20,000	20,000
J A Theakston	29,542	29,542
C R H Archer	1,927	1,927
Dr M C S Dixson	10,000	10,000
A L Graham (appointed 4 September 2002)	0	0
I D Maclellan	6,000	6,000

In addition details of Directors' share options and restricted share allocations are shown in the Directors' Remuneration Report on pages 21 to 26. The Register of Directors' interests contains full details of directors' shareholdings and options to subscribe.

No changes in directors' interests took place between 1 January and 18 March 2003 inclusive.

There are no non-beneficial interests held by directors other than as directors of Swan Hill Share Scheme Trustees Limited as set out in Note 9.

9. Share 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 Scheme. It has also introduced the Restricted Share Scheme to motivate executives through direct association with the success of the Group. This replaced the Executive Share Option Scheme and links potential reward more closely with the Company's performance against that of a peer group.

The outstanding share options as at 31 December 2002 are as follows:

	Exercisable	Option price (p)	Number of shares
Swan Hill Group PLC 1993 Savings-Related Share Option Scheme (SRSOS)	7.6.03	71.2	25,193
	1.12.03	66.8	78,291
	1.5.05	62.4	59,489
	1.5.06	58.8	143,480
	1.5.07	56.8	161,011
Swan Hill Group Executive Share Option Scheme (ESOS)	25.10.97 to 25.10.04	87.0	25,000
Swan Hill Group PLC Executive Share Option Scheme No. 2 (ESOS No. 2)	3.5.96 to 3.5.03	58.0	245,000
	25.4.97 to 25.4.04	127.0	125,000
			862,464

The Swan Hill Group PLC 1993 Savings-Related Share Option Scheme was adopted by the Company on 8 June 1993. The options granted under this Scheme 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. Options granted under these schemes are normally exercisable in whole or in part between the third and the tenth anniversary of the date of grant.

9. Share Schemes *(continued)*

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 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.

The Company has made interest free loans of £436,300 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, amounting to a waiver of £21,000 (£21,000). The Trust currently holds 474,500 Ordinary shares of the Company (with a nominal value of £118,625), over which there are outstanding options relating to 370,000 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 2002, 47 participants were allocated a total of 3,608,055 restricted shares, which included the executive directors. Of these allocations 1,765,044 have lapsed, leaving a balance outstanding of 1,843,011 restricted shares at the year end. The number of restricted shares allocated to each executive director and their value is shown in the Directors' Remuneration Report on page 26.

Vesting of shares under the Restricted Share Scheme 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 comprising the FTSE Small Caps index (excluding investment trusts) of 270 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 a further year. Should it fail again, the award lapses in total.

10. Tangible Fixed Assets

	Properties Freehold £'000	Properties Short Leasehold £'000	Plant, Fixtures and Fittings £'000	Total £'000
(a) **The Group**				
At 1 January 2002				
Valuation	1,127	0	0	1,127
Cost	0	1,060	1,270	2,330
	1,127	1,060	1,270	3,457
Additions	145	0	232	377
Disposals	(1,272)	(55)	(313)	(1,640)
As at 31 December 2002	0	1,005	1,189	2,194
Being				
Valuation	0	0	0	0
Cost	0	1,005	1,189	2,194
	0	1,005	1,189	2,194
Depreciation				
At 1 January 2002	55	830	594	1,479
Charge for the year	0	82	187	269
Disposals	(55)	(55)	(228)	(338)
At 31 December 2002	0	857	553	1,410
Net book value				
At 31 December 2002	0	148	636	784
At 31 December 2001	1,072	230	676	1,978

10. Tangible Fixed Assets *(continued)*

(b) **The Company**

	Fixtures and Fittings £'000
Cost at 1 January 2002	256
Disposals	(189)
At 31 December 2002	67
Depreciation at 1 January 2002	207
Charge for the year	14
Disposals	(189)
At 31 December 2002	32
Net book value	
At 31 December 2002	35
At 31 December 2001	49

