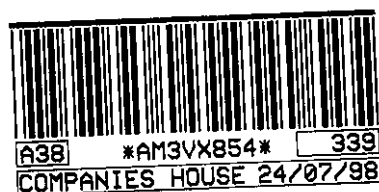


ALFRED McALPINE HOMES SOUTHERN LIMITED
(REGISTERED NUMBER: 1932760)

DIRECTORS' REPORT AND ACCOUNTS

31 December 1997



ALFRED McALPINE HOMES SOUTHERN LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1997

The directors have pleasure in submitting their report and the audited accounts for the year ended 31 December 1997.

PRINCIPAL ACTIVITIES

The company's principal activity is housebuilding.

RESULTS

The results for the period are set out on page 5 of the accounts.

DIVIDENDS AND TRANSFER TO RESERVES

The directors do not recommend payment of a dividend (1996 - £Nil) and propose to transfer the profit after tax of £3,037,000 (1996 - £3,105,000) to reserves.

FINANCIAL REVIEW

The company consolidated its profitability during the year with a view to build upon its sound foundation. Total units sold in the period amounted to 361 (1996 - 350 units).

DIRECTORS

The directors throughout the year were:

GR McCallum
T Hough
MJ Freshney
AJ Tilt
RW Davies
IM White
SJ Maclachlan
SG Mills
EL Reddick

None of the directors had a beneficial interest in any contract or arrangement of significance to which the company was a party during the year.

ALFRED McALPINE HOMES SOUTHERN LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1997 (CONTINUED)

DIRECTORS (CONTINUED)

GR McCallum is a director of Alfred McAlpine PLC and his interests are shown in the notes to the accounts of that company.

T Hough, SG Mills and IM White are directors of Alfred McAlpine Homes Holding Limited and their interests are shown in the notes to the accounts of that company.

The interests of the other directors in office and their families at 31 December 1997 in the share capital of Alfred McAlpine PLC were as follows:

	1991 Share Option Scheme		Shares	
	1997	1996	1997	1996
	Number	Number	Number	Number
AJ Tilt	9,990	9,990	-	-
RW Davies	5,000	5,000	-	-
SJ Maclachlan	5,000	5,000	-	-
EL Reddick	5,000	5,000	-	-
MJ Freshney	-	-	1000	-
Date of grant			3/92	3/92
Price			200p	170p
				4/95
				147p
AJ Tilt			3,742	1,248
RW Davies			-	-
SJ Maclachlan			-	-
EL Reddick			-	-
				5,000

The Alfred McAlpine Restricted Share Plan

The Alfred McAlpine Restricted Share Plan (the "Plan") was introduced in 1996 to encourage an increase in long term comparative total return to shareholders whilst providing competitive remuneration packages to Directors and Senior Executives.

Under the Plan, the Remuneration Committee of Alfred McAlpine PLC grants awards of restricted shares in Alfred McAlpine PLC to key executives. The shares may be released if Alfred McAlpine PLC achieves specified performance criteria and the executives remain in employment until the shares vest. The maximum value of the awards made to a participant in any year may not exceed 50% of that participant's salary.

Further details on the plan and the performance criteria used can be found in the Report and Accounts of Alfred McAlpine PLC.

Awards made under the plan to directors of the company are as follows:

Date of Award	Name	Total Number of Restricted Shares	Value of Award as at Financial Year End	Date of Vesting
3 October 1996	MJ Freshney	15,000	£20,175	3 October 1999
27 July 1997	MJ Freshney	40,000	£53,800	27 July 2000
29 October 1997	MJ Freshney	10,000	£13,450	29 October 2000

ALFRED McALPINE HOMES SOUTHERN LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 1997 (CONTINUED)

None of the other directors held any shares in the company or in Alfred McAlpine PLC during the year.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company 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 company 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 company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

PAYMENTS TO SUPPLIERS

The company agrees payment terms with its suppliers when it enters into binding purchase contracts. The company seeks to abide by the payment terms agreed with suppliers provided that the supplier has provided the goods or services in accordance with the agreed terms and conditions.

The average number of days to settle suppliers' invoices during the year was 45 days (1996: 45 days).

AUDITORS

Price Waterhouse have indicated their willingness to be re-appointed.

By Order of the Board



T.J. Hill
Secretary

31 March 1998

Price Waterhouse



AUDITORS' REPORT TO THE SHAREHOLDERS OF ALFRED MCALPINE HOMES SOUTHERN LIMITED

We have audited the financial statements on pages 5 to 13 which have been prepared under the historical cost convention and the accounting policies set out on pages 7 and 8.

