Report · Accounts

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SUMMARY OF RESULTS

for the year ended 31 December 1999

	1999	1998 (restated)
	£'000	£'000
Turnover		
– Continuing operations	70,190	53,091
– Discontinued operations	392	22,503
	70,582	75,594
Profit before taxation		
– Continuing operations	6,024	3,971
– Discontinued operations	(2,005)	(1,316)
	4,019	2,655
Shareholders' funds	79,044	79,199
Net (borrowings)	(14,951)	(21,820)
Basic earnings per share	5.4p	3.4p
Basic earnings per share excluding discontinued operations	8.4p	5.4p
Dividends per share	3.3p	3.0p
Net assets per share	122p	116p

ADVISERS

Auditors:
PricewaterhouseCoopers

Merchant Bankers:
J. Henry Schroder & Co. Limited

Principal Bankers:
National Westminster Bank Plc
Barclays Bank PLC

Brokers:
J. Henry Schroder & Co Limited
Bell Lawrie Wise Speke, a division of Brewin Dolphin Securities Limited

Solicitors:
Linklaters & Alliance

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

"CREATING THE PLATFORM FOR GROWTH"

This has been an important year in the transformation of Swan Hill into a business centred around its core activity of residential development. The process is well underway and the necessary platform has been put in place during 1999.

STRATEGY

I am pleased to report significant progress in implementing the Group's strategy, set out this time last year, of realising the commercial development portfolio and re-investing within the Housing Division. Further progress in this direction will be made in 2000, with housing results continuing to benefit from the release of additional capital.

RESULTS

Profits before tax on continuing operations were £6.0 million (1998 : £4.0 million), an increase of 50%. Earnings per share on continuing operations rose from 5.4p to 8.4p (up 56%). Gearing at the year end was 19%, with net borrowings at £15.0 million. The Board is recommending a final dividend of 2.0p (1998 : 1.8p) giving a total for the year of 3.3p (1998 : 3.0p).

Profits before tax were £4.0 million after the loss of £2.0 million from discontinued operations, principally in respect of Carter Commercial Developments. The loss on disposal of this business was £1.2 million, primarily due to the write off of £1.3 million of goodwill arising on the original acquisition of this business. An equal amount is credited back to reserves.

NET ASSET VALUE

Net assets per share increased to 122p. This figure does not reflect the current value of the Group's housing land bank which is now substantially in excess of book value. The land bank comprised 738 plots at the end of 1999.

CHAIRMAN'S STATEMENT

HOUSING – *Strong growth*

The Housing Division is beginning to see the benefits of focusing on higher value, premium quality developments flow through to its trading results. Operating profits advanced over 60% to £6.2m. Operating margins were 15% (1998 : 12%) benefiting from a strong performance in the south east region as well as the sale of a phase of the Caversham site. Whilst the growth in house prices is unlikely to be sustained at the rate set in 1999, the outlook for the housing market remains positive.

PROPERTY – *Cash being released*

The Property Division contributed operating profits of £1.8 million, a small increase over 1998. During 1999, proceeds of around £30 million were received from disposals. These funds have been partly re-invested in completing the remaining property schemes, but approximately £18 million was released to the rest of the business. Since the year end further proceeds of £10 million have been received. The French operation made a small profit and, as previously reported, Carter Commercial Developments was sold to its management in June 1999.

SHARE PURCHASES BY THE COMPANY

During the year the Company bought back 5.4% of its ordinary share capital at an average price of 64p as well as the preference share capital of £250,000. In January 2000 the Company purchased a further 6.2% of its capital at an average price of 85p. Resolutions will be put to the AGM to renew the authority for the Company to purchase its own shares.

EMPLOYEES

In a period of transformation, additional pressures on employees inevitably arise, and I wish, on behalf of the Board, to offer our thanks to them for their continuing hard work and commitment.

FUTURE PROSPECTS – *Foundations in place*

The Group's strong progress over the last year highlights the success of our new strategy of focusing on residential development. In the absence of a significant change in trading conditions, I expect the Housing Division to make further progress during 2000, while the contribution from the Property Division is likely to decline as the size of the remaining portfolio reduces. Overall, the Group remains on track in implementing its strategy for the continued growth of the Group around its core Housing Division.

George Duncan

George Duncan
Chairman

22 March 2000

"FOCUSED FOR GROWTH"

Since March 1999, Swan Hill has made rapid progress in implementing its strategy of positioning itself principally as a residential developer of premium houses in the south of England.

'ROGRESS ON STRATEGY IMPLEMENTATION

n March 1999, the Group announced that it was ntending to develop out and realise its commercial 'roperty portfolio in the UK and France, with the 'ulk of the proceeds being re-invested in the growth 'f its residential development activities. During 1999, ·roceeds of around £30 million have been realised rom the Group's commercial property activities. Of his amount approximately £12 million has been re-ivested in completing existing commercial schemes, /ith the balance being made available to the emainder of the Group. Since the year end further roceeds of £10 million have been received.

At 31 December 1999 the net assets of the Property Division were £42.6 million (1998 : £61.0 million) and of the Housing Division were £50.0 million (1998 : £38.5 million), reflecting the switch in investment. By the end of 2000 it is expected that the Group's commercial development portfolio within the UK will number around 5 schemes, of which the largest will be the distribution and business park at Northampton and the retail scheme at Stockton.

It takes between 9 and 18 months for new capital invested in residential developments to generate returns, and it is therefore likely to be 2001 before the full effects of the redeployment of additional capital are reflected in the trading results of the Housing Division.

SWAN HILL HOMES

The Housing Division has changed from being principally a builder of volume housing, to a developer of higher value and often individually designed homes.

DESIGN AND MARKETING LED

The strategy of the Housing Division is to add value through a design and product led approach to the market as opposed to building a standard volume product. This approach is increasingly moving the Division away from competition with the volume housebuilders on standard sites into opportunities where the Division's planning, design and marketing skills can provide significant added value. *Land opportunities for such developments are* increasingly being found on sites which have had a previous use. Around three quarters of the division's developments are on such brownfield sites.

A SYMPATHETIC APPROACH TO DEVELOPMENT

Development of these sites requires a sympathetic and imaginative approach to product design and development. One such site is at Findon, a village location between Worthing and Horsham, which was acquired in 1997 and is now under development. Previously a convent, the site had a consent for around 50,000 sq ft of standard detached houses. By working with the planners, a 70,000 sq ft scheme was agreed, incorporating larger houses designed to blend with the character of the village. New house types were designed for the particular location using flint and other local materials to match the local vernacular. Sales prices have been achieved in excess of £500,000, reflecting the premium which can be gained from this approach.

OPERATING AND FINANCIAL REVIEW FOR 1999

At Wells in Somerset, 65 houses and apartments are being developed using an urban village concept. The requirement is for relatively high density whilst preserving a village feel to the development and a diversity of different designs. The use of natural stone on parts of the scheme helps to relieve the density of the development.

Average selling prices have risen from £109,000 in 1997 to £137,000 in 1999 and are expected to rise to around £180,000 in 2000. Within the current portfolio, sales values range from circa £100,000 to just under £1 million.

