Annual Report and Accounts 1997

Cussins

Property Group plc

Company number: 1589824

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COMPANIES HOUSE 27/06/98

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"The Board's policy of expanding
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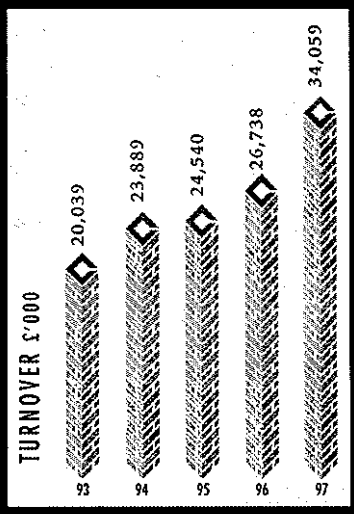
of the improved market experienced

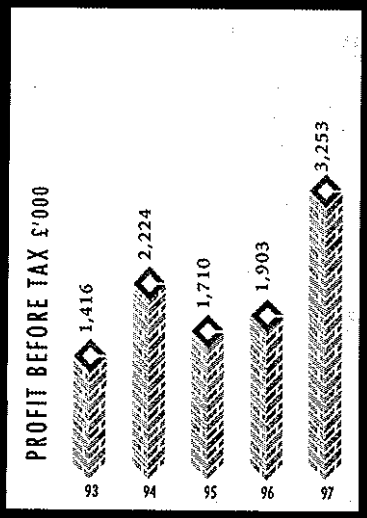
FINANCIAL CALENDAR

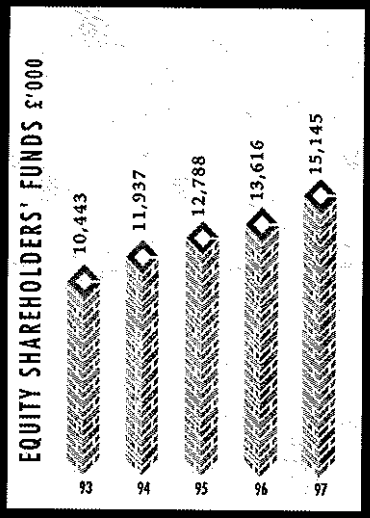
Results announcements	
Interim results – 6 months to 30 June 1998	September 1998
Final results – year ending 31 December 1998	March 1999
Dividend payments	
Final – year ended 31 December 1997	4 June 1998
Interim – 6 months to June 1998	October 1998
Annual General Meeting	2 June 1998

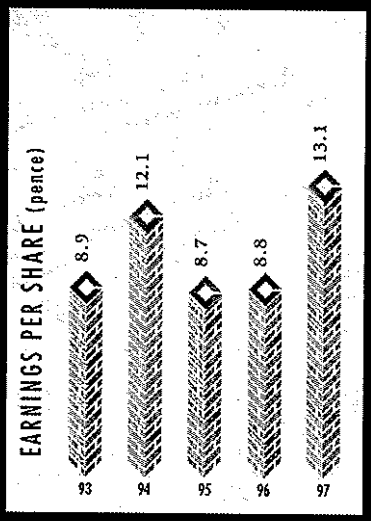


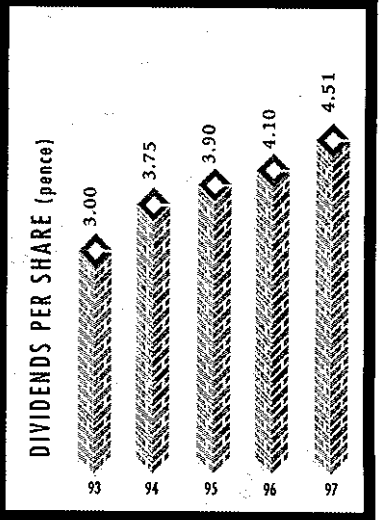
	1997	1996	change
Turnover	£34.1m	£26.7m	Up 27%
Gross margin	18.7%	18.3%	Up 3%
Profit before interest and tax	£3.91m	£2.61m	Up 50%
Profit before tax	£3.25m	£1.90m	Up 71%
Profit after tax	£2.33m	£1.55m	Up 50%
Return on average capital employed	16.2%	11.7%	Up 38%
Dividend per share	4.51p	4.10p	Up 10%
Earnings per share	13.1p	8.8p	Up 49%
Shareholders' equity	£15.1m	£13.6m	Up 11%
Net assets per share	85p	76p	Up 12%

housebuilding operations and adding commercial contracting, has underpinned our success in 1997. improve on that performance, given a continuation in the last 12 months." P I CUSSINS, CHAIRMAN









In 1997 the Group delivered earnings growth through supported by urban regeneration and commercial Low risk commercial development at Royal Quays, of earnings from current

Results and dividends

Group profit before tax increased by 71% to £3.25m (1996: £1.90m). This record performance reflects higher contributions from the core housebuilding businesses, Cussins Homes North and Cussins Homes Yorks, coupled with a substantial contribution from commercial development and design and build contracting.

Operating profit rose 50% to £3.91m (1996: £2.61m) on turnover up 27% to £34.1m. This represents a return on the average capital employed in the year of 16.2%, a significant improvement on 1996 (11.7%).

Profit after tax increased 50% to £2.33m, despite an increase in the Group's tax charge from £348,000 to £924,000 representing an effective tax rate of 28.4%.

Net assets per share increased 12% to 85p and our strategy to deliver improved earnings growth from exploiting low-risk commercial opportunities alongside expanding our housebuilding business lifted earnings per share 49% to 13.1p (1996: 8.8p).

In view of these excellent results, the Board has decided to recommend a 10.9% increase in the final dividend to 2.94p per share which, together with the interim dividend of 1.57p per share, will make a total dividend for the year of 4.51p per share, representing an overall increase of 10%. The increased dividend is covered nearly three times by the earnings of 13.1p. The dividend will be paid on 4 June 1998 to shareholders on the register on 1 May 1998.

Operational review

1997 was a year in which the Group aggressively pursued its long-term objective of delivering earnings growth through controlled organic expansion of the core housebuilding operations on Tyneside and Teesside, supported by urban regeneration and the targeting of low-risk commercial development and construction opportunities.

This was demonstrated by record performances in all areas of operation.

Cussins Homes North increased turnover by 16% to £24.1m, and Cussins Homes Yorks expanded turnover by 15% to £6.2m. This led to a 11% increase in gross profits from housebuilding to £5.3m (1996: £4.8m).

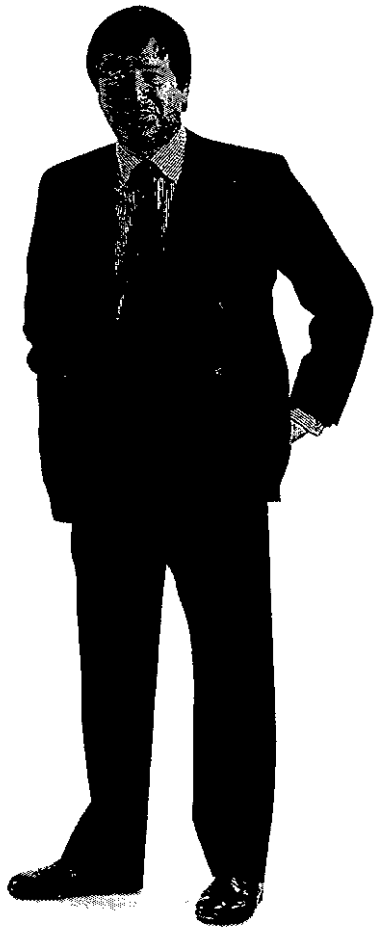
Average selling prices rose substantially from £74,000 to £92,000, an increase of 24%, reflecting our strategy of building larger, higher-value properties.

A profit of £776,000 was achieved from commercial development projects on £1.9m turnover, and a profit of £320,000 was achieved from design and build contracting on a turnover of £1.9m.

The forward land supply was strengthened with £7.6m spent on land purchases in 1997 (1996: £3.0m) resulting in a record land bank at the year end of almost 1,100 plots.

Particular emphasis was placed on expanding the Group's commitments to urban regeneration schemes on brownfield sites, and the current forward programme was increased to 300 plots.

organic expansion of housebuilding operations development and construction opportunities. North Shields should provide a further stream and future projects.



Notwithstanding the Group's enlarged development programme, Group borrowings reduced substantially at the year end to £2.2m (1996: £4.1m), representing gearing of 14% (1996: 30%). The reduction resulted from accelerated cash generation from the core businesses coupled with a steep fall in the number of properties held in part exchange. The value of part exchange properties at 31 December 1997 was £1.8m (1996: £3.0m).

Current trading

The value of reservations is currently £17.3m at an average selling price of £104,000 per unit. The Group has a forward programme to expand operations to meet increased market demand and our marketing initiatives for the important spring market are well under way.

Price rises are in evidence on the best selling sites, but it is too early to tell whether this will spread to the wider market.

The Board's policy of expanding housebuilding operations and adding commercial development projects and selected contracting has underpinned our success in 1997. We have the ability to repeat and improve on that performance given a continuation of the improved market experienced in the last 12 months.

Board and staffing matters

Bernard Wyllie who has been associated with the Group since its formation in 1972, firstly as the Group's principal banker and, since 1986, as a non-executive director, will retire from the Board at this year's Annual General Meeting. Throughout his time with the Group he has always offered wise counsel, showing a tremendous interest in the strategic direction of the business, whilst also taking a keen interest in operational matters. The Board will miss his valued contribution to the business.

I would also like to thank all of our staff for an excellent team effort this year. One example of this was the completion of a substantial centre for Daewoo Cars on Tyneside. From the initial Daewoo introduction to the completion of their showroom, the project took less than five months and involved a complex turn-key design and build package.