Respective responsibilities of directors and auditors

As described on page 3, 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 the company's affairs as at 31 December 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PRICE WATERHOUSE
Chartered Accountants
and Registered Auditors
Southampton

31 March 1998

ALFRED McALPINE HOMES SOUTHERN LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1997

	<u>Notes</u>	<u>1997</u>	<u>1996</u>
		£'000	£'000
TURNOVER	2	38,738	39,606
Cost of sales		<u>(32,179)</u>	<u>(33,364)</u>
GROSS PROFIT		6,559	6,242
Operating costs	3	<u>(1,736)</u>	<u>(1,398)</u>
OPERATING PROFIT	2	4,823	4,844
Interest receivable	4	10	7
Interest payable	5	(244)	(206)
Exceptional item - amounts written off investments	6	<u>(102)</u>	<u>-</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	7	4,487	4,645
Tax on profit on ordinary activities	8	<u>(1,450)</u>	<u>(1,540)</u>
RETAINED PROFIT FOR THE YEAR	17	<u>3,037</u>	<u>3,105</u>

The movement on reserves is shown in note 17 to the accounts.

The notes on pages 7 to 13 form part of these accounts.

The results of the year arose solely from continuing operations and include all recognised gains and losses in the year.

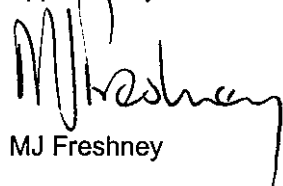
ALFRED McALPINE HOMES SOUTHERN LIMITED

BALANCE SHEET - 31 DECEMBER 1997

	Notes	1997 £'000	1996 £'000
FIXED ASSETS			
Tangible assets	10	133	210
CURRENT ASSETS			
Stocks	11	37,638	18,059
Debtors	12	1,339	6,882
Cash at bank and in hand		<u>3</u>	<u>512</u>
		38,980	25,453
CREDITORS (amounts falling due within one year)	13	<u>(24,807)</u>	<u>(14,401)</u>
NET CURRENT ASSETS		<u>14,173</u>	<u>11,052</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		14,306	11,262
CREDITORS (amounts falling due after more than one year)	14	<u>(7)</u>	<u>-</u>
		<u>14,299</u>	<u>11,262</u>
CAPITAL AND RESERVES			
Called up share capital	16	-	-
Profit and loss account	17,18	<u>14,299</u>	<u>11,262</u>
SHAREHOLDERS' FUNDS	18	<u>14,299</u>	<u>11,262</u>

The notes on pages 7 to 12 form part of these accounts.

Approved by the Board on 31 March 1998 and signed on their behalf



MJ Freshney

DIRECTOR

ALFRED McALPINE HOMES SOUTHERN LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1997

1 ACCOUNTING POLICIES

(1) Accounting convention

The accounts are prepared under the historical cost convention, and in accordance with applicable accounting standards.

(2) Depreciation

Fixed assets are depreciated in equal annual instalments over their expected useful lives using the following annual rates:

Plant and machinery	- 25%
Office equipment	- 20%
Fixtures and fittings	- 10%
Computer equipment	- 25%
Motor vehicles	- 25%

(3) Stocks

Stocks, which consist of land held both for and in the course of development, and work in progress have been valued at the lower of cost and net realisable value. The cost of land represents the original cost of acquisition; the cost of work in progress thereon represents the cost of labour, materials, development costs and site overheads only.

(4) Turnover

Turnover represents the value of legally completed properties and land sales together with the value of work performed in respect of contracts. Amounts in respects of contracts included in turnover, net of payments received on account, are shown within trade debtors. An appropriate proportion of the anticipated contract profit is recognised in the profit and loss account.

(5) Deferred taxation

Deferred taxation is accounted for on all timing differences to the extent that it is considered such differences may reverse in the foreseeable future. The asset/provision has been computed at the rates of tax anticipated to be applicable when the timing differences are expected to reverse.

(6) Land options

Land options comprise payments made by the company to secure future land purchase opportunities and all related professional fees and other costs. Land options are written off on a straight line basis over the length of the option period.

(7) Pensions

Contributions to the group's pension scheme are charged to the profit and loss account so as to spread the cost of pensions over employees' service lives with the Group.

ALFRED McALPINE HOMES SOUTHERN LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1997 (CONTINUED)

1 ACCOUNTING POLICIES (CONTINUED)

(8) Cash flow statement

The cash flows for the year are included within the consolidated cash flow statement disclosed in the accounts of Alfred McAlpine PLC. Therefore in accordance with the provisions of Financial Reporting Standard 1 (Revised 1996), no cash flow statement is required in these accounts.

(9) Operating leases

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

(10) Related party transactions

Transactions with other entities within the group are not disclosed as the company has taken advantage of the exemption available under Financial Reporting Standard 8 "Related Party Transactions".

2 TURNOVER

All turnover and operating profits are derived from housebuilding and land sales to external customers in the United Kingdom