In 1999, 7 new sites were acquired, including a scheme for approximately 80 apartments in a prime location in Clifton, Bristol, a site for 28 large homes at Weybridge, Surrey, and another for 22 apartments close to the centre of Tetbury in Gloucestershire.

The Division is organised on the basis of 3 operating regions. The south west region is centred on Bristol and includes sites from Droitwich in the north to Wells in the south. Within the south east region a new office was opened in Horsham to develop our increasing business within the Sussex area.

The intervening area between the M4 and M3 corridor continues to be managed from the Division's head office at Staines. This structure will allow the progressive development of all three areas as further capital is released from the realisation of the Group's commercial property portfolio.

The Housing Division saw strong growth in its operating results. Profits rose to £6.2 million from £3.9 million in 1998. Unit completions were 290 (1998 : 259), with turnover rising from £31.3 million in 1998 to £43.0 million reflecting the substantial increase to average unit sales values. Operating margins improved from 12% to 15% reflecting particularly strong performance in the south east region. The land bank comprised 738 plots at the end of 1999.

PROPERTY DIVISION

Rapid progress made in developing out and realising our property assets.

The Property Division made good progress in developing out and selling its existing development portfolio. Profits rose slightly to £1.8 million with the main contributors as follows:-

- the sale to an investor of the 20,000 sq ft office scheme in Amersham which had been let during 1998;
- the sale of the Century House, Leeds site for the construction of a private hospital;
- the forward sale of a retail development in Brixton;
- the sale of Watermans Court, Staines, a 13,000 sq ft office development let in 1998; and
- the forward sale of the Wolverhampton industrial scheme of 78,000 sq ft.

Since the year end, the Division has disposed of Cygnet Court, Esher for £6.4 million. The Group has worked on the retail town centre scheme in Stockton on Tees for some five years and has been selected as preferred developer in partnership with HBG Properties. Construction has commenced and will be completed over the next 2 years. This major scheme is being progressed as a joint venture to be funded by a mixture of bank debt and equity from the partners. The Group is, therefore, committing substantial initial equity to this scheme but this will reduce as further lettings are achieved. The intention is to construct and let the development and then seek an institutional purchaser for the investment.

The distribution and business park scheme at Northampton was affected during 1999 by changing requirements from the Environment Agency on flooding issues in the Northampton area. These have been resolved and significant further development is now expected.

OPERATING AND FINANCIAL REVIEW FOR 1999

FRENCH PROPERTY

The letting market has improved during 1999 in line with the strengthening of the French economy. The buildings on the two schemes to the west of Paris are almost fully let. Since the year end, terms have been agreed for the disposal of two phases of these schemes with an international purchaser. We continue to make progress in resolving the flooding and planning issues around the site in Cagnes in the south of France. However, these will take some time to resolve and, therefore, development will continue to be inhibited.

CARTER COMMERCIAL DEVELOPMENTS

Carter Commercial Developments was sold to its management team in June 1999 for £8.1 million.

BROOK HOUSE

The Group is continuing to further its claim on the Brook House construction contract for which it retains financial responsibility following the disposal of the Construction Division in 1997. During the year an arbitrator was appointed. It is expected that points of claim will be served shortly although it is unlikely that the arbitration will take place before 2001.

FINANCIAL REVIEW

Solid financial position from which to grow the core business

Following the announcement of the new strategy, the Group has been *concentrating further investment* within the Housing Division as disposals are made from the property portfolio. As a result, capital employed within housing has risen from £38.5 million to £50.0 million whilst it has fallen from £61.0 million to £42.6 million within property. This process will continue through the current year, notwithstanding the investment required to complete existing property projects including the retail scheme at Stockton.

At the year end shareholders' funds were £79.0 million, with borrowings at £15.0 million representing a gearing level of 19%. Shareholders' funds were lower due to the purchase by the Company of 3.7 million shares at an average price of 64p. *Net assets were 122p per share.* Borrowings are likely to rise during the current year as investment is made within the Housing Division and with the further buyback of shares. Net interest payable rose to £790k (1998 : £592k).

The level of borrowings typically reflects the timing and lumpiness of new investments or disposals. The funding objectives and strategy are therefore to maintain maximum flexibility utilising facilities which are unsecured and by drawings of limited duration. Bank facilities comprise *£20 million of three year committed facilities* and a further £15 million of overdraft facilities. The Group has extended its euro borrowings for a further year to provide a partial hedge against the net assets invested in France and to benefit from lower interest rates.

OPERATING AND FINANCIAL REVIEW FOR 1999

Carter Commercial Developments is treated as a discontinued operation following its disposal for £8.1 million during last year. The loss on disposal of £1.2 million is after charging £1.3 million representing goodwill which arose on the acquisition in 1993. There is an equivalent credit of £1.3 million taken direct to reserves. A further £0.3 million has been charged within discontinued operations in respect of legal costs incurred to date on the Brook House contract.

The accounting policy for the recognition of turnover and profit for the Housing Division has been changed so that turnover and profit on the sales of houses are taken when contracts are exchanged and building is substantially complete (previously recognised on completion). This change has a minimal impact on the results for the year. It recognises a sale at the point of contract and is also an important change commercially as it allows for the proper completion of houses to a high standard without the arbitrary deadline and resultant costs imposed by accounting period ends.

The tax charge is below the standard rate due to tax losses and capital allowances brought forward from previous years. The tax charge will return closer to the UK statutory rate next year.

A further actuarial valuation of the main pension scheme was carried out as at 5 April 1999. This showed that the value of assets at that date was 100% of accrued liabilities.

The business has experienced no significant Year 2000 issues in relation to its IT systems although this continues to be monitored.

NON-EXECUTIVE DIRECTORS

G Duncan, BSc (Econ), MBA, FCA – Chairman
George Duncan, 66, has been an independent non-executive Chairman since 1993. He is also Chairman of ASW Holdings PLC and Laporte plc and a non-executive director of several other public companies. Mr Duncan is Chairman of the Remuneration and Nominations Committees.

Sir Idris Pearce, CBE, TD, DL, FRICS
Sir Idris Pearce, 66, has been an independent non-executive director since 1993. Sir Idris is Deputy Chairman of English Partnerships, the urban regeneration agency, and a director of Millennium and Copthorne Hotels PLC and a non-executive director of several other public companies. He is Chairman of the two Swan Hill pension trustee companies.

I D Maclellan, MBA, FCA
Ian Maclellan, 52, has been an independent non-executive director since 1992 and is Chairman of the Audit Committee. Mr Maclellan is Chief Executive of Cape Plc.

Dr M C S Dixson, BA, MA, DPhil(Oxon), FRAeS
Dr Maurice Dixson, 58, has been an independent non-executive director since 1994. He is Chief Executive of Simon Group PLC. Before joining the Simon Group he was a director of The General Electric Company plc (1990-93) and Group Managing Director of its Electronic Metrology and Components Groups.

EXECUTIVE DIRECTORS

J A Theakston, MA, MSc – Group Chief Executive
John Theakston, 47, 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, 50, joined the Group as Finance Director in 1989. He is a Fellow of the Institute of Chartered Accountants.

F J Low, BLE, ARICS
Fergus Low, 41, joined the Group as Managing Director of the UK Property Division in July 1998.