Strategy

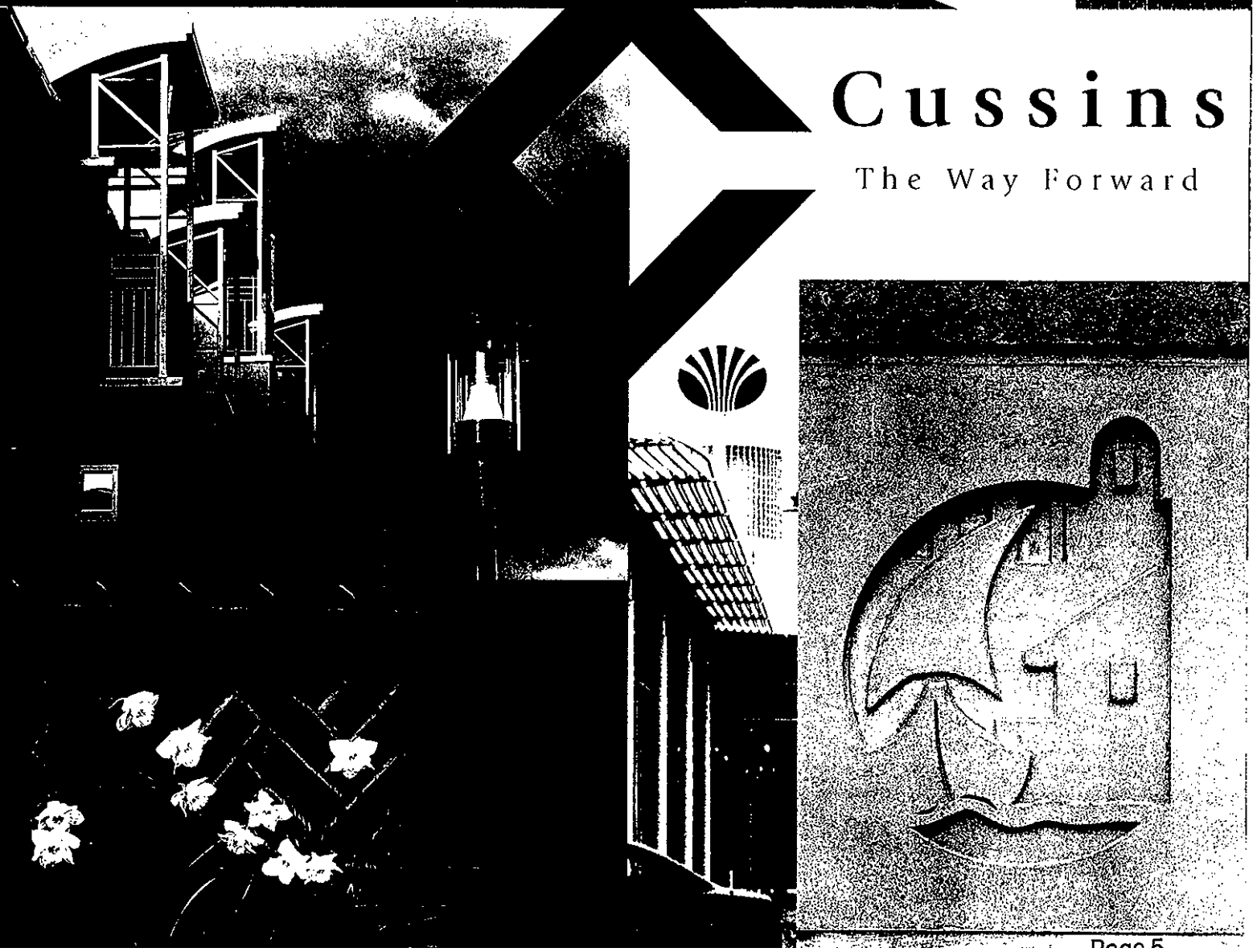
Commensurate with the Group's long-term strategy to deliver improved earnings growth, our strategic objectives for 1998 are clearly defined:

- to secure further organic growth in the core housebuilding operations by increasing market share on Tyneside, assisted by large urban regeneration projects;
- to increase growth on Teesside and North Yorkshire by expanding the number of sites, encompassing a wider geographical area and through targeting executive homes in the Teesside villages;
- to expand the volume of urban regeneration projects across all areas of operation;
- to secure a sustainable flow of earnings from the sale of completed low-risk commercial developments and to continue to undertake further design and build contracts and housing association contracts at satisfactory margins.

Peter I Cussins

P I CUSSINS
Chairman

30 April 1998



Cussins

The Way Forward

Cussins - A great year

Record results

1997 Preliminary Results showed a substantial increase in pre-tax profits of 71% to £3.25 million, with a rise in earnings per share of 49% to 13.1p. The reasons for these record results are three-fold :

Strong local housebuilding operation

- A strong local housebuilding market with modest inflation, and low land costs (on average only 12% of the price of a new house is attributable to the land cost, one of the lowest in the sector).
- Demand for higher priced executive properties is particularly strong, stimulated by high levels of overseas inward investment.
- Cussins has benefited from rises in average selling prices from £74,000 in 1996 to £91,000 in 1997. In addition, the Company is expanding its Teesside/Yorkshire base.

Expanding commercial exposure

The recent completion of Daewoo's North Eastern headquarters signalled the return to low-risk commercial development. Further development at Royal Quays in North Tyneside should provide significant additional earnings streams, with the potential for further major projects over the next few years.

Growing commitment to urban regeneration projects

We recognise the potential for increased development on brownfield sites, initiated by Government policy. Cussins is well placed to take advantage of this trend through a growing number of projects on sites provided by English Partnerships, Tyne and Wear Development Corporation, local authorities and the private sector.

Clear-cut strategy

Commensurate with the Group's long-term strategy to deliver improved earnings growth, our strategic objectives for 1998 are clearly defined :

- to secure further organic growth in the core housebuilding operations by increasing market share on Tyneside, assisted by large urban regeneration projects;
- to increase growth on Teesside and North Yorkshire by expanding the number of sites, encompassing a wider geographical area and through targeting executive homes in the Teesside villages;

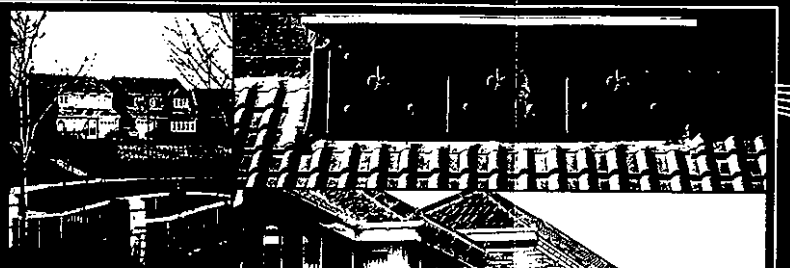
- to expand the volume of urban regeneration projects across all areas of operation;
- to secure a sustainable flow of earnings from the sale of completed low-risk commercial developments and to continue to undertake further design and build contracts and housing association contracts at satisfactory margins.

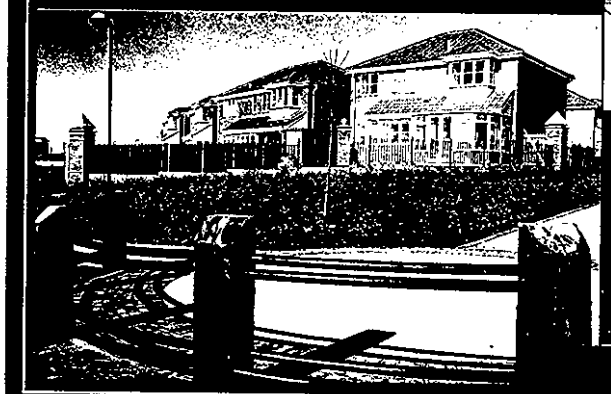
Beach Wynd, Tynemouth ▶

This 45 home development in North Tyneside is a good example of a high quality executive development on which the Company's reputation has been founded. Launched in July 1997, demand for the 3, 4 and 5 bedroom homes, built on a greenfield site in one of the most exclusive suburbs on Tyneside, has continuously exceeded supply with top of the range homes demanding prices in excess of £250,000.

Royal Quays Housing ▶

Described in the local press as "The jewel in the Royal Quays Crown", the Company has now completed the 6th phase of development on this previously derelict shipyard site. The earlier phases were designs from our popular Renaissance range and are maturing well.

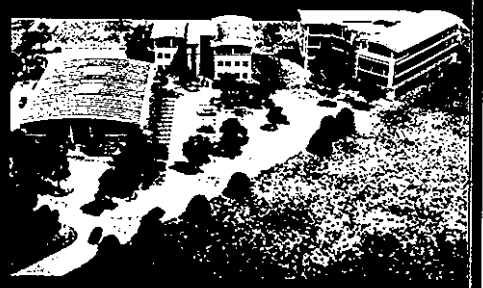




Royal Quays Offices ▶

On 31 March 1998 the Group, in joint venture with Collingwood Properties Limited, completed the forward sale of a 22,000 sq ft office block forming the next phase of this Royal Quays development.

12,000 sq ft of the building will become the Group's headquarters. Construction of the property will be completed within the next few months and the project is expected to contribute significantly to 1998 profits.



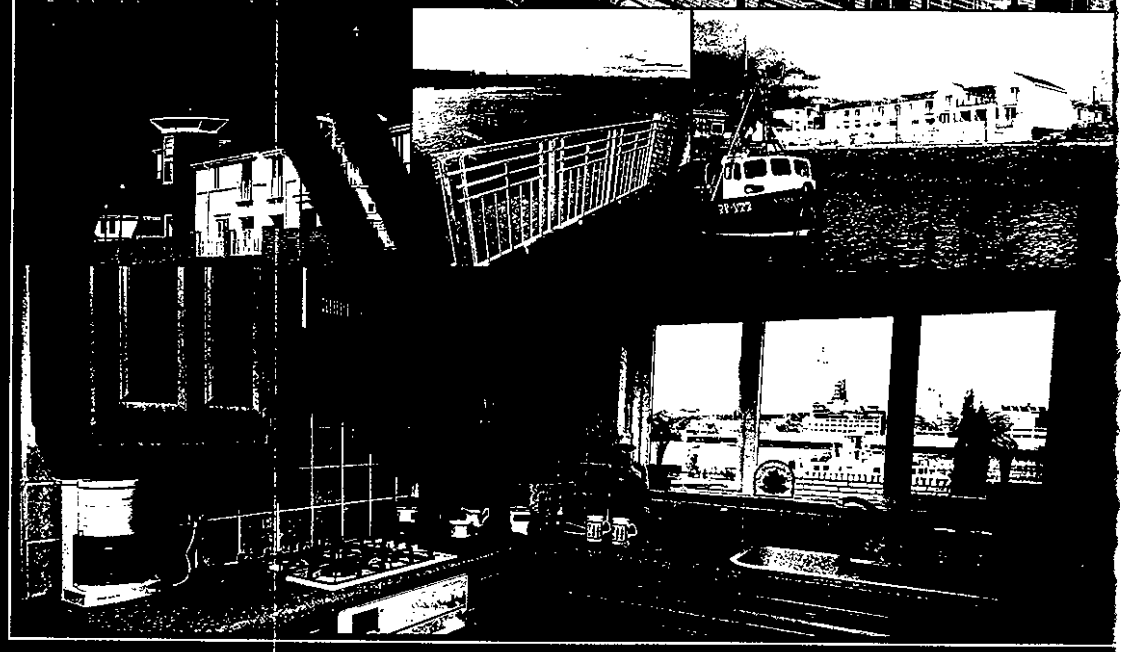
Our proposed 50,000 sq ft office campus with excellent views of the River Tyne.