11. Fixed Asset Investments

	Associates and Joint Ventures £'000	Own Shares £'000	Subsidiary Companies £'000	Total £'000
(a) The Group				
At 1 January 2002	26	454	0	480
Movement on retained earnings	(6)	0	0	(6)
Disposal during the year	(100)	0	0	(100)
Exercise of share options	0	(35)	0	(35)
Amounts written off own shares held	0	(127)	0	(127)
At 31 December 2002	(80)	292	0	212

	Associates and Joint Ventures £'000	Own Shares £'000	Subsidiary Companies £'000	Total £'000
(b) The Company				
At 1 January 2002	100	454	16,666	17,220
Disposal during year	(100)	0	0	(100)
Exercise of share options	0	(35)	0	(35)
Amounts written off own shares held	0	(127)	0	(127)
Writedowns	0	0	(531)	(531)
At 31 December 2002	0	292	16,135	16,427

(c) The following are the operating subsidiary companies of Swan Hill Group PLC at 31 December 2002 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 Limited
Swan Hill Developments Limited
Swan Hill France SA
(incorporated in France)

Housebuilding
*Swan Hill Homes Limited

Property Investment
Swan Hill Properties Limited

(d) Own shares are held by the Employee Share Trust (Note 9) and have a market value of £311,000 at 31 December 2002.

(e) The Group's investment in joint ventures is calculated as follows:

	2002	2001
	£'000	£'000
Share of aggregate gross assets	**18,390**	17,963
Less: share of aggregate gross liabilities	**(18,470)**	(17,937)
	(80)	26

The Group's investment in joint ventures relates to *Wellington Square Development Company* Limited ('WSDC'), a company incorporated and operating in England. The total issued Ordinary share capital of this company is £100 of which 50% is owned by a subsidiary. WSDC is the joint venture company which is developing the retail town centre scheme in Stockton-on-Tees. The development is being funded by bank debt *and loans from the partners which are* included within debtors falling due after one year. The bank debt is repayable on 1 August 2005 or on sale of the development. It is secured over the joint venture partners' interest in the development agreement, together with a charge over the joint venture partners' shareholding in the company.

The Group's share of the assets and liabilities of WSDC are as follows:

	2002	2002	2001	2001
	£'000	£'000	£'000	£'000
Share of assets				
Fixed assets		**0**		0
Current assets		**18,390**		17,863
		18,390		17,863
Share of liabilities				
Creditors : amounts falling due within one year	**(484)**		*(507)*	
Creditors : amounts falling due after one year				
Loans from the partners	**(5,330)**		(7,480)	
Bank debt	**(12,656)**		(9,950)	
		(18,470)		(17,937)
		(80)		(74)

The balances with joint ventures are shown in Notes 14 and 16.

The Group's share of the turnover of WSDC amounted to £778,000 (£301,000). Group operating profit includes £539,000 *(£1,218,000)* from joint ventures which, for 2002, comprises the Group's share of WSDC operating profit. The Group's share of WSDC loss before tax amounts to £19,000 (loss of £72,000).

12. Stocks

	Group 2002 £'000	Group 2001 (restated) £'000	Company 2002 £'000	Company 2001 (restated) £'000
Residential developments	72,874	87,937	0	0
Commercial developments	6,541	6,295	0	0
	79,415	94,232	0	0

13. Debtors: Amounts Falling Due Within One Year

	Group 2002 £'000	Group 2001 (restated) £'000	Company 2002 £'000	Company 2001 (restated) £'000
Trade debtors	17,749	7,252	4	55
Amounts owed by Group companies	0	0	70,859	83,971
Taxation recoverable	1	41	0	0
Deferred tax asset (Note 15)	217	890	217	0
Other debtors	628	45	628	24
Prepayments and accrued income	1,209	2,038	126	910
	19,804	10,266	71,834	84,960

14. Debtors: Amounts Falling Due After One Year

	Group 2002 £'000	Group 2001 (restated) £'000	Company 2002 £'000	Company 2001 (restated) £'000
Loan to joint venture (Note 11)	5,327	7,552	0	0
Deferred tax asset (Note 15)	328	448	300	400
Other debtors	0	37	0	0
	5,655	8,037	300	400