D P Truslove, BA, ACA
David Truslove, 39, joined the Group in 1987 and, after becoming Managing Director of the Housing Division in January 1998, joined the Board in July 1998.

GROUP COMPANY SECRETARY

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

Registered Office: Charlton House, 173 Kingston Road, New Malden, Surrey, KT3 3SS
Incorporated in England   Registered No 55973

DIRECTORS' REPORT

for the year ended 31 December 1999

The directors present their report and the audited accounts for the year ended 31 December 1999.

Results and Dividends

The result before taxation is shown in the Group profit and loss account on page 28. The transfer to reserves in the year is £1,567,000 (1998 : £285,000). The directors recommend that a final dividend of 2p per Ordinary share be paid which, together with the interim dividend of 1.3p per Ordinary share, makes a total of 3.3p for the year. The final dividend, if approved, will be paid on 16 June 2000 to members on the register at the close of business on 25 April 2000.

Principal Activities and Business Review

The Group's business comprises housebuilding, property development and property investment in the United Kingdom; and property development in continental Europe. A more detailed report on the Group's activities and strategy is contained in the Chairman's Statement and the Operating and Financial Review on pages 3 to 14.

Directors

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

No director had any material interest in any contract of significance during the year to which the Company or its subsidiaries was party other than as follows. D P Truslove acquired a residential property from the Group's Portesbury Woods development for £445,000. This transaction was approved by shareholders at an Extraordinary General Meeting held on 14 June 1999.

Interests of the directors (including those of their families) in the share and loan capital of the Company are shown on pages 23, 24 and 38. No director had any beneficial interest in the shares of any subsidiary company during the year. The Company maintained directors' and officers' liability insurance.

Substantial Shareholders Interests

At 28 February 2000 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 capital
Phildrew Nominees Limited	18.0%
Nortrust Nominees Limited	11.2%
Popeshead Nominees Limited	10.5%
RBSTB Nominees Limited	8.2%
HSBC Global Custody Nominees	6.3%
Core Nominees Limited	4.2%
Prudential Client (MSS) Nominees Limited	3.8%

Share Capital

Movements in the Company's issued share capital are shown in Note 17 on the accounts.

Employees

The Board is committed to setting the highest standards of integrity throughout the Group. Its personnel policies are set out in the 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. In addition, pension newsletters are sent periodically to all employees as well as to pensioners.

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

The Company offers various share option and long term incentive schemes, details of which are given in Note 9.

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

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

Pensions

Swan Hill 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 common normal retirement age of 63. Eligible scheme members are also covered under the Company's life assurance, personal accident and permanent health insurance arrangements.

Creditor Payment Policy

It is the Group's policy to agree payment terms with its suppliers, along with other terms and conditions, when it enters into binding purchase contracts. Its policy is to abide by the agreed payment terms provided that the supplier has delivered the goods or services in accordance with the terms and conditions of the contract. Company creditor days at 31 December 1999 were 27. 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 and Safety

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

Donations

During the financial year the Group and its Charitable Trust made charitable donations totalling £15,000 (£22,000).

No political donations were made during the year.

Auditors

The Company's auditors, PricewaterhouseCoopers, are willing to continue in office and a resolution concerning their re-appointment and remuneration will be proposed at the annual general meeting.

Annual General Meeting

A separate circular accompanying this Report explains the special business to be considered at the annual general meeting which will be held at 12 noon at the Howard Hotel, Temple Place, London WC2R 2PR on 7 June 2000.

By Order of the Board
A G Confavreux, 22 March 2000

CORPORATE GOVERNANCE COMPLIANCE STATEMENT

The Combined Code and amended Stock Exchange Listing rules were published in June 1998. The Directors believe that the Company complies materially with the principles and provisions of the Combined Code. The exception relates to provision A.2.1 which requires that there should be a senior independent non-executive director, other than the chairman. The Board considers that having an equality of executive and independent non-executive directors on the board, including an independent non-executive chairman, provides an appropriate balance of power and authority and consequently it is not planning to appoint a senior non-executive director. As regards provision B.1.7 (Terms of Service Contracts), the Board has adopted this provision with the exception of the notice periods within the Service Contracts for J A Theakston, C R H Archer and F J Low as detailed on page 22. It believes as part of its remuneration policy and in accordance with current industry practice that these periods are not exceptional.

The Turnbull Report on internal controls was published as a consultation draft in April 1999 and was incorporated into the Combined Code in September 1999. It applies to all companies with accounting periods ending on or after 23 December 1999. The Directors have adopted the transitional approach on internal controls as laid down in the guidance issued by the Stock Exchange in September 1999. The Directors have accordingly considered the implications of this report and have reviewed current practice and, where appropriate, adopted procedures to provide a continuing process for evaluating and managing the risks faced by the company. It should be understood that such a process is designed to manage, rather than eliminate, risk to achieve business objectives, and can only provide reasonable and not absolute assurance against material mis-statement or loss.

The Board

The Board comprises four executive and four independent non-executive directors. It is responsible for corporate governance and meets regularly to receive and review reports from the directors and Board Committees. It determines overall Group strategy and approves annual profit and loss and cash flow budgets and monitors these, in conjunction with revised forecasts, at regular intervals against actual performance. It also monitors internal controls including the risks associated with the business. It sets limits for working capital and capital expenditure as part of the budgeting process and authorises major new projects or contractual obligations under the reserved powers procedures as well as significant financing matters. The Board considers and, if appropriate, approves external appointments of the executive directors and the terms of these.

During 1999 there were three principal committees of the Board; the Audit, Remuneration and Nominations Committees.

Audit Committee

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

Remuneration and Nomination Committees

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

The constitution and operation of the Remuneration Committee complies with Schedule A of the Combined Code. The Committee also confirms that full *consideration has been given to Section B of the Combined Code in determining* the remuneration packages for directors for 2000.

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

Internal Financial Controls

The directors are responsible for the Group's systems of internal financial controls. These have been developed over a number of years and can only provide reasonable and not absolute assurance against material mis-statement or loss.

The internal financial control framework may be summarised as follows:

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

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

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

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

The Directors have reviewed the operation and effectiveness of the internal financial controls including the need for an internal audit function. The directors believe that the Group is not of sufficient size and complexity to require such a function.

Going Concern

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

REPORT OF THE BOARD ON REMUNERATION AND RELATED MATTERS

Details of the directors' remuneration are shown below:

	Salary and fees £'000	Benefits (ii) £'000	Annual bonus (iv) £'000	Total 1999 £'000	Total 1998 £'000
Executive					
J A Theakston (v)	187	19	0	206	235
C R H Archer	143	18	0	161	184
F J Low	156	23	20	199	87
D P Truslove	125	15	36	176	67
B T E Shrubsall (resigned 23 September 1998)	0	0	0	0	73
Non-executive					
G Duncan (iii)	57	0	0	57	57
M C S Dixson	19	0	0	19	18
Sir Idris Pearce	19	0	0	19	18
I D Maclellan	21	0	0	21	21
Aggregate emoluments for qualifying services	727	75	56	858	760

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

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

(iii) In addition to the above, the Chairman is entitled to a bonus, based on a formula linked to the Company's share price, payable between 1995 and 2002.

(iv) These bonus payments were paid in the year and refer to the year ended 31 December 1998.