▲ Daewoo's North East Headquarters

In 1997, the Group completed a landmark commercial development for Daewoo Cars, forming its main base in the North East of England. This was a fast-track project and the Group undertook the contract on a "design and build" basis, accomplishing the sale of the development on completion which contributed to commercial development profits in 1997.

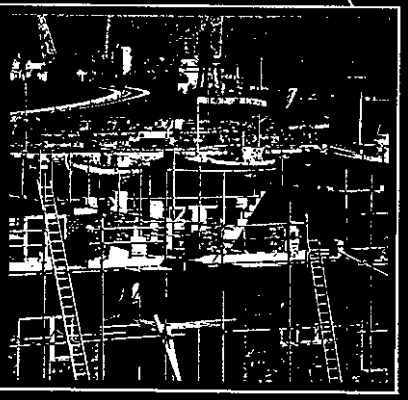
◀ Market Dock, South Shields

Cussins was chosen as the preferred developer for this £9 million scheme by Tyne and Wear Development Corporation. Built on the site of a former shipyard, it imaginatively mixes a wide range of designs for private ownership, shared ownership and housing association homes in a superb location on the banks of the River Tyne. Virtually every property has views over the river or the enclosed freshwater docks from balconies and viewing terraces. This new development creates the link between the town centre and the Tyne, with the careful mix of properties designed to create a vibrant community by the riverside.



Royal Quays Phase 6 ▲

Phase 6, Commissioners Wharf, introduces specially designed 3 and 4 bedroom homes fronting the former Albert Edward Dock, which will soon become the Royal Quays marina, with additional leisure facilities and restaurant outlets. This area is fast becoming one of the most desirable locations on North Tyneside.



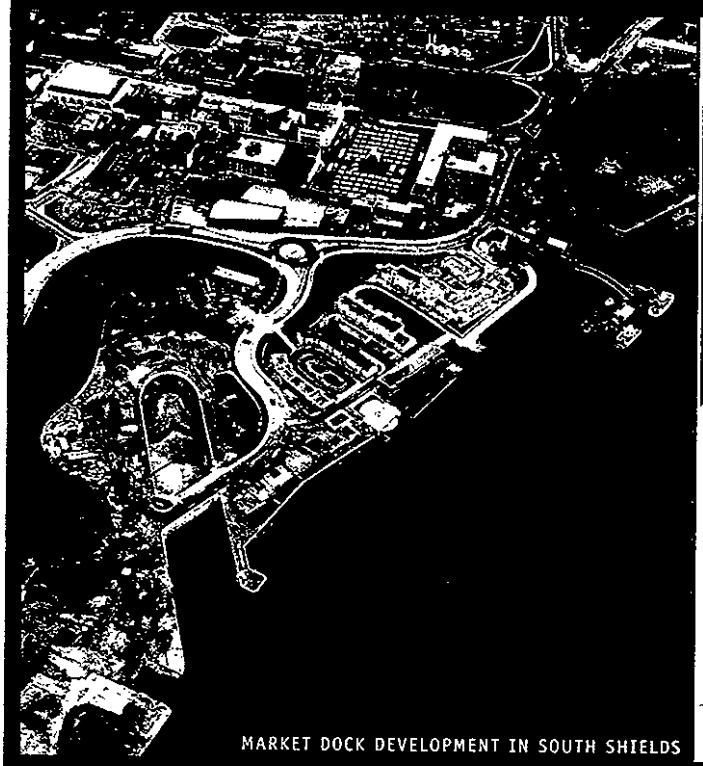
▲ Royal Quays Hotel Site

Planning permission has been secured for a 76 bedroom hotel adjoining the main passenger ferry terminal from Newcastle to Scandinavia, which carries 0.5 million passengers annually. Discussions are taking place with prospective hotel operators.

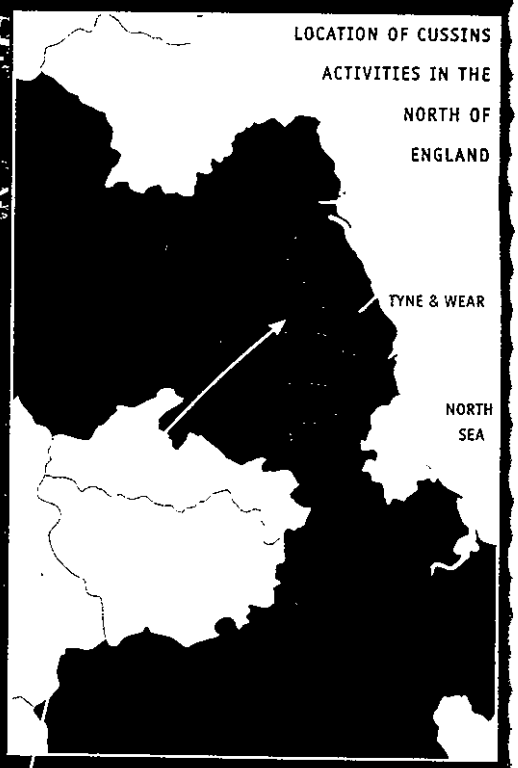
East Farm, Melsonby

The picturesque North Yorkshire village of Melsonby, just a few minutes away from the Scotch Corner junction of the A1(M), provides a contrasting example of the breadth of the Company's developments.

Just 17 homes are being built in natural stone, in this rural setting, blending traditional materials externally with the very latest high specifications internally.



MARKET DOCK DEVELOPMENT IN SOUTH SHIELDS



Great locations

A selection of future sites

- Tynemouth College - a 67 unit project in North Tyneside for executive homes close to our prestigious Beach Wynd development.
- Dunston Riverside - a 267 unit riverside site opposite Newcastle Business Park and within 1 mile of the Metro Centre.
- Stainton - 4 and 5 bedroom properties built to match the rural surroundings of this attractive country village close to Stockton on Tees.
- Elton - a select development of 5 and 6 bedroom detached homes for senior executives in an attractive Teesside village just off the A66.
- Walbottle - recreation of a stone farm steading on the ancient Roman Wall, to provide 17 specially designed units.
- Medomsley Town Farm - 21 unit development in this attractive Derwentside village adjoining our highly successful Manor Wood development.

CUSSINS PROPERTY GROUP PLC
GREAT NORTH ROAD
GOSFORTH
NEWCASTLE UPON TYNE NE3 2DA

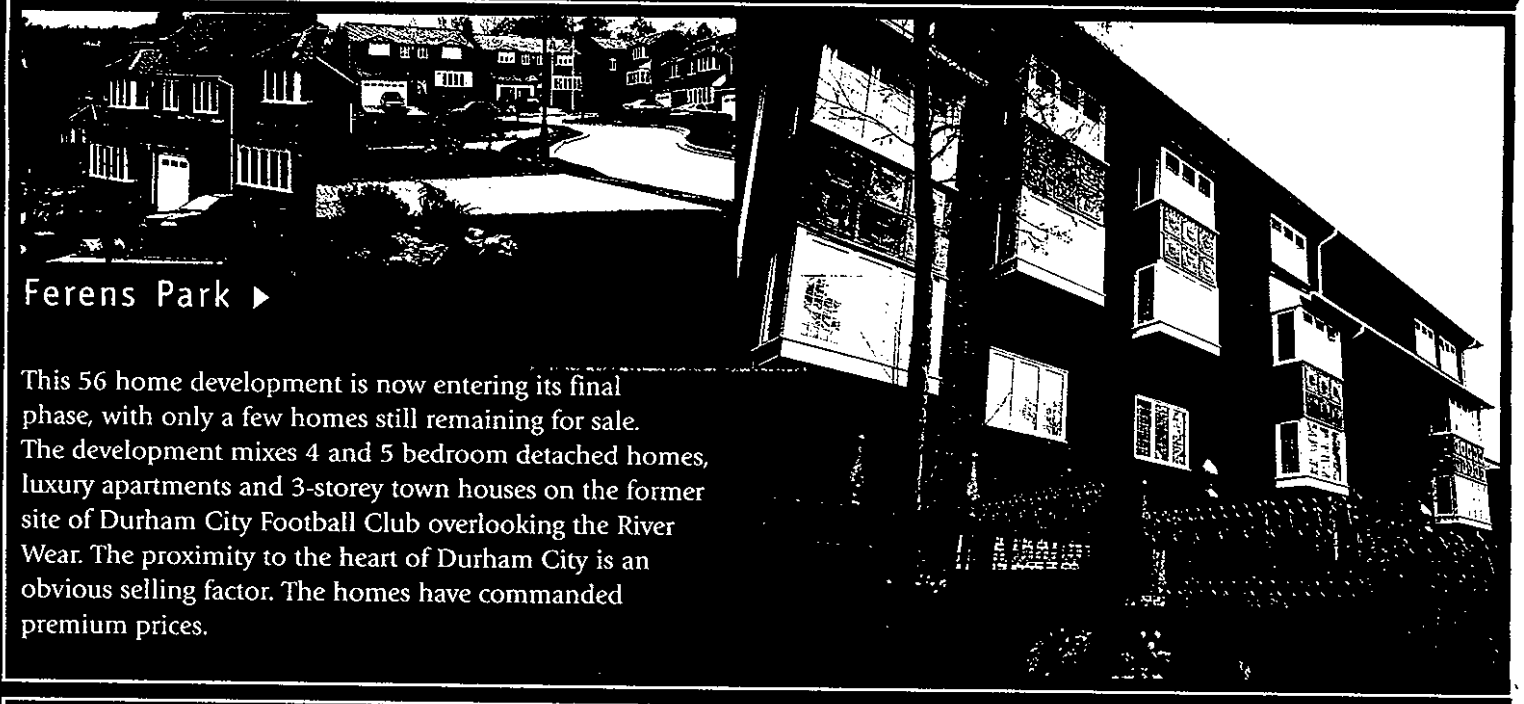
TELEPHONE 0191 285 0567
FACSIMILE 0191 284 2204

Dedicated people

Unlike many of our competitors Cussins has always directly employed its own labour force rather than relying heavily on sub-contractors. In consequence the Group benefits from committed and skilled craftsmen who have worked together as a team for many years. This ensures that our homes are consistently completed to the highest possible standards.