15. Deferred Tax

The deferred tax asset is arrived at as follows:

	Group	Group	Company	Company
	2002	2001	2002	2001
		(restated)		(restated)
	£'000	£'000	£'000	£'000
Accelerated capital allowances	**328**	448	**300**	400
Impact of change in policy for income recognition	**0**	890	**0**	0
Other timing differences	**217**	0	**217**	0
	545	1,338	**517**	400
At 1 January 2002 – as previously stated	**0**			
Prior year adjustment for FRS19	**1,338**			
Deferred tax asset at 1 January 2002	**1,338**			
Charge to profit and loss account	**(793)**			
Deferred tax asset at 31 December 2002	**545**			

16. Creditors: Amounts Falling Due Within One Year

	Group	Group	Company	Company
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
Bank loans and overdrafts (Note 17)	**11,780**	25,307	**11,540**	24,495
Payments received on account and advance payments	**210**	164	**0**	0
Trade creditors	**8,764**	5,546	**69**	78
Amounts owed to Group companies	**0**	0	**1,036**	1,028
Amounts owed to joint ventures (Note 11)	**0**	100	**0**	100
Corporation tax	**671**	1,202	**217**	0
Social Security and other taxation	**171**	38	**137**	0
Ordinary dividends payable	**1,568**	1,418	**1,568**	1,418
Pension fund accrual (Note 7)	**722**	640	**722**	640
Accruals and other creditors	**4,621**	4,764	**113**	240
	28,507	39,179	**15,402**	27,999

17. Financial Instruments

(a) The Group finances its operations through a mixture of shareholders' funds and bank borrowings. It maintains sufficient borrowing facilities for this purpose using financial instruments to manage the interest rate and currency risks that arise from those operations and from its sources of finance. The overall objectives and strategy are to maintain flexibility using unsecured facilities with drawings of limited duration. The Group has extended its euro borrowings for a further year to provide a hedge against the net assets invested in France and to benefit from lower interest rates.

The Board regularly reviews the amount drawn down under the borrowing facilities to ensure that gearing levels are appropriate to prevailing market conditions.

Short term debtors and creditors have been excluded from disclosures below.

(b) **Borrowing facilities**

The Group has borrowing facilities as follows:

	2002 £'000	2001 £'000
Overdraft facilities	**15,000**	15,000
Committed facilities expiring end 2003	**25,000**	25,000
	40,000	40,000
Amounts drawn	**(11,780)**	(25,307)
Amounts undrawn	**28,220**	14,693

These facilities are unsecured. The overdraft facilities are subject to annual review towards the end of each year. The committed facilities are subject to standard financial and other covenants which are tested twice yearly.

(c) **Profile of net financial liabilities**

The net financial liabilities at 31 December 2002 were as follows:

	Sterling £'000	Euro £'000	Total £'000
Drawings less offset deposits	**6,318**	**5,462**	**11,780**
Cash at bank and in hand	**0**	**(397)**	**(397)**
Total net financial liabilities	**6,318**	**5,065**	**11,383**
At 31 December 2001	20,171	4,937	25,108

17. Financial Instruments *(continued)*

The euro drawings have been made for a period of 12 months in respect of £4,667,000 and for a period of 3 months in respect of £795,000. During the year the Group had drawn down £3,500,000 for a period of 12 months although this has not been renewed. The sterling drawings are otherwise on a short term basis and are offset by cash balances. At each drawdown the interest rate is fixed for the period of drawing at the then current rate. The weighted average interest rate for the year for sterling and euro borrowings was 5.0% and 4.4% respectively.

The Group seeks to mitigate the effect of currency exposure by borrowing in the same currency of its main operating unit overseas. The Group had non-financial net assets denominated in euros of £5,687,000 (£5,600,000) in France at 31 December 2002. The euro drawings of £5,462,000 (£5,130,000) at 31 December 2002, *therefore, provide a hedge against this investment. All other non-financial assets and liabilities are denominated in sterling.*

The Group did not use any other financial derivatives during the year.

In the opinion of the Directors there is no significant difference between the fair values and the book values of financial assets and liabilities.