(v) Highest paid director.

Aggregate pension contributions paid by the Company total £148,000 (£152,000). Those for the highest paid director were £31,000 (£30,000). All company pension contributions are paid to the Swan Hill Staff Pension Scheme, with the exception of £17,000 (£17,000) for G Duncan, £24,000 (£21,000) for C R H Archer and £31,000 (£24,000) for F J Low. There are no unfunded pension arrangements.

Pensions

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

	Age at year end	Directors' own contributions in the year £'000	Incease in accrued pension during the year £'000	Accumulated accrued pension at year end £'000
J A Theakston	47	9	10	69
C R H Archer	50	7	3	30
D P Truslove	39	6	9	27

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

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

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

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

Base Salary

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

Performance Related Bonus Scheme

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

The Company, following its announced change of strategy during 1999, entered into a special bonus arrangement with F J Low in order to facilitate the implementation of its strategy to realise the majority of its UK commercial portfolio over time in an effective manner. The retention and motivation of F J Low by way of this bonus arrangement is regarded by the Remuneration Committee as being essential to the achievement of optimum values from this strategy. The arrangements provide for a bonus to be paid related to the aggregate cash receipts generated by the disposal of properties within the UK commercial portfolio. Bonus starts to be earned at £20 million of cumulative proceeds. If aggregate proceeds of £65 million are achieved a cumulative bonus of £875,000 will be earned. If cumulative proceeds exceed £65 million because additional properties have been added to the UK commercial portfolio, F J Low will accrue bonus at a rate of 5% of the proceeds of the sale of those additional properties *after development costs. Of the total potential bonus, £500,000 is related to the* achievement of the last £10 million of proceeds between £55 million and £65 million. The provisions of this scheme will not be altered to F J Low's advantage (except for minor amendments in certain limited circumstances) without the prior approval of shareholders in general meeting.

F J Low is also a participant in the 1999 annual bonus scheme up to a maximum of 35% of base salary but will not participate in any future annual schemes. None of these bonus arrangements are pensionable.

Service Contracts

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

F J Low has entered into an agreement, supplementary to his existing service contract, which provides, inter alia, for a fixed term of employment to 31 October 2001. He retains the right to leave earlier, at his election, in certain circumstances including a change in the control of the Company. At his date of leaving, the Company is contracted to pay him a further twelve months salary and applicable pension together with applicable bonus at that date.

Share Schemes

Options granted to and exercised under the Company's Executive Share Option and Savings-Related Share Option Schemes and of the shares allocated under the Restricted Share Scheme are set out below. Details of the Option Schemes and the Restricted Share Scheme are shown in Note 9.

Directors' Share Options

	At 1 Jan 1999	Granted (Lapsed) in year	Exercised	At 31 Dec 1999	Exercise Price (p)	Date Exercisable	Expiry Date
J A Theakston							
ESOS	26,028	(26,028)	0	0	268.0	14.11.92	14.11.99
ESOS	5,206	0	0	5,206	274.7	8.11.93	8.11.00
ESOS	37,097	0	0	37,097	274.3	29.5.94	29.5.01
ESOS No 2	200,000	0	0	200,000	58.0	3.5.96	3.5.03
ESOS No 2	75,000	0	0	75,000	127.0	25.4.97	25.4.04
SRSOS – 1993	0	27,043	0	27,043	62.4	1.11.04	1.05.05
	343,331	1,015	0	344,346			
C R H Archer							
ESOS	41,645	0	0	41,645	336.2	22.5.93	22.5.00
ESOS	35,549	0	0	35,549	274.3	29.5.94	29.5.01
ESOS No 2	100,000	0	0	100,000	58.0	3.5.96	3.5.03
ESOS No 2	50,000	0	0	50,000	127.0	25.4.97	25.4.04
	227,194	0	0	227,194			
F J Low	0	0	0	0			
D P Truslove							
ESOS	10,411	0	0	10,411	274.7	8.11.93	8.11.00
ESOS	2,000	0	0	2,000	87.0	25.10.97	25.10.04
SRSOS	2,336	(2,336)	0	0	62.0	7.8.98	7.2.99
SRSOS	1,811	0	0	1,811	79.5	7.8.99	7.2.00
SRSOS – 1993	3,363	0	0	3,363	80.0	7.9.99	7.3.00
SRSOS – 1993	18,412	0	0	18,412	71.2	7.12.02	7.6.03
SRSOS – 1993	0	6,490	0	6,490	62.4	1.11.04	1.05.05
	38,333	4,154	0	42,487			

The market price of the shares at 31 December 1999 was 64p and the range during 1999 was 37p to 78p

Restricted Share Scheme

	Number of Shares allocated				Period before vesting	Range of value at vesting of total allocation*
	At 1 Jan 1999	Allocated in year	Lapsed in year	At 31 Dec 1999	years	£'000
J A Theakston	278,999	150,000	(92,667)	336,332	3-4	0-215
C R H Archer	212,240	125,000	(70,948)	266,292	3-4	0-170
F J Low	100,000	0	0	100,000	3-4	0-64
D P Truslove	75,303	200,000	0	275,303	3-4	0-176
	666,542	475,000	(163,615)	977,927		

*The maximum value has been based on the share price as at 31 December 1999 (64p) and assumes full vesting.

DIRECTORS' RESPONSIBILITIES

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

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

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

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

(iv) to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS' REPORT

To the Members of Swan Hill Group PLC

We have audited the financial statements on pages 26 to 53.

Respective Responsibilities of Directors and Auditors

The directors are responsible for preparing the Annual Report. As described on page 24, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

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

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

We review whether the statement on pages 18 and 19 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statement on internal controls covers all risks and controls, nor to form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

Basis of Audit Opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 1999 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers
PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
No 1 London Bridge
London SE1 9QL

22 March 2000

ACCOUNTING POLICIES

Basis of Accounting

The accounts have been prepared in accordance with the requirements of the Companies Act 1985 using the historical cost basis of accounting modified to include the revaluation of certain assets and in accordance with applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently except as follows, are set out below.

The accounting policy for the recognition of turnover on the sale of homes has been changed to when contracts are exchanged and building is substantially complete (previously recognised on completion) so that sales are recognised at the point of contract. The impact on the results for 1999 is minimal with a reduction to operating profits of £3,000 (1998 – a reduction of £441,000).

Following the introduction of FRS 12, the Company has also changed its accounting policy to make provision for obligations in respect of a leased property which is substantially unlet. This provision is then released over the term of the lease with a consequent benefit of £122,000 to the results for 1999 (1998 – £nil).

Both these changes have been reflected by means of prior period adjustments with the 1998 figures restated accordingly.

Consolidation

The consolidated accounts comprise the accounts of the Company and its subsidiaries drawn up to 31 December 1999. 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 acquisition prior to 1 January 1998 has been written off to reserves. Following the issuance of FRS10, goodwill will be amortised over its useful economic life for future acquisitions.

Turnover

Turnover comprises the sales value of houses exchanged which are substantially complete. Turnover also comprises the sales value of property developments in the course of development and property rents receivable. It is reported net of value added tax.

Pensions

During the year the Group operated two pension schemes covering all eligible staff employees: a final salary scheme and a money purchase scheme. The schemes' funds are administered by trustees and are independent of the Group's finances.