Greystoke ▸

Senior executive homes on the former Gosforth Rugby Club site which produced record prices on Tyneside with some units achieving in excess of £300,000. The development is now maturing to its fullest potential, a showpiece demonstrating Cussins' ability in the luxury homes market.



Ferens Park ▸

This 56 home development is now entering its final phase, with only a few homes still remaining for sale. The development mixes 4 and 5 bedroom detached homes, luxury apartments and 3-storey town houses on the former site of Durham City Football Club overlooking the River Wear. The proximity to the heart of Durham City is an obvious selling factor. The homes have commanded premium prices.

St Giles Court, Durham

In order to secure planning permission for any development in the heart of historic Durham City, the layout and architecture must be sympathetic to the local environment. At St Giles Court, the Company is building 50 homes in a unique location on the site of a Victorian factory, yet surrounded by a Norman churchyard. The development mixes the best modern specification with sympathetic designs in a unique setting.

Mill Dene, Jarrow

The link between Cussins and South Tyneside goes back to the very roots of the Company - it was on South Tyneside that the Company's first development was built - but the success of the Mill Dene development's launch took everyone by surprise. Two-thirds of the 33 homes were reserved on the first weekend, some of which were "stake your claims" before prices had even been released. The Cussins' name for quality ensured that some families were prepared to queue overnight to secure the home of their choice.

"The results for the year show a healthy increase in pre-tax profits of 71% with earnings up by 49%"

Results for the year

Group profit before tax increased by 71% to £3.25m (1996: £1.90m). This record Group profit was achieved through strong performances from our 2 housebuilding subsidiaries, Cussins Homes North and Cussins Homes Yorks, coupled with a substantial contribution from commercial development and design and build contracting.

Gross profits from housebuilding increased 11% to £5.3m on housebuilding turnover up 16% to a record £30.3m (1996: £26.1m). Average selling prices increased 24% to £92,000, with gross margins of 17.4% (1996: 18.0%) reflecting an improved market and increasing demand for high-value homes. The number of houses sold for more than £100,000 almost doubled, increasing from 66 in 1996 to 120 in 1997 and 167 homes were sold in the £50,000 to £100,000 range (1996: 184 homes).

Earnings from low-risk commercial development and design and building contracting secured gross profits of £1.1m (1996: £131,000) on turnover of £3.8m (1996: £573,000).

Administrative costs increased by 6.4%, and this coupled with the higher gross profits noted above, has resulted in increased operating margins to 11.5% (1996: 9.8%).

Group borrowings reduced to £2.2m (1996: £4.1m) helped by accelerating cash generation and a 40% reduction in part exchange properties.

Return on average capital employed rose to 16.2% compared to 11.7% in 1996.

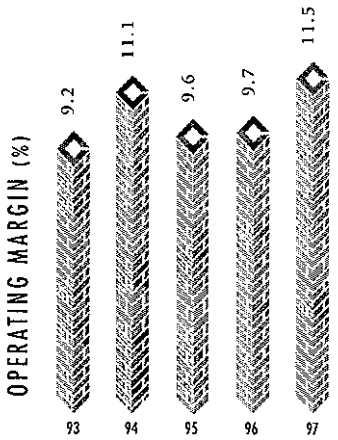
These excellent results led to a 49% rise in earnings per share to 13.1p (1996: 8.8p).

Net asset value rose by 11.1% despite an increase in the tax charge from £348,000 to £924,000, representing an effective tax rate of 28.4%.

The regional economy

The North East economy, which covers all areas of our operation on Tyneside and on Teesside, benefits from substantial overseas inward investment and continues to be buoyant as a result. The Region's growing self-reliance will be further reinforced by the introduction of a regional assembly for the North East in 1999.

Over the last decade, the Region accounted for 12% of all UK jobs against its 5% share of GDP. There were 530 inward investment projects over that period involving a total capital spend of £8.1 billion. Manufacturing output has risen 24% since 1992 and output per head by 34%. The region has recently displaced the South East in producing the highest gross value added per employee in the UK, an enviable change from the depressed Northern economy of the 1980s. The strength of the North East economy continues to provide a sound platform upon which to expand our housebuilding, commercial development and design and build contracting activities.



Housebuilding overview

The value of reservations in the year to date is currently £17.3m and the trend towards larger properties producing higher selling prices than was experienced last year is continuing. Against this background, the housebuilding subsidiaries intend to construct more homes for senior executives at an increasing number of developments. Cussins Homes Yorks has 5 sites in attractive Teesside and North Yorkshire villages, Cussins Homes North has 10 sites, within its current programme of 29 sites, where average selling prices are expected to exceed £130,000.

The Group will also expand its programme of brownfield development sites in attractive locations on the North and South banks of the River Tyne. The Group's current forward programme of urban regeneration projects has been expanded to over 300 plots with a projected value of £18m.

The Group is continuing to pursue its strategy of expanding its forward land bank. £7.6m was spent on land in 1997 and a higher level of expenditure is anticipated in 1998 in order to maintain a two and a half year supply of land with planning permission based on an expanding building programme.

Urban regeneration

The Group's commitment to large-scale urban regeneration projects continues. These projects have the advantage of low land costs and yet are located in areas of high consumer demand.

Royal Quays in North Tyneside, situated 2 miles from the giant Siemens semi-conductor plant, is the largest urban regeneration project in the UK, and is without question one of the most successful. The Group has already completed the sale of over 120 properties on this site and has a further 150 units under development, representing a £10m forward programme.

On the opposite bank of the River Tyne at Market Dock, South Shields, the Group is undertaking a 150 unit scheme which is proving extremely successful and involves an £8m future programme.

The Group has recently secured preferred developer status for Gateshead Riverside, a 267 unit scheme in a good location less than 1 mile from Europe's largest shopping centre, the Metro Centre.

The Group is also undertaking further developments for housing associations as part of its urban regeneration strategy.

Cussins Homes North

The Group's principal housebuilding subsidiary increased the number of sites in operation to 25 (1996: 20). An improving market enabled the business to alter the mix of housing to provide an increasing number of larger high value properties. In consequence, average selling prices rose by 31% to £95,000 and 252 units were sold in the year (1996: 285).

Purchasers continued to demand good value for money in a competitive market and gross margins remained unchanged with reducing purchasers' incentives being matched by increased building costs.

Towards the end of the year price increases were achieved on the best selling sites, a trend which is continuing in the current year to date.

The introduction of the Millennium Collection, a new range of smaller properties with many of the features usually only associated with larger properties, has increased our competitiveness. This range blends well with our established Renaissance Range which continued to prove popular with purchasers.

There is an increasing demand for small select sites of individually designed homes for senior executives on Tyneside. Cussins Homes North is therefore targeting this demand on a greater number of uniquely designed developments.

Overseas inward investment continues to provide a stimulus to the vibrant Tyneside economy and this subsidiary has deliberately located a large number of sites within close proximity to the major plants.

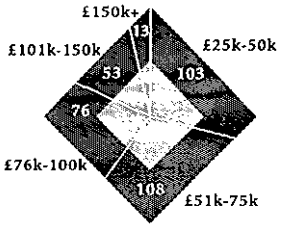
Cussins Homes Yorks

Our housebuilding subsidiary based on Teesside, in only its second full year of operation, increased the number of sites in operation from 7 to 9, with a further 2 additional sites scheduled to start in 1998.

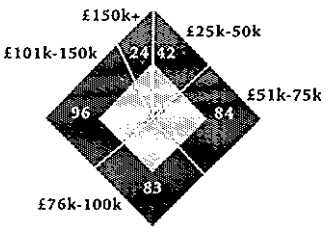
77 plots were completed in 1997, an increase of 13% over 1996. Cussins Homes Yorks increased its share of the Group's unit sales from 19% to 23% in 1997. Average selling prices of £81,000 were achieved (1996: £79,000).

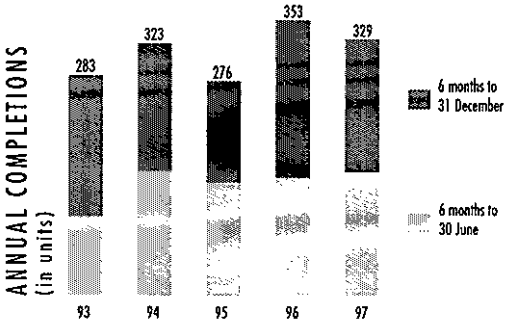
The controlled expansion of this subsidiary exceeded the Board's target of contributing 20% of Group housebuilding turnover in 1997.

BREAKDOWN OF UNIT SALES BY SELLING PRICE (units) 1996



BREAKDOWN OF UNIT SALES BY SELLING PRICE (units) 1997





A strategic move to target executive homes in the attractive rural Teesside villages is a feature of the expansion programme and the first site has been started in North Yorkshire.

Cussins Homes Yorks presence on Teesside has been reinforced by the establishment of a regional office in Stockton.

Valued-added diversification

- Commercial development and design and build contracting

At Royal Quays on Tyneside a highly successful development for Daewoo Cars, in joint venture with Collingwood Properties Limited, was completed in 1997.