18. Provisions for Liabilities and Charges

The provision of £381,000 (£545,000) relates to obligations in respect of a partially sublet property which is leased until December 2004. The provision will be utilised over the residual period including £164,000 (£149,000) during the year.

19. Called Up Share Capital

	£'000	Equity Ordinary *Shares of 25p each* 000's
Authorised	**25,000**	**100,000**
Issued, allotted and fully paid		
At 31 December 2002	**14,912**	**59,646**
At 31 December 2001	14,910	59,642

4,561 Ordinary shares were issued and allotted in respect of options exercised in 2002 for a total consideration of £3,000. The outstanding share options are detailed in Note 9.

Under the current authority provided by shareholders, 8,940,438 Ordinary shares may be acquired by the Company. No Ordinary shares were acquired by the Company during the year.

20. Reserves

	Share Premium Account £'000	Capital Redemption Reserve £'000	Other Reserves £'000	Profit & Loss Account (restated) £'000	Total (restated) £'000
The Group					
At 1 January 2002 as previously stated	43,085	2,432	21	16,647	62,185
Prior year adjustment (Note 22)	0	0	0	(1,627)	(1,627)
At 1 January 2002	43,085	2,432	21	15,020	60,558
Issue of new shares	1	0	0	0	1
Reclassification of reserves	(199)	0	199	0	0
Retained profit for the year	0	0	0	1,886	1,886
Translation difference on foreign currency net investments	0	0	0	22	22
At 31 December 2002	42,887	2,432	220	16,928	62,467
The Company					
At 1 January 2002 as previously stated	42,886	2,432	0	14,002	59,320
Prior period adjustment (Note 22)	0	0	0	400	400
At 1 January 2002	42,886	2,432	0	14,402	59,720
Issue of new shares	1	0	0	0	1
Retained loss for the year	0	0	0	(1,439)	(1,439)
At 31 December 2002	42,887	2,432	0	12,963	58,282

21. Reconciliation of Movements in Shareholders' Funds

	Group 2002	Group 2001 (restated)	Company 2002	Company 2001 (restated)
	£'000	£'000	£'000	£'000
Profit on ordinary activities after taxation	4,491	3,613	1,166	4,558
Dividends	(2,605)	(2,364)	(2,605)	(2,364)
	1,886	1,249	(1,439)	2,194
Proceeds from the issue of new shares	3	0	3	0
Translation differences on foreign currency investments	22	(27)	0	0
Net addition/(reduction) to shareholders' funds	1,911	1,222	(1,436)	2,194
Opening shareholders' funds as previously reported	77,095	74,727	74,230	72,436
Prior period adjustments	(1,627)	(481)	400	0
Closing shareholders' funds	77,379	75,468	73,194	74,630

All shareholders' funds are equity.

22. Prior Year Adjustments

The effect of the adjustments for changes in accounting policy as set out on page 29 is as follows:

	Year ended 31 December 2001
	£'000
Profit on ordinary activities after taxation as previously reported	4,759
Change in policy for income recognition (net of tax)	(818)
FRS 19 deferred tax adjustments	(328)
Profit on ordinary activities after taxation as reported above	3,613

	At 31 Dec 2000	Movement in year	At 31 Dec 2001
	£'000	£'000	£'000
Adjustment of income recognition (net of tax)	(1,258)	(818)	(2,076)
FRS 19 deferred tax adjustments	777	(328)	449
Change in shareholders' funds	(481)	(1,146)	(1,627)

Shareholders' funds of the Company increased by £400,000 relating to FRS19 deferred tax adjustments.

23. Commitments and Contingencies

Commitments contracted for at 31 December 2002 but not provided for in these accounts were £55,000 (£nil).

Annual commitments under non-cancellable operating leases are:

	Land and buildings		Other	
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
Expiry:				
– within one year	**0**	88	**102**	16
– between two and five years	**358**	325	**31**	273
– after five years	**779**	806	**0**	0
	1,137	1,219	**133**	289

The Company has guaranteed the bank borrowings of subsidiary companies amounting to £1,900,000 at the year end.