The final salary scheme is fully funded and contributions are paid to the scheme in accordance with the recommendations of independent actuaries to provide retirement benefits based on projected final salaries. Company costs relating to the final salary scheme are charged to the profit and loss account so as to spread the cost of pensions over the average expected working lives with the Company of employees who are members of the scheme.

The money purchase scheme is an insured scheme to which the Company makes contributions which are charged against the profits in the year in which they are payable. This scheme was discontinued after 5 April 1999.

Depreciation

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

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

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

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

Leased Assets

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

Stocks

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

Investments

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

Deferred Taxation

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

Foreign Currencies

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

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1999

	Note	Continuing operations 1999	Discontinued operations 1999	Total 1999	1998 (restated)
		£'000	£'000	£'000	£'000
Turnover	1	70,190	392	70,582	75,594
Cost of sales		(55,816)	(443)	(56,259)	(65,002)
Gross profit/(loss)		14,374	(51)	14,323	10,592
Administrative expenses		(7,494)	(376)	(7,870)	(7,377)
Operating profit/(loss)		6,880	(427)	6,453	3,215
Income from interest in associated undertakings		0	0	0	32
Trading profit/(loss)	1	6,880	(427)	6,453	3,247
Profit on disposal of property fixed assets		25	0	25	0
Loss on disposal of discontinued operations	6	0	(1,578)	(1,578)	0
Profit/(loss) on ordinary activities before interest	1	6,905	(2,005)	4,900	3,247
Net interest payable and similar charges	2	(881)	0	(881)	(592)
Profit/(loss) on ordinary activities before tax		6,024	(2,005)	4,019	2,655
Taxation on ordinary activities	3			(407)	(329)
Profit on ordinary activities after tax				3,612	2,326
Dividends – equity and non equity	4			(2,045)	(2,041)
Retained profits	18			1,567	285
Basic earnings per Ordinary share	5			5.4p	3.4p
Diluted earnings per Ordinary share	5			5.4p	3.4p
Basic earnings per Ordinary share excluding discontinued operations	5			8.4p	5.4p

Turnover in 1998 represents £53,091,000 from continuing operations and £22,503,000 from discontinued operations. Trading profit/(loss) in 1998 represents £4,563,000 from continuing operations less a loss from discontinued operations of £(1,316,000).

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

BALANCE SHEETS

as at 31 December 1999

	Note	Group 1999 £'000	Group 1998 (restated) £'000	Company 1999 £'000	Company 1998 £'000
Fixed assets					
Tangible assets	10	12,082	13,068	130	148
Investments	11	569	700	17,221	17,345
		12,651	13,768	17,351	17,493
Current assets					
Stocks	12	86,450	92,768	0	0
Debtors: Amounts falling due within one year	13	12,428	27,770	81,635	68,839
Debtors: Amounts falling due after one year	14	262	377	0	0
Cash at bank and in hand		447	536	0	2,429
		99,587	121,451	81,635	71,268
Creditors: Amounts falling due within one year	15	(32,366)	(55,070)	(21,972)	(21,240)
Net current assets		67,221	66,381	59,663	50,028
Total assets less current liabilities		79,872	80,149	77,014	67,521
Provision for liabilities and charges	21	(828)	(950)	0	0
Net assets		79,044	79,199	77,014	67,521
Represented by:					
Capital and Reserves					
Called up share capital	17	16,169	17,340	16,169	17,340
Share premium account	18	43,082	43,082	42,883	42,883
Capital redemption reserve	18	1,171	0	1,171	0
Other reserves	18	21	21	0	0
Profit and loss account	18	18,601	18,756	16,791	7,298
Total shareholders' funds	19	79,044	79,199	77,014	67,521

Details of the split between equity and non-equity shareholders' funds are shown in Note 19.

Approved by the Board of Directors on 22 March 2000

G Duncan
Director

C R H Archer
Director

GROUP CASH FLOW STATEMENT

for the year ended 31 December 1999

	Note	1999 £'000	1999 £'000	1998 (restated) £'000	1998 (restated) £'000
Net cash inflow (outflow) from operating activities	25(a)		3,414		(12,367)
Dividends received from joint ventures and associates			7		1,193
Returns on investments and servicing of finance					
Interest received		101		127	
Interest paid		(856)		(702)	
Dividends paid on non-equity shares		(13)	(768)	(12)	(587)
Taxation			61		(529)
Capital expenditure and financial investment					
Purchase of tangible fixed assets		(954)		(500)	
Disposal of tangible fixed assets		1,455		8	
Disposal of own shares		121	622	0	(492)
Acquisitions and disposals					
Net proceeds from sale of subsidiaries			7,334		0
Equity dividends paid			(2,050)		(1,928)
Cash inflow (outflow) before financing			8,620		(14,710)
Financing					
Purchase of own shares		(2,682)		0	
Increase in debt due within one year		0	(2,682)	410	410
Cash flows for the period			5,938		(14,300)
Opening net overdraft			(15,365)		(1,065)
Translation differences			157		0
Closing net overdraft			(9,270)		(15,365)
Net overdraft			(9,270)		(15,365)
Debt due within one year			(5,681)		(6,455)
Total net borrowings			(14,951)		(21,820)

GROUP STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 December 1999

	1999	1998
		(restated)
	£'000	£'000
Profit on ordinary activities after tax	3,612	2,326
Translation differences on foreign currency net investments	(1,255)	667
Hedging gains (losses) on foreign currency borrowings	931	(406)
Total gains and losses recognised in the year	3,288	2,587
Prior year adjustment	(806)	
Total gains and losses recognised since previous financial statements	2,482	

1. SEGMENTAL ANALYSIS

	1999	1998 (restated)
	£'000	£'000
Turnover – by principal activity		
Housing	42,985	31,286
Property	27,205	21,805
Continuing operations	70,190	53,091
Discontinued operations	392	22,503
	70,582	75,594
Turnover – by geographical area		
United Kingdom	70,086	75,091
Rest of European Union	496	503
	70,582	75,594
Trading profit – by principal activity		
Housing	6,247	3,901
Property	1,818	1,716
	8,065	5,617
Group and other costs	(1,160)	(1,054)
Continuing operations	6,905	4,563
Discontinued operations	(2,005)	(1,316)
Profit before interest	4,900	3,247
Trading Profit – by geographical area		
United Kingdom	5,969	4,131
Rest of European Union	91	170
	6,060	4,301
Group and other costs	(1,160)	(1,054)
Profit before interest	4,900	3,247
Trading profit from continuing operations (as above)	6,905	4,563
Net interest payable	(881)	(592)
Profit before tax from continuing operations	6,024	3,971

1. SEGMENTAL ANALYSIS (Continued)

	1999 £'000	1998 (restated) £'000
Net assets – by principal activity		
Housing	50,049	38,473
Property – Continuing operations	42,603	53,532
– Carter Commercial Developments	0	7,490
Group and other	1,343	1,524
	93,995	101,019
Net bank borrowings	(14,951)	(21,820)
Net assets	79,044	79,199
Net assets – by geographical area		
United Kingdom	85,193	90,829
Rest of European Union	8,802	10,190
	93,995	101,019
Net bank borrowings	(14,951)	(21,820)
Net assets	79,044	79,199

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

Included in the results of the UK Property division is the share of profits from associated companies of £0 (£32,000).