Subsequently the Group has secured further valuable planning permissions in the Tyne and Wear Enterprise Zone at Royal Quays which benefits from a rates-free period until 2006, together with other significant incentives available to occupiers and funders. On 31 March 1998, the Group in a joint venture with Collingwood Properties Limited completed the forward sale of a 22,000 square foot office block forming the next phase of The Royal Quays development. 12,000 square feet of the building will become the Group's headquarters. Construction of the property will be completed within the next few months and the project is expected to contribute significantly to 1998 profits.

Selected housing association contracts provided profits at satisfactory margins and design and build contracts were undertaken at good gross margins. In 1997 the commercial and contracting division undertook projects with a value of £3.8m producing a gross profit of £1.1m.

Land bank

The Group's land bank at the year end was at the strongest level in the Group's history with almost 1,100 units owned and a further 1,000 units under option. These are held at an average cost of £11,400 per plot, representing 12% of average selling prices, substantially less than most of our competitors.

Sales and marketing

A feature of the housebuilding industry after the recession of the early 1990s has been the concentration on improving site presentation and the quality of show houses. In addition an array of sales incentives and the use of part exchange have been essential tools in the drive to secure sales in a fiercely competitive environment.

We expect this trend to continue with the current low inflation economy and the Group continues to be at the forefront of innovative initiatives to win sales from our competitors. We will achieve this by continuing to produce well-designed high quality properties and by making it as easy as possible for purchasers to choose from a wide range of incentives best suited to their individual needs. The "Cussins Options Package" which was heavily marketed in the local media had the desired effect of securing higher value sales and is being extended and upgraded in 1998.

The drive to reduce the level of part exchange stock was assisted by the introduction of the "Cussins Select" marketing initiative which provides the purchasers of our part exchange properties with some of the comforts and benefits of buying a brand new house. This initiative led to a sharp decrease in the value of part-exchange stock held at the end of 1997 to £1.8m, down from £3.0m at the end of the previous year. During the year 69 part exchange properties were sold for £3.8m.

At the same time effective management and tight control of expenditure ensured that sales costs as a percentage of turnover was held at 3% of turnover.

Financial review

The Group's cash flows for the year are set out in the cash flow statement on page 28 of the financial statements.

During the year the Group disposed of an investment property in Edinburgh for £471,000. The level of work in progress increased from £18.9m at 31 December 1996 to £21.7m at 31 December 1997, principally due to increased expenditure on building land of £7.6m in 1997 compared to £3.0m in 1996. The level of part exchange stock which is included within total work in progress reduced from £3.0m at the end of 1996 to £1.8m at the end of 1997.

As a result of the improved sales performance the Group produced a positive cash inflow with cash generated at the operating level of £3.6m (1996: £3.8m). After paying interest, tax and dividends, the net cash flow into the Group was £2.0m compared to £2.2m in 1996.

Year end bank borrowings reduced to £2.2m against £4.1m in 1996, representing 14% of shareholders' funds compared to 30% at 31 December 1996.

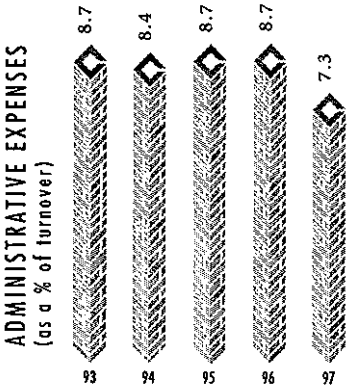
The Group's borrowings are provided by Lloyds Bank plc and Barclays Bank plc, with whom the Group has excellent working relationships. They have provided all the Group's banking facilities for many years.

Taxation

The Group's effective tax rate increased from 18.3% to 28.4%. This increase, which was anticipated, arose as the Group has now utilised its tax losses brought forward from prior years.

Going concern

Based on the foregoing analysis and after making appropriate enquiries, the directors have a reasonable expectation that the Group and Company have adequate resources to continue in operational existence for the foreseeable future. For this reason the directors continue to adopt the going concern basis in preparing the Group's financial statements.



W I WAITES
Managing Director

30 April 1998

1. P I Cussins
2. W I Waites
3. M P Windle
4. B M Wyllie
5. L I Permutt
6. P A Walker

Executive directors

Mr P I Cussins BSc + (aged 49) is Group Executive Chairman. He founded the Company in 1972 and took the Group to a full listing on the London Stock Exchange in 1981.

Mr W I Waites (aged 47) has been associated with the Group since formation, initially as a solicitor advising the Company, before joining the Group full time in 1985. He became Managing Director of Cussins Homes Limited in 1987 and Group Managing Director in 1991.

Non-executive directors

Mr B M Wyllie FCIB +*(aged 72) joined the Board in April 1986. Prior to joining the Board he was Northern Regional General Manager of Lloyds Bank Plc. Mr Wyllie will be retiring from the Board at the Annual General Meeting.

Mr L I Permutt +* (aged 53) joined the Board in September 1993. He is Director of Group Property Services, Alliance & Leicester Group.

Mr P A Walker +* (aged 40) was appointed to the Board as a non-executive director on 4 February 1997. He is also the Chief Executive of the Sage Group Plc.

Company Secretary

Mr M P Windle FCA (aged 43), joined the Group as Company Secretary and Financial Controller in 1981. He was appointed Finance Director of Cussins Homes Limited in 1988.

+ member of Remuneration Committee
* member of Audit Committee

Registrars

Lloyds Bank Registrars
The Causeway
Worthing
West Sussex
BN99 6DA

Auditors

Coopers & Lybrand
Hadrian House
Higham Place
Newcastle upon Tyne
NE1 8BP

Bankers

Lloyds Bank Plc
Grey Street
Newcastle upon Tyne
NE99 1RH

Barclays Bank Plc
PO Box 378
71 Grey Street
Newcastle upon Tyne
NE99 1JP

Joint stockbrokers

Beeson Gregory Limited
The Registry
Royal Mint Court
London
EC3N 4EY

Wise Speke Limited
Commercial Union House
39 Pilgrim Street
Newcastle upon Tyne
NE1 6RQ

Secretary and registered office

M P Windle FCA
Great North Road
Gosforth
Newcastle upon Tyne
NE3 2DA

Directors of principal subsidiaries

Mr J R Anderson (49), has been with the Group since 1977. He was appointed Managing Director of Cussins Homes (North) Limited in 1995 having previously been a Construction Director since 1979.

Mrs M Curran (51), started with the Group as a Site Sales Negotiator in 1985. She was appointed Sales Manager in 1991 and promoted to Sales Director of Cussins Homes (North) Limited in 1995.

Mr M S Guy (43), joined the Group in 1982 as Purchasing Manager having previously been employed by one of the Group's major suppliers. He was appointed as a Director of Cussins Homes (North) Limited and Cussins Homes (Yorks) Limited in 1993.

Mr G Hall (54), has been employed in the building industry for 38 years. He joined the Group in 1973. Since 1995 he has been responsible for the Group's Quantity Surveying Department, having previously been a Construction Director since 1979.

Mr R Messham (50), who joined the Group in 1987 was initially responsible for the construction of the Group's Erskine House development in Edinburgh prior to becoming Land Manager. He was appointed a Director of Cussins Homes (Yorks) Limited in 1995.

Mr D O Robertson (43), has been the Technical Director with responsibility for all of the Group's design activities since 1990. He has been involved with the Group since 1978 and is currently a director of Cussins Homes (North) Limited and Cussins Homes (Yorks) Limited.

The directors present their report and the audited financial statements for the year ended 31 December 1997.

Principal activity

The Group's principal activity is the development and sale of residential and commercial property.

Review of business

The development of the Group's business and its prospects are reviewed in the Chairman's statement on pages 2 to 4 and in the Managing Director's review on pages 13 to 17.

Directors

The directors of the Company at 31 December 1997, all of whom have been directors for the whole of the year ended on that date, unless otherwise stated, are referred to on page 18.

Mr J F Gregory, a stockbroker, aged 63, who was a non-executive director of the company at 1 January 1997, resigned as a director on 3 June 1997.

Mr P I Cussins retires by rotation at the Annual General Meeting, and being eligible offers himself for re-election.

The interests of the directors in the ordinary shares of the Company including particulars of options granted under the Cussins Property Group plc Executive Share Option Scheme at 31 December 1997 and 9 April 1998 are disclosed on pages 30 and 31.

Substantial shareholders

Apart from the directors' shareholdings referred to within note 3 of the financial statements on pages 30 and 31 the directors were aware of the following interests as at 9 April 1998, representing three per cent or more of the ordinary share capital of the Company.

	Number of shares	Percentage of issued share capital
T R Smaller Companies Investment Trust	1,500,000	8.42
Invesco Asset Management Ltd	910,000	5.11
Halifax Retirement Fund	885,000	4.97
Chase Manhattan Trustees Limited	837,500	4.70
Electricity Pension Services Ltd	703,783	3.95
Ivory and Sime plc	700,000	3.93
R W Seabrook	600,000	3.37
W M Aitchison	543,253	3.05

Contracts of significance

No director had any material beneficial interest in any contract of significance to the Group's business either during or at the end of the financial year.

Charitable and political contributions

Charitable contributions amounted to £3,123 (1996: £1,812). There were no political contributions.

Employees

It is Group policy to give full consideration to the employment needs of disabled persons and to persons that may become disabled during the course of their employment and to comply with any current legislation with regard to disabled persons.

It is Group policy to ensure that employee involvement is properly introduced, maintained and developed at all levels. The Group operates a profit related pay scheme for the majority of its salaried employees.

Creditor payment policy

The Group agrees payment terms with its suppliers when it enters into binding purchase contracts. The Group seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group does not have a standard or Code which deals specifically with the payment of suppliers.

The Group's average creditor payment period at 31 December 1997 was 52 days and that of the Company was 50 days.

Special business at the Annual General Meeting

Resolution 5 will be proposed as an ordinary resolution to authorise the directors to allot up to £1,187,573 nominal value of share capital (representing approximately 33% of the existing issued share capital). The directors have no present intention of issuing any share capital under this authority. Unless renewed the authority will expire on 1 June 2003.