24. Related Party Transactions

The Company has taken advantage of the exemption in FRS8 'Related Party Transactions', not to disclose transactions with wholly owned group companies. There were no other related party transactions which require disclosure other than with the joint venture (Note 11).

25. Cash Flow Notes

(a) Reconciliation of operating profits to cash flow from operating activities

	2002	2001 (restated)
	£'000	£'000
Operating profit	**6,613**	5,212
Depreciation charge	**269**	302
Loss on sales of tangible fixed assets	**0**	1
Decrease/(Increase) in stocks	**15,162**	(3,389)
(Increase) in debtors	**(7,989)**	(343)
Increase/(Decrease) in creditors	**3,499**	(829)
(Decrease) in provisions	**(164)**	(149)
Net cash inflow from operating activities	**17,390**	805

(b) Reconciliation of net cash flow to movements in net debt

	2002	2001
	£'000	£'000
Decrease in net overdraft	**9,763**	2,214
Decrease/(Increase) in debt due within one year	**4,286**	(5,102)
Change in net debt resulting from cash flows	**14,049**	(2,888)
Translation difference	**(324)**	112
Net debt at 1 January 2002	**(25,108)**	(22,332)
Net debt at 31 December 2002	**(11,383)**	(25,108

(c) Analysis of changes in net debt

	At 1 Jan 2002	Cashflows	Foreign exchange movements	At 31 Dec 2002
	£'000	£'000	£'000	£'000
Cash in hand and at bank	199	198	0	397
Overdrafts	(16,677)	9,565	0	(7,112)
	(16,478)	9,763	0	(6,715)
Debt due within one year	(8,630)	4,286	(324)	(4,668)
	(25,108)	14,049	(324)	(11,383)

FIVE YEAR REVIEW

	1998	1999	2000	2001	2002
	£m	£m	£m	£m	**£m**
Group Turnover					
Continuing operations	53	66	58	72	**77**
Discontinued operations	23	1	0	0	**0**
	76	67	58	72	**77**

	£'000	£'000	£'000	£'000	**£'000**
Profit/(loss) on ordinary activities before taxation					
Continuing operations	4,191	4,003	5,064	5,158	**5,988**
Discontinued operations	(1,316)	(2,005)	(2,425)	(234)	**(72)**
	2,875	1,998	2,639	4,924	**5,916**
Taxation charge	(1,075)	(419)	(1,386)	(1,311)	**(1,425)**
Profit on ordinary activities after taxation	1,800	1,579	1,253	3,613	**4,491**
Basic earnings per Ordinary share	2.6p	2.3p	2.1p	6.1p	**7.6p**
Dividends per Ordinary share	3.0p	3.3p	3.6p	4.0p	**4.4p**

The figures have been restated to reflect the change in accounting policies during 2002 and the disposal of Carter Commercial Developments in 1999.
Earnings per Ordinary share are shown in accordance with FRS14 and the figures for earlier years have been restated.

OPERATING COMPANIES

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House Building
Swan Hill Homes Limited
Staines Region
Swan Court, Waterman's Business Park, Kingsbury Crescent,
Staines, Middlesex TW18 3BA
Tel: 01784 464351 Fax: 01784 462907

Horsham Region
Sanford House, 5 Medwin Walk, Horsham, West Sussex RH12 1AG
Tel: 01403 248494 Fax: 01403 218312

Bristol Region
Gifford Court, Fox Den Road, Stoke Gifford, Bristol BS34 8TT
Tel: 01179 448700 Fax: 01179 448844

Property
Swan Hill Property Holdings Limited
Swan Hill Developments Limited
Swan Court, Waterman's Business Park, Kingsbury Crescent,
Staines, Middlesex TW18 3BA
Tel: 01784 464351 Fax: 01784 462907

Swan Hill France SA
31 Avenue des Champs Elysées, 75008 Paris, France
Tel: +33 1 49 53 0880 Fax: +33 1 42 25 1395

FINANCIAL DIARY

Annual General Meeting	**14 May 2003**
Announcement of Results	**Interim – early September** **Final – mid March**
Dividends in respect of Ordinary shares	**Interim – November** **Final – May**