2. NET INTEREST PAYABLE AND SIMILAR CHARGES

	1999	1998
	£'000	£'000
Interest payable on:		
Bank loans and overdrafts	(890)	(719)
All other loans	(1)	(1)
	(891)	(720)
Interest receivable	101	128
	(790)	(592)
Unwinding of discount in lease provision	(91)	0
	(881)	(592)

3. TAXATION

	1999	1998
	£'000	£'000
Taxation charge on profit on ordinary activities comprises:		
UK corporation tax at the rate of 30.25% (31.0%) based on the taxable result for the year	(441)	0
In respect of prior years	44	13
Tax payable on associated undertakings' profits	0	(3)
Advance corporation tax written back	0	92
	(397)	102
Overseas taxation – current	(45)	(79)
– in respect of prior years	35	(352)
	(407)	(329)

4. DIVIDENDS

	1999 £'000	1998 £'000
On non-equity Preference shares:		
4.9p paid per share (4.9p)	**12**	12
On equity Ordinary shares:		
Interim paid 1.3p per share (1.2p)	834	812
Final proposed 2.0p per share (1.8p)	1,199	1,217
	2,045	2,041

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 £3,600,000 (£2,314,000) and 66,926,000 (67,614,000) being the weighted average number of Ordinary shares in issue less the weighted average of 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 45,000 (62,000) shares.

The basic earnings per Ordinary share excluding discontinued operations is calculated on the profit for the year from continuing operations (before dividends on Ordinary shares) of £5,605,000 (£3,630,000) and 66,926,000 (67,614,000) being the weighted average number of Ordinary shares in issue less the weighted average of those owned by the Employee Share Trust.

6. PROFIT (LOSS) ON ORDINARY ACTIVITIES BEFORE TAX

	1999 £'000	1998 £'000
The profit is stated after crediting:		
Net operating rents receivable	1,126	846
and after charging:		
Depreciation of fixed assets	337	309
Loss on disposal of fixed assets	4	0
Auditors' remuneration	112	119
Fees payable to auditors for non-audit work in the UK		
Taxation	148	170
Disposal of Carter Commercial Developments	270	0
Others	22	9
Hire of plant on operating leases	406	410
Directors' emoluments (excluding pension contributions)	858	760

Audit fees payable by Swan Hill Group PLC total £35,000 (£40,000).

The loss on disposal of discontinued operations represents:

Loss on disposal of Carter Commercial Developments (Note 11f)	1,251
Legal costs in relation to Brook House construction contract (Note 24)	327
	1,578

7. EMPLOYEE INFORMATION

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

	1999	1998
	Numbers	Numbers
Housing	109	97
Property	42	57
	151	154

(b) Group employment costs:

	£'000	£'000
Gross salaries and wages	4,774	4,958
Employers' National Insurance Contributions or foreign equivalents	485	470
Employers' pension costs	535	207
	5,794	5,635

During the year, the Group operated two funded pension schemes which were open to eligible employees.

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

The charge to the profit and loss account is such as to spread the cost of pensions over the working lives of employees who are members of the Scheme. The cost of accruing benefits for the year was £633,000 (£475,000). 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 a reduction of £196,000 (£352,000) for the year, resulting in a pension charge of £437,000 (£123,000). The charge has been determined on the advice of qualified actuaries, who are partners of Watson Wyatt Partners, and is based on the most recent actuarial valuation of the Scheme, which took place as at 5 April 1999 using the projected unit method. The most significant long-term actuarial assumptions were that the rates of return on new and existing investments would be 5.75% per annum and 5.25% per annum respectively, 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 £548,000 (£475,000) for the year. An amount of £769,000 (£880,000) which represents accumulated pension costs in excess of Company contributions has been included in creditors.

The result of the actuarial valuation showed that the value of the assets at 5 April 1999 represented 100% of the value of the accrued benefits, after allowing for expected future increases in earnings. The market value of the Scheme's assets was £54.2 million at 5 April 1999.

The Swan Hill No. 2 Pension Scheme is a money purchase scheme which was discontinued after 5 April 1999. The Company's contributions of £2,000 (£6,000) and £96,000 (£78,000) to personal pension schemes are charged to the profit and loss account in the year in which they are payable.

8. DIRECTORS' INFORMATION

(a) **Remuneration**

This is shown in the Report of the Board on Remuneration and Related Matters on page 20.

(b) Directors' beneficial interests in Ordinary shares

	As at 1 January 1999	As at 31 December 1999
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
F J Low	Nil	Nil
I D Maclellan	6,000	6,000
Sir Idris Pearce	1,500	1,500
D P Truslove	25,659	25,659

In addition details of Directors' share options and restricted share allocations are shown in the Report of the Board on Remuneration and Related Matters on page 20.

No changes in directors' interests took place between 1 January and 22 March 2000 inclusive.

There are no non-beneficial interests held by directors.

9. SHARE OPTION SCHEMES

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

	Exercisable	Option price (p)	Number of shares
Swan Hill Group PLC Savings-Related Share Option Scheme (SRSOS)	7.8.99	79.50	1,811
Swan Hill Group PLC 1993 Savings-Related Share Option Scheme (SRSOS – 1993)	7.9.99	80.00	26,387
	7.8.00	61.00	15,834
	7.8.01	78.40	17,072
	7.12.02	71.20	48,935
	1.6.03	66.80	117,025
	1.11.04	62.40	111,410
Swan Hill Group Executive Share Option Scheme (ESOS)	22.5.93 to 22.5.00	336.17	41,645
	8.11.93 to 8.11.00	274.71	26,028
	29.5.94 to 29.5.01	274.27	72,646
	25.10.97 to 25.10.04	87.00	46,500
Swan Hill Group PLC Executive Share Option Scheme No. 2 (ESOS No. 2)	3.5.96 to 3.5.03	58.00	308,000
	25.4.97 to 25.4.04	127.00	125,000
			958,293

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

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

Employee Share Trust

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

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

The Company has made interest free loans of £473,000 to the Trust, repayable upon demand, which the Trust has used to purchase Ordinary shares of the Company; the Trustees have waived dividends to all except 0.001p per share on these shares. The Trust currently holds 537,500 Ordinary shares of the Company, over which there are outstanding options relating to 433,000 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 1999, 19 participants were allocated a total of 2,049,248 restricted shares, which included the executive directors. Of these allocations 826,100 have lapsed, leaving a balance outstanding of 1,223,148. The number of shares allocated to each executive director and their value is shown in the Report of the Board on Remuneration and Related Matters on page 24.