Resolution 6 will be proposed as a special resolution to enable the directors to allot shares for cash for the purpose of offers to shareholders, an employers' share scheme and otherwise up to £178,136 nominal value of share capital (representing approximately 5% of the existing issued share capital) without giving effect to statutory pre-emption rights. This authority would expire no later than 15 months after the passing of the resolution.

Auditors

A resolution to reappoint the auditors, Coopers & Lybrand, will be proposed at the Annual General Meeting.

By order of the board

M P WINDLE
Secretary

30 April 1998

The Committee comprises the three non-executive directors and the Group Chairman and is chaired by Mr P A Walker.

The Company has complied throughout the period with Section A of the best practice provisions for directors' remuneration annexed to the London Stock Exchange's Listing Rules which concerns the membership and operation of the Committee.

The Committee meets annually in December to review the executive directors' remuneration. The remuneration of the Group Chairman is determined by the non-executive directors alone.

In framing its remuneration policy the Committee has given full consideration to Section B of the best practice provisions for directors' remuneration annexed to the London Stock Exchange's Listing Rules.

The policy objectives of the Committee are to reward and motivate the senior executives in line with prevailing market conditions and the interests of shareholders and to ensure that their salaries and other benefits properly reflect the levels paid to senior executives of broadly comparable public companies in the housebuilding industry.

The executive directors' service contracts can be terminated on one year's notice being given by the executives or eighteen months' notice by the Company. They provide for a basic salary, which is reviewed on an annual basis, pension contributions equal to 6% of salary, use of a company car, private health and death in service insurance cover and participation in a Long Term Bonus Plan geared to increases in earnings per share. Payments under the Plan are used by the trustee to purchase shares in the Company for the benefit of the participants. The trustee, at its discretion, can distribute half of these shares to the participants two years after provisional allocation, and the remainder after a further twelve months.

In April 1997 payments were made to the Plan and provisional allocations in respect of 10,841 shares were made to each of the executive directors in respect of bonuses accrued in 1996 and reported as emoluments in that year. For the year under review the executive directors were each awarded a bonus payment of £88,976 under this Plan, half of which was paid in the form of an annual bonus and half has been paid into the Long Term Bonus Plan.

The Company's approved Executive Share Option Scheme expired on 29 May 1996 being the tenth anniversary of its adoption and therefore no further options can be offered.

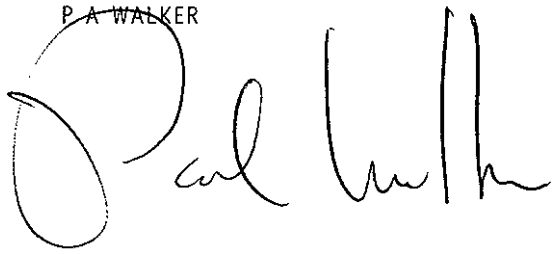
The fees of the non-executive directors, none of whom have service contracts with the Company, are determined by the executive directors.

Detailed disclosures of directors' individual remuneration and their interest in the shares and share options of the Company are given on pages 30 to 31.

On behalf of the Remuneration Committee

P A WALKER

30 April 1998



The Board supports the highest standards in corporate governance and is pleased to confirm that the Company has complied, throughout the period with the Code of Best Practice published by the Cadbury Committee on the Financial Aspects of Corporate Governance.

Board composition

The Group Board comprises two executive and three non-executive directors. It is chaired by Mr P I Cussins and meets for regular business ten times a year. The Board is responsible for the overall direction and strategy of the Group and for securing the optimum performance from Group assets. Our non-executive directors have a breadth of successful commercial and professional experience.

Board Committees

The Audit Committee

The Audit Committee comprises all the non-executive directors and is chaired by Mr L I Permutt. It meets not less than twice a year and assists the Board in ensuring that the Group's published financial statements give a true and fair view and in securing reliable internal financial information for decision-making. It also reviews the suitability and effectiveness of the Group's internal financial controls. The Committee reviews the minutes of the monthly Chairman's Executive Committee meetings, the findings of the external auditors and the key accounting policies and judgements.

The Remuneration Committee

The Remuneration Committee comprises all of the non-executive directors and the Chairman of the Company and is chaired by Mr P A Walker. It is responsible for making recommendations to the Board on remuneration policy for all directors and for setting salaries, incentive payments and share options granted.

Chairman's Executive Committee

The Chairman's Executive Committee comprises the two executive directors and the company secretary. It meets on a regular basis to review all aspects of the Group's performance.

Internal financial controls

The Group's system of internal financial controls are the ultimate responsibility of the Board of Directors. It should be recognised that such a system can provide only reasonable and not absolute assurance against material misstatement or loss. The key features of the system which has been established are as follows:

Control environment

The Board has established an organisational structure with clearly defined lines of responsibility and delegation of authority extending from the Board to the various subsidiary operating directors. The Board has communicated ethical policies to all staff setting out the standards which the Company expects of them.

Risk assessment

The Board has reviewed and updated where necessary the business controls assessment undertaken in 1995 to review and assess the financial risks facing the Group's business and to enhance the systems which manage those key risks and related control and monitoring procedures.

Information systems

The Group operates a detailed budgeting and financial reporting system. Progress against budget in all trading activities is monitored on a regular basis both by the Subsidiary Directors and by the Chairman's Executive Committee. Any significant variances are investigated in detail with forecasts being reviewed on a regular basis. Part of the Group's forecasting process incorporates the preparation and monitoring of the Group's cash flow requirements to ensure that the Group has adequate funds and resources for the foreseeable future.

The directors of the Company and the directors of its Subsidiaries have reviewed the effectiveness of the Group's system of internal financial controls for the year.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 December 1997. The directors also confirm that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the Company and of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By order of the board

M P WINDLE
Secretary

30 April 1998

REPORT OF THE AUDITORS

to Cussins Property Group plc on corporate governance matters

In addition to our audit of the financial statements, we have reviewed the directors' statement on page 23 concerning the Company's compliance with the paragraphs of the Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

Basis of opinion

We carried out our review in accordance with guidance issued by the Auditing Practices Board. That guidance does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial controls or its corporate governance procedures, nor on the ability of the Group or Company to continue in operational existence.

Opinion

With respect to the directors' statement on internal financial control on page 23, and going concern on page 17, in our opinion the directors have provided the disclosures required by the Listing Rules referred to above and such statements are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement on page 23 appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rules 12.43(j).

COOPERS & LYBRAND
Chartered Accountants
Newcastle upon Tyne

30 April 1998

REPORT OF THE AUDITORS

to the members of Cussins Property Group plc

We have audited the financial statements on pages 26 to 38.

Respective responsibilities of directors and auditors

As described on page 24, the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, 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 1997 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.

COOPERS & LYBRAND Coopers & Lybrand
Chartered Accountants and Registered Auditors
Newcastle upon Tyne

30 April 1998

GROUP PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1997

	Notes	**1997 £'000**	1996 £'000
Turnover	*2*	**34,059**	26,738
Cost of sales		**(27,680)**	(21,845)
Gross profit		**6,379**	4,893
Administrative expenses		**(2,468)**	(2,320)
Other operating income	*5*	**–**	37
Operating profit		**3,911**	2,610
Interest payable and similar charges	*6*	**(658)**	(707)
Profit on ordinary activities before taxation	*7*	**3,253**	1,903
Taxation	*8*	**(924)**	(348)
Profit on ordinary activities after taxation	*10*	**2,329**	1,555
Dividends	*9*	**(800)**	(727)
Retained profit for the financial year	*22*	**1,529**	828
Earnings per ordinary share	*11*	**13.1p**	8.8p

All of the Group's activities are continuing.

The Group has no recognised gains and losses other than those set out above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the financial year stated above and their historical cost equivalents.

	Notes	GROUP 1997 £'000	GROUP 1996 £'000	COMPANY 1997 £'000	COMPANY 1996 £'000
Fixed assets					
Tangible assets	12	685	463	120	89
Ground rents	13	48	9	–	–
Investment property	14	–	495	–	–
Investments	15	–	–	1,074	1,074
		733	967	1,194	1,163
Current assets					
Stocks	16	21,701	18,919	–	–
Debtors: amounts falling due after one year	17	134	498	9,172	–
Debtors: amounts falling due within one year	17	1,141	1,527	2,977	15,246
Cash at bank and in hand		6	4	–	–
		22,982	20,948	12,149	15,246
Creditors: amounts falling due within one year	18	(8,570)	(8,299)	(1,010)	(3,627)
Net current assets		14,412	12,649	11,139	11,619
Net assets		15,145	13,616	12,333	12,782
Capital and reserves					
Called-up share capital	20	3,563	3,563	3,563	3,563
Share premium account	22	5,963	5,963	5,963	5,963
Profit and loss account	22	5,619	4,090	2,807	3,256
Equity shareholders' funds	23	15,145	13,616	12,333	12,782

The financial statements on pages 26 to 38 were approved by the board of directors on 30 April 1998 and were signed on its behalf by:

P I CUSSINS

W I WAITES

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 1997

	Notes	**1997** £'000	1996 £'000
Net cash inflow from continuing operating activities	*24*	**3,609**	3,800
Returns on investments and servicing of finance			
Interest paid		**(648)**	(717)
Taxation			
UK corporation tax paid		**(304)**	(171)
Capital expenditure and financial investment			
Purchase of tangible fixed assets		**(500)**	(133)
Sale of tangible fixed assets		**83**	19
Sale of ground rents		**–**	72
Sale of investment property		**471**	–
Net cash inflow/(outflow) from capital expenditure and financial investment		**54**	(42)
Equity dividends paid		**(748)**	(691)
Increase in cash in the year	*25*	**1,963**	2,179

1. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

a) Basis of accounting

The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets.

b) Basis of consolidation

The consolidated profit and loss account and balance sheet include the financial statements of the subsidiaries for the year together with their holding company, Cussins Property Group plc. Intra group sales and profits are eliminated fully on consolidation.

c) Turnover

Turnover represents the total proceeds on legal completion of residential houses and commercial contracts. The sale proceeds of part exchange houses are not included in turnover.

d) Stocks

Land and site development is valued at the lower of cost and net realisable value less cash received in advance from future house buyers. Amounts held in stock represent costs incurred on developments net of amounts transferred to cost of sales, and less any provisions for foreseeable losses.

e) Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation. Depreciation is charged so as to write off the cost of tangible fixed assets, less their estimated residual value, over their estimated useful economic lives on a straight line basis using the following rates:

Plant and equipment	10% to 25%
Motor vehicles	25%

f) Ground rents

Ground rents are capitalised at the time of sale of the related leasehold property, at open market value.

g) Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

h) Deferred taxation

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

i) Pension obligations

The Group operates a defined contribution pension scheme for certain directors and employees. The charge to the profit and loss account is the amount of contributions payable to the scheme in the year. The assets of the scheme are held separately from those of the Group in an independently administered fund.