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

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

10. TANGIBLE ASSETS

		Properties Freehold £'000	Properties Long Leasehold £'000	Properties Short Leasehold £'000	Plant, Fixtures and Fittings £'000	Total £'000
(a)	**The Group**					
	At 1 January 1999					
	Valuation	11,683	281	1,021	0	12,985
	Cost	0	0	0	1,157	1,157
		11,683	281	1,021	1,157	14,142
	Additions	747	0	20	76	843
	Disposals	(1,503)	0	0	(187)	(1,690)
	As at 31 December 1999	10,927	281	1,041	1,046	13,295
	Being					
	Valuation	10,214	281	1,021	0	11,516
	Cost	713	0	20	1,046	1,779
		10,927	281	1,041	1,046	13,295
	Depreciation					
	At 1 January 1999	181	0	601	292	1,074
	Charge for the year	45	4	73	215	337
	Disposals	(129)	0	0	(69)	(198)
	At 31 December 1999	97	4	674	438	1,213
	Net book value					
	At 31 December 1999	10,830	277	367	608	12,082
	At 31 December 1998	11,502	281	420	865	13,068

10. TANGIBLE ASSETS (Continued)

(b) The freehold properties are incorporated at valuations made by a Chartered Surveyor who was an employee of the Group on an open market basis at 31 December 1998. The Directors are of the view that the values for these properties have not altered significantly subsequent to that date.

(c) The historical cost of all Group properties at 31 December 1999 amounted to £12,976,000 (£14,936,000) against which cumulative depreciation of £768,000 (£780,000) would have been provided under SSAP12.

(d) The carrying value of investment properties included above, all of which are freeholds, was £8,266,000.

(e)

	Fixtures and Fittings £'000
The Company	
Cost at 1 January 1999	205
Additions	31
Disposals	(4)
At 31 December 1999	232
Depreciation at 1 January 1999	57
Charge for the year	47
Disposals	(2)
At 31 December 1999	102
Net book value	
At 31 December 1999	130
At 31 December 1998	148

11. FIXED ASSET INVESTMENTS

		Quoted Securities £'000	Own Shares £'000	Associates and Joint Ventures £'000	Subsidiary Companies £'000	Total £'000
(a)	**The Group**					
	At 1 January 1999	3	576	121	0	700
	Disposals	(3)	(121)	(7)	0	(131)
	At 31 December 1999	0	455	114	0	569
(b)	The Company					
	At 1 January 1999	3	576	100	16,666	17,345
	Disposals	(3)	(121)	0	0	(124)
	At 31 December 1999	0	455	100	16,666	17,221

(c) The following are the operating subsidiary companies of Swan Hill Group PLC at 31 December 1999 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
*Cygnet Corporate Centres Limited

(d) Own shares are held by the Employee Share Trust (Note 9) and have a market value of £344,000.

(e) The following are the principal associates and joint ventures of Swan Hill Group PLC at 31 December 1999.

	Proportion of share capital owned	Country of Incorporation and Operation	Total Issued Ordinary shares
Berkeley Hill Limited	50	England	£200,000
Brewery Wharf (Leeds) Limited	50	England	£1,000
Dockside Developments Limited	50	England	£100
Wellington Square Development Company Limited	50	England	£100

The investment in Berkeley Hill Limited is held by the Company. The investment in all other associated and joint venture companies is held by subsidiaries.

The associated and joint venture companies are either at an early stage of their development activity or have completed and sold the developments to which they relate in previous years. Any turnover or expenses which fall to be recorded in the profit and loss accounts of these companies during the year is negligible. The Group's investment in associated and joint venture companies of £114,000 reflects the Group's share of aggregate gross assets less gross liabilities in those companies of £644,000 less £530,000 respectively. Funding balances with associates and joint ventures are shown in Notes 13 and 15.

(f) **Disposal of Carter Commercial Developments**

Carter Commercial Developments was sold for £7,660,000 (after costs of the transaction of £395,000) on 14 June 1999. The loss on disposal of £1,251,000 is after charging £1,284,000 through the profit and loss account representing goodwill which arose on acquisition in 1993 previously written off against reserves. There is an equivalent credit direct to reserves. The net assets disposed of were as follows:

	£'000
Fixed assets	36
Current assets	21,119
Current liabilities	(13,528)
Goodwill previously written off to reserves	1,284
	8,911
Loss on disposal	(1,251)
Proceeds after costs of transaction	7,660

12. STOCKS

	Group 1999 £'000	Group 1998 £'000	Company 1999 £'000	Company 1998 £'000
Residential developments	56,450	47,332	0	0
Commercial developments	30,000	45,436	0	0
Net work-in-progress	86,450	92,768	0	0

13. DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 1999 £'000	Group 1998 £'000	Company 1999 £'000	Company 1998 £'000
Trade debtors	5,651	4,986	4	2
Amounts recoverable on contracts	3,842	17,607	3,842	3,024
Shared equity housing sales	0	173	0	3
Amounts owed by Group companies	0	0	77,424	61,767
Amounts owed by associates and joint ventures	473	344	0	0
Taxation recoverable	93	382	56	56
Prepayments and accrued income	1,240	2,345	197	192
Dividends receivable	0	0	0	2,900
Other debtors	1,129	1,933	112	895
	12,428	27,770	81,635	68,839

14. DEBTORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	Group 1999 £'000	Group 1998 £'000	Company 1999 £'000	Company 1998 £'000
Shared equity housing sales	144	249	0	0
Other	118	128	0	0
	262	377	0	0

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 1999 £'000	Group 1998 £'000	Company 1999 £'000	Company 1998 £'000
Bank loans and overdrafts (Note 16)	15,398	22,356	18,051	15,477
Payments received on account and advance payments	389	14,828	0	0
Trade creditors	9,255	9,812	247	29
Amounts owed to Group companies	0	0	883	1,707
Amounts owed to associates and joint ventures	85	89	85	85
Taxation on profits	406	227	0	187
Social Security and other taxation	35	31	0	0
Dividends payable	1,199	1,217	1,199	1,217
Pension fund accrual (Note 7)	769	880	769	880
Accruals and other creditors	4,830	5,630	738	1,658
	32,366	55,070	21,972	21,240

16. FINANCIAL INSTRUMENTS

(a) Information of the Group's objectives and strategy with regard to financial instruments is set out in the Operating and Financial Review on page 13. Non-financial debtors and creditors have been excluded from the disclosures below.

(b) Borrowing facilities

The Group has borrowing facilities as follows:

	1999
	£'000
Overdraft facilities	15,000
Committed facilities expiring end 2001	20,000
	35,000

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 financial liabilities**

The net financial liabilities at 31 December 1999 were as follows:

	Sterling	Euro	Total
	£'000	£'000	£'000
Drawings less offset deposits	9,717	5,681	15,398
Cash at bank and in hand	(53)	(394)	(447)
Total net financial liabilities	9,664	5,287	14,951

The euro drawings have been made for a period of 12 months. The sterling drawings are 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 Group had non-financial net assets of £8,802,000 in France at 31 December 1999. The drawings in euros provide a partial hedge against this investment. To the extent that the sterling conversion rate with the euro alters there is a consequential credit or charge to reserves. 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.

17. CALLED UP SHARE CAPITAL

	Authorised	Issued allotted and fully paid 1999	Issued allotted and fully paid 1998
	£'000	£'000	£'000
Non-equity 4.9% Cumulative preference shares of £1 each	0	0	250
Equity Ordinary shares of 25p each	25,000	16,169	17,090
	25,000	16,169	17,340

The non-equity Preference shares were repaid and cancelled on 20 September 1999. An amount of £250,000 equal to that repaid has been credited to the Capital Redemption Reserve.

No Ordinary shares were issued and allotted in respect of options exercised in 1999. The outstanding share options are detailed in Note 9.

During the year the Company acquired 3,683,045 of its own Ordinary shares at an average price of 64p per share under the authority provided by shareholders at an Extraordinary General Meeting held on 31 August 1999. An amount of £921,000 equal to the nominal value of the ordinary shares acquired has been credited to the Capital Redemption Reserve. 4,210,000 Ordinary shares were acquired at an average price of 85p per share subsequent to the year end under the same authority. A further 2,353,955 Ordinary shares may be acquired under this authority.

18. RESERVES

	Share Premium Account £'000	Capital Redemption Reserve £'000	Other Reserves £'000	Profit & Loss Account £'000	Total £'000
The Group					
At 1 January 1999	43,082	0	21	18,756	61,859
Transfer from the Profit and Loss Account	0	0	0	1,567	1,567
Purchased goodwill written back	0	0	0	1,284	1,284
Purchase of own shares	0	0	0	(2,682)	(2,682)
Transfer from Share Capital	0	1,171	0	0	1,171
Translation difference on foreign currency net investments	0	0	0	(324)	(324)
At 31 December 1999	43,082	1,171	21	18,601	62,875
The Company					
At 1 January 1999	42,883	0	0	7,298	50,181
Transfer from the Profit and Loss Account	0	0	0	12,175	12,175
Purchase of own shares	0	0	0	(2,682)	(2,682)
Transfer from Share Capital	0	1,171	0	0	1,171
At 31 December 1999	42,883	1,171	0	16,791	60,845

19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	Group 1999 £'000	Group 1998 £'000	Company 1999 £'000	Company 1998 £'000
Profit for the financial year	3,612	2,326	14,220	2,222
Dividends	(2,045)	(2,041)	(2,045)	(2,041)
	1,567	285	12,175	181
Purchased goodwill written back	1,284	0	0	0
Purchase of own shares	(2,682)	0	(2,682)	0
Translation differences on foreign currency investments	(324)	261	0	0
Net (reduction)/addition to shareholders' funds	(155)	546	9,493	181
Opening shareholders' funds as previously reported	80,005	79,018	67,521	67,340
Prior period adjustments (Note 20)	(806)	(365)	0	0
Closing shareholders' funds	79,044	79,199	77,014	67,521

All shareholders' funds are equity, except for £250,000 in 1998 for both the Group and the Company.

20. PRIOR YEAR ADJUSTMENT

The effect of the adjustments for changes in accounting policy as set out on page 26 is as follows:

	Year ended 31 Dec 1998 £'000
Profit on ordinary activities after taxation as previously stated	2,767
Change in policy for income recognition	(441)
Profit on ordinary activities after taxation as restated	2,326

	At 31 Dec 1997 £'000	Movement in year £'000	At 31 Dec 1998 £'000
Adjustment of income recognition	585	(441)	144
Provision for lease obligations	(950)	0	(950)
Change in shareholders' funds	(365)	(441)	(806)

21. PROVISIONS FOR LIABILITIES AND CHARGES

This represents the provision for obligations in respect of a leased property which is substantially unlet. £122,000 has been released to the profit and loss account during the year. There is no potential liability for deferred taxation.

22. COMMITMENTS

There were no capital expenditure commitments contracted for at 31 December 1999 but not provided for in these accounts.

Commitments for operating leases contracted at 31 December 1999 but not provided for in these accounts were £1,074,000 (£1,264,000) per annum. Those referring to land and buildings fell into the following expiry bands: one year £0 (£6,000); two to five years £413,000 (£88,000); over five years £449,000 (£774,000); and those for motor cars: one year £142,000 (£0), two to five years £70,000 (£396,000).

23. RELATED PARTY TRANSACTIONS

There were no related party transactions which require disclosure other than with associates and joint ventures (Note 11e) and a property sale to a director (page 16).

24. CONTINGENT ITEMS

(a) **The Company**

The Company has guaranteed the bank overdrafts of subsidiary companies.

(b) **Disposal of Construction Activities**

The Group is continuing to further its claim on the Brook House construction contract for which it retains financial responsibility following the disposal of the Construction Division in 1997. During the year an arbitrator was appointed. It is expected that points of claim will be served shortly although it is unlikely that the arbitration will take place before 2001. The Group continues to prosecute this claim vigorously and has charged £327,000 to cover legal costs incurred to date which is included within the loss on disposal of discontinued operations.

Swan Hill Group PLC gave certain warranties and indemnities in connection with the disposal of the construction activities to HBG (UK). Claims under these must individually exceed £75,000 before accruing against the Group with the maximum liability limited to £1,500,000. HBG (UK) have reserved their position with regard to warranty claims but the company does not believe it has any liability.

25. CASH FLOW NOTES

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

	1999	1998
	£'000	£'000
Operating profit	6,453	3,215
Depreciation charge	337	309
Loss on sales of tangible fixed assets	29	1
(Increase) in stocks	(3,755)	(16,485)
Decrease/(Increase) in debtors	2,869	(10,544)
(Decrease)/Increase in creditors	(2,307)	10,552
(Decrease)/Increase in provisions	(212)	585
Cash flow from operating activities	3,414	(12,367)

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

	1999	1998
	£'000	£'000
Decrease/(Increase) in net overdraft	6,095	(14,300)
Decrease/(Increase) in debt due within one year	774	(410)
Change in net debt	6,869	(14,710)
Net debt at 1 January 1999	(21,820)	(7,110)
Net debt at 31 December 1999	(14,951)	(21,820)

(c) **Analysis of changes in net debt**

	At 1 Jan 1999	Cashflows	Foreign exchange movements	At 31 Dec 1999
	£'000	£'000	£'000	£'000
Cash in hand and at bank	536	(89)	0	447
Overdrafts	(15,901)	6,027	157	(9,717)
	(15,365)	5,938	157	(9,270)
Debt due within one year	(6,455)	0	774	(5,681)
Total	(21,820)	5,938	931	(14,951)

FIVE YEAR REVIEW

	1995	1996	1997	1998	1999
	£m	£m	£m	£m	£m
Turnover					
Continuing operations	53	66	75	53	70
Discontinued operations	298	280	14	23	1
	351	346	89	76	71

	£'000	£'000	£'000	£'000	£'000
Profit (loss) on ordinary activities before tax					
Continuing operations	1,539	858	4,782	3,971	6,024
Discontinued operations	(9,372)	(4,670)	4,514	(1,316)	(2,005)
Profit (loss) on ordinary activities	(7,833)	(3,812)	9,296	2,655	4,019
Taxation charge	(272)	(1,030)	(876)	(329)	(407)
Profit (loss) on ordinary activities after taxation	(8,105)	(4,842)	8,420	2,326	3,612
Basic earnings (loss) per Ordinary share	(12.5)p	(7.4)p	12.6p	3.4p	5.4p
Dividends per Ordinary share	2.5p	2.5p	2.75p	3.0p	3.3p

The figures have been restated to reflect the disposal of the construction business in 1997 and 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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Swan Hill Developments Limited
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FINANCIAL DIARY

Annual General Meeting	7 June 2000
Announcement of Results	Interim – mid September Final – mid March
Dividends in respect of Ordinary shares	Interim – December Final – June