The Group does not provide any other post-retirement benefits to its employees.

j) Loan finance income

In accordance with Financial Reporting Standard No 4 "Capital Instruments", loan finance income is credited to the profit and loss account over the term of the loans.

2. TURNOVER

All of the Group's turnover is derived from within the United Kingdom. The directors are of the opinion that the Group has only one class of business as set out on page 20.

3. DIRECTORS

Detailed directors' emoluments

	Salary and fees £	Benefits £	Annual bonus £	Long Term Bonus Plan* £	TOTAL 1997 £	TOTAL 1996 £	Pension contributions 1997 £	Pension contributions 1996 £
P I Cussins (Chairman and executive director)	121,626	10,642	44,488	44,488	**221,244**	154,148	**7,297**	7,122
W I Waites (Executive director)	121,626	5,945	44,488	44,488	**216,547**	153,559	**7,297**	7,122
J F Gregory (Non-executive director)	7,500	-	-	-	**7,500**	15,000	-	-
B M Wyllie (Non-executive director)	13,500	-	-	-	**13,500**	18,240	-	-
L I Permutt (Non-executive director)	13,500	-	-	-	**13,500**	13,500	-	-
P Walker (Non-executive director)	13,750	-	-	-	**13,750**	-	-	-

* deferred bonus to be paid into the Long Term Bonus Plan (see page 22).

Retirement benefits are accruing to P I Cussins under the Company's defined contribution pension scheme. The Company also contributes to a personal pension scheme on behalf of W I Waites.

No director waived emoluments in respect of the year ended 31 December 1997 (1996: £Nil).

Directors' interests in shares

The interests of the directors in the shares of the Company at 31 December 1997 were:

Ordinary shares of 20p each	1 January 1997	31 December 1997	Provisionally allocated under Long Term Bonus Plan 31 December 1997
P I Cussins - beneficial	2,096,652	2,110,580	35,807
- non-beneficial	960,166	960,166	-
W I Waites	813,106	827,034	35,807
B M Wyllie	5,000	5,000	-
L I Permutt	192,500	192,500	-
P A Walker	-	-	-

During the year the beneficial holdings of both P I Cussins and W I Waites have increased by 13,928 shares following a distribution from the Long Term Bonus Plan.

3. DIRECTORS (CONTINUED)

Apart from the interests disclosed above no directors were interested at any time in the year in the share capital or loan stock of the Company.

Since the balance sheet date P I Cussins has reduced his beneficial holding by 70,000 shares and L I Permutt has reduced his shareholding by 15,000 shares. In addition the beneficial holdings of both P I Cussins and W I Waites have increased by 14,644 shares following a distribution from the Long Term Bonus Plan.

There have been no other changes in the interests set out above between 31 December 1997 and 9 April 1998.

Directors' interests in share options

W I Waites is the only director who held options over the Company's ordinary shares during the year, details of which are as follows:

Date of grant	Exercise price	Period of option	Number of options At 1 January 1997 and 31 December 1997
6 April 1990	1.47	April 1993 - April 2000	70,714
24 May 1991	0.56	May 1994 - May 2001	25,960
29 March 1996	0.78	March 1999 - March 2006	30,000
			126,674

No options were granted or exercised during the year.

There has been no change in the interests set out above between 31 December 1997 and 9 April 1998.

No performance criteria are associated with the exercise of these options.

The market price of the shares at 31 December 1997 was 87.5p (1996: 68p) and the range during the year was 68.0p to 98.5p (1996: 66.5p to 85p).

4. EMPLOYEE INFORMATION

The average monthly number of persons (including executive directors) employed by the Group during the year was:

	1997 Number	1996 Number
By function		
Administration	52	47
Building and development	317	244
	369	291

	1997 £'000	1906 £'000
Staff costs (for the above persons)		
Wages and salaries	7,135	4,929
Social security costs	613	441
Other pension costs (see note 19)	204	186
	7,952	5,556

5. OTHER OPERATING INCOME

	1997 £'000	1996 £'000
Profit on disposal of ground rents	–	28
Other income	–	9
	–	37

6. INTEREST PAYABLE AND SIMILAR CHARGES

	1997 £'000	1996 £'000
On bank overdrafts	658	707

7. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

	1997 £'000	1996 £'000
Profit on ordinary activities before taxation is stated after crediting:		
Profit on disposal of tangible fixed assets	62	11
And after charging:		
Depreciation of tangible owned fixed assets	247	235
Auditors' remuneration for:		
Audit (Company: £5,000; 1996: £5,000)	34	31
Other services	28	71
Loss on disposal of investment property	24	–
Hire of plant and machinery	1,104	487
Hire of other assets – operating leases	183	184

8. TAXATION

	1997 £'000	1996 £'000
Tax on profit on ordinary activities		
United Kingdom corporation tax at 31.5% (1996: 33%):	912	301
Irrecoverable Advance Corporation Tax	–	47
Advance Corporation Tax recoverable	(4)	-
Under provision in respect of prior years:		
Current	16	–
	924	348

9. DIVIDENDS

	1997 £'000	1996 £'000
Dividends on equity shares		
Ordinary – interim paid of 1.57p per share (1996: 1.45p)	278	257
Ordinary – final proposed of 2.94p per share (1996: 2.65p)	522	470
	800	727

10. PROFIT FOR THE FINANCIAL YEAR

As permitted by section 230 of the Companies Act 1985, the holding company's profit and loss account has not been included in these financial statements. The profit for the financial year dealt with in the financial statements of the holding company is £351,000 (1996: profit of £885,000).

11. EARNINGS PER ORDINARY SHARE

The calculation of the earnings per share on the net basis is based on the profit on ordinary activities after taxation of £2,329,000 (1996: £1,555,000) and on 17,739,626 ordinary shares (1996: 17,719,403), being the number of ordinary shares in issue and ranking for dividend during the year excluding the shares held by the Long Term Bonus Plan, as dividends on these shares are waived.

12. TANGIBLE FIXED ASSETS

	VEHICLES, PLANT AND EQUIPMENT	
	GROUP	COMPANY
	£'000	**£'000**
Cost		
At 1 January 1997	1,561	164
Additions	490	64
Disposals	(311)	(17)
At 31 December 1997	**1,740**	**211**
Depreciation		
At 1 January 1997	1,098	75
Charge for year	247	33
Eliminated in respect of disposals	(290)	(17)
At 31 December 1997	**1,055**	**91**
Net book value		
At 31 December 1997	**685**	**120**
Net book value		
At 31 December 1996	463	89

13. GROUND RENTS

	GROUP	
	1997	1996
	£'000	£'000
Valuation		
At 1 January	**9**	9
Capitalised in the year	**39**	44
Disposals	**–**	(44)
At 31 December	**48**	9

The Company does not hold any ground rents (1996: £Nil).

14. INVESTMENT PROPERTY

Group

	£'000
Valuation	
At 1 January 1997	495
Disposal in year	(495)
At 31 December 1997	**–**

15. FIXED ASSET INVESTMENTS

Group

	Long Term Bonus Plan £'000
Cost	
At 1 January 1997	88
Additions	27
Disposals	(46)
At 31 December 1997	69
Amounts expensed	
At 1 January 1997	88
Charge in year	27
Eliminated in respect of disposals	(46)
At 31 December 1997	69
Net book value	
At 31 December 1997	–
Net book value	
At 31 December 1996	–

Long Term Bonus Plan

The investment in the Long Term Bonus Plan consists of shares in the Company at cost held in trust to provide benefits to the participants. These shares are carried at nil value, the profit and loss account having been charged with the cost of the shares in the year in which the bonuses were awarded.

During the year the Company made payments to the trust in respect of bonuses awarded to the executive directors and the company secretary in 1996 and in respect of dividends which had been waived by the trust. These payments were used to acquire 27,720 shares in the Company.

The trustee also made a distribution to the participants from the Plan of 47,943 shares during the year.

At 31 December 1997 the Plan held 73,981 shares (1996: 94,204) which had a market value of £64,733 (1996: £64,058).

Company

	Interest in Group undertakings £'000
Cost	
At 1 January 1997 and 31 December 1997	4,527
Amounts written off	
At 1 January 1997 and 31 December 1997	3,453
Net book value	
At 1 January 1997 and 31 December 1997	1,074

15. FIXED ASSET INVESTMENTS (CONTINUED)

Principal Group undertakings at 31 December 1997:

	% holding of equity capital
Held by Cussins Property Group plc	
Cussins Homes Limited	100
Cussins Commercial Developments Limited	100
Cussins Investment Properties Limited	100
Held by Cussins Homes Limited	
Cussins Homes (North) Limited	100
Cussins Homes (Yorks) Limited	100
Lemmington Estates Limited	100

All of the Group undertakings are registered in England and Wales which is also the principal country of operation. Their principal activities are the development and sale of residential and commercial property, with the exception of Lemmington Estates Limited whose principal activity is the provision of site labour to other Group companies.

16. STOCKS

	GROUP	
	1997	1996
	£'000	£'000
Land and site development	**21,701**	18,919

17. DEBTORS

	GROUP		COMPANY	
	1997	1996	**1997**	1996
	£'000	£'000	**£'000**	£'000
Amounts falling due after more than one year				
Advance corporation tax recoverable	**134**	498	**–**	–
Amounts owed by Group undertakings (see below)	**–**	–	**9,172**	–
	134	498	**9,172**	–
Amounts falling due within one year				
Trade debtors	**412**	977	**–**	–
Amounts owed by Group undertakings	**–**	–	**2,405**	4,169
Other debtors	**303**	236	**–**	–
Prepayments and accrued income	**426**	314	**50**	38
Dividends receivable	**–**	–	**522**	11,039
	1,141	1,527	**2,977**	15,246
	1,275	2,025	**12,149**	15,246

17. DEBTORS (CONTINUED)

On 24 November 1997 Cussins Commercial Developments Limited and Cussins Homes (Yorks) Limited issued zero coupon unsecured convertible loan stock with a nominal value of £15,270,000 for £9,000,000 to Cussins Property Group plc.

The loan stock can either be:

(i) converted into ordinary shares in Cussins Commercial Developments Limited and Cussins Homes (Yorks) Limited any time until 20 November 2000/2002 respectively in exchange for the nominal amount of stock at the rate of one share for every £50,000 of loan stock; or

(ii) redeemed by Cussins Property Group plc at the issue price on 4 January 1999; or

(iii) repaid at nominal value on 8 January 2000/or 6 January 2003 respectively.

The carrying value of the loan stock includes £172,000 in respect of accrued finance income.

18. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	GROUP		COMPANY	
	1997	1996	**1997**	1996
	£'000	£'000	**£'000**	£'000
Bank overdrafts	**2,174**	4,135	**83**	1,048
Trade creditors	**3,396**	2,626	**62**	97
Amounts owed to Group undertakings	**–**	–	**–**	1,754
Corporation tax	**364**	125	**–**	15
Advance corporation tax	**199**	182	**–**	–
Group relief payable	**–**	–	**69**	70
Other taxation and social security	**201**	156	**13**	13
Other creditors	**140**	93	**4**	15
Accruals and deferred income	**1,574**	512	**257**	145
Dividend payable	**522**	470	**522**	470
	8,570	8,299	**1,010**	3,627

The bank overdrafts are secured by debentures giving a fixed charge over certain work in progress of Cussins Homes (Yorks) Limited, Cussins Homes (North) Limited and Cussins Commercial Developments Limited and floating charges over all of the Group's assets. The bank overdrafts are repayable on demand.

19. PENSION AND SIMILAR OBLIGATIONS

The Group operates a defined contribution pension scheme for certain directors and employees. The Company also contributes to a personal pension scheme on behalf of W I Waites.

The total pension cost for the year was £204,000 (1996: £186,000).

There were no outstanding contributions at the balance sheet date (1996: £Nil).

20. CALLED-UP SHARE CAPITAL

	1997 £'000	1996 £'000
Authorised		
24,000,0000 (1996: 24,000,000) ordinary shares of 20p each	4,800	4,800
Allotted, called-up and fully paid		
17,813,607 (1996: 17,813,607) ordinary shares of 20p each	3,563	3,563

21. OPTIONS IN SHARES OF CUSSINS PROPERTY GROUP plc

At 31 December 1997 the following options issued in accordance with the rules of the Executive Share Option Scheme were outstanding:

Date options granted	Number of ordinary shares	Period of option	Price per share £
1990	135,711	April 1993 - April 2000	1.47
1991	57,112	May 1994 - May 2001	0.56
1996	30,000	March 1999 - March 2006	0.78

22. SHARE PREMIUM ACCOUNT AND RESERVES

	Share premium account £'000	Profit and loss account £'000
Group		
At 1 January 1997	5,963	4,090
Retained profit for the financial year	–	1,529
At 31 December 1997	5,963	5,619

	Share premium account £'000	Profit and loss account £'000
Company		
At 1 January 1997	5,963	3,256
Loss for the financial year	–	(449)
At 31 December 1997	5,963	2,807

23. RECONCILIATION OF MOVEMENT IN EQUITY SHAREHOLDERS' FUNDS

	1997 £'000	1996 £'000
Group		
Profit for the financial year	2,329	1,555
Dividends	(800)	(727)
Net addition to equity shareholders' funds	1,529	828
Equity shareholders' funds at 1 January	13,616	12,788
Equity shareholders' funds at 31 December	15,145	13,616

24. RECONCILIATION OF OPERATING PROFIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	1997 £'000	1996 £'000
Operating profit	3,911	2,610
Depreciation on tangible fixed assets	247	235
Capitalisation of ground rents	(39)	(44)
Profit on disposal of tangible fixed assets	(62)	(11)
Profit on sale of ground rents	–	(28)
Loss on sale of investment property	24	–
(Increase)/decrease in stocks	(2,782)	1,816
Decrease/(increase) in debtors	386	(821)
Increase in creditors	1,924	43
Net cash inflow from continuing operating activities	3,609	3,800

25. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	1997 £'000	1996 £'000
Increase in cash in the year	1,963	2,179
Net debt at 1 January	(4,131)	(6,310)
Net debt at 31 December	(2,168)	(4,131)

26. ANALYSIS OF CHANGES IN NET DEBT

	1997	1996	1997 Change in year	1996	1995	1996 Change in year
	£'000	£'000	£'000	£'000	£'000	£'000
Cash at bank and in hand	6	4	2	4	7	(3)
Bank overdrafts	(2,174)	(4,135)	1,961	(4,135)	(6,317)	2,182
At 31 December	(2,168)	(4,131)	1,963	(4,131)	(6,310)	2,179

27. FINANCIAL COMMITMENTS

At 31 December 1997 the Group had annual commitments under non-cancellable operating leases as follows:

	1997		1996	
	Land and buildings	Other	Land and buildings	Other
Expiring in over five years	183	–	213	–

28. CONTINGENT LIABILITIES

The Company has guaranteed the bank loans and overdrafts of its subsidiaries at two different banks. The maximum liabilities under these guarantees were £804,000 (1996: £988,000) and £1,814,000 (1996: £1,769,000) at 31 December 1997. The overdrafts have been secured by fixed and floating charges over all of the Group's assets.

Notice is hereby given that the seventeenth Annual General Meeting of Cussins Property Group plc will be held at The Northern Counties Club, Hood Street, Newcastle upon Tyne, NE1 6LH on 2 June 1998 at 11.45 am for the following purposes:

Ordinary business resolutions

Resolution 1 — To receive and to adopt the report of the directors, and the Company's audited accounts for the year ended 31 December 1997 and the auditors' report thereon.

Resolution 2 — To declare the final dividend recommended by the directors.

Resolution 3 — To re-elect as a director Mr P I Cussins, who retires by rotation and offers himself for re-election.

Resolution 4 — To re-appoint Coopers & Lybrand as auditors of the Company and to authorise the directors to fix their remuneration.

Special business resolutions

To consider and, if thought fit, to pass the following resolutions, of which Resolution 5 will be proposed as an ordinary resolution and Resolution 6 will be proposed as a special resolution.

Resolution 5

That the directors be and they are hereby generally and unconditionally authorised in accordance with Section 80 of the Companies Act 1985 and in substitution for any existing power to allot relevant securities, to exercise all the powers of the Company to allot relevant securities (within the meaning of the said Section 80) up to an aggregate nominal amount of £1,187,573 during the period commencing on the date of the passing of this Resolution and expiring on 1 June 2003 (both dates inclusive), but so that this authority shall allow the Company to make, before the expiry of this authority, offers or agreements which would or might require relevant securities to be allotted after such expiry and notwithstanding such expiry the directors may allot relevant securities in pursuance of such offers or agreements.

Resolution 6

That subject to the passing of Resolution 5 set out in the Notice of this Meeting:

(a) the directors be and they are hereby empowered, pursuant to Section 95 of the Companies Act 1985 ("the Act"), to allot equity securities (within the meaning of Section 94 of the Act) pursuant to the authority given by the said Resolution 5 as if Section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

(i) in connection with or the subject of an offer or invitation, open for acceptance for a period fixed by the directors, to holders of ordinary shares and such other equity securities of the Company as the directors may determine on the register on a fixed record date in proportion (as nearly as may be) to their respective holdings of such securities or in accordance with the rights attached thereto (including equity securities which, in connection with such offer or invitation, are the subject of such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements that would otherwise arise or with legal or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory or otherwise howsoever);

(ii) pursuant to the terms of any share scheme for employees; and

(iii) (otherwise than pursuant to sub-paragraphs (i) and (ii) above) up to an aggregate nominal amount of £178,136;

and shall expire at the conclusion of the Annual General Meeting of the Company in 1999 or, if earlier, the date falling 15 months from the date of the passing of this Resolution, except that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted after such expiry and notwithstanding such expiry the directors may allot equity securities in pursuance of such offers or agreements; and

(b) all authorities previously conferred under Section 95 of the Act be and they are hereby revoked, provided that such revocation shall not have retrospective effect.

Notes:

1. A form of proxy is enclosed for use by members and to be valid must be lodged with the Registrars not less than forty-eight hours before the Meeting.
2. Any member entitled to attend and vote at the Meeting is entitled to appoint one or more proxies to attend and, on a poll, to vote instead of him/her. A proxy need not be a member of the Company.

The following documents will be available for inspection at the registered office, during normal business hours on any weekday (Saturdays and Public Holidays excepted) from the date of this notice until the date of the Annual General Meeting, and on that date they will be available for inspection at the place of the Meeting from 11.30 am until the conclusion of the Meeting:

A Copies of contracts of service of the directors with the Company.

B The Register of directors' interests in the share capital of the Company.

By order of the board

M P WINDLE
Secretary

30 April 1998

Great North Road
Gosforth
Newcastle upon Tyne
NE3 2DA

FIVE YEAR RECORD

	1993	1994	1995	1996	1997
Turnover (£'000)	20,039	23,889	24,540	26,738	34,059
Profit before taxation (£'000)	1,416	2,224	1,710	1,903	3,253
Equity shareholders' funds (£'000)	10,443	11,937	12,788	13,616	15,415
Earnings per share (pence)	8.9	12.1	8.7	8.8	13.1
Dividends per share (pence)	3.00	3.75	3.90	4.10	4.51
Net assets per share (pence)	58.6	67.0	71.8	76.4	85.0
Return on average capital employed (%)*	16.2	19.3	12.5	11.7	16.2

* calculated as profit after interest and tax divided by average equity shareholders' funds

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Cussins Property Group plc
Great North Road
Gosforth
Newcastle-upon-Tyne
NE3 2DA

Telephone 0191 285 0567
Facsimile 0191 284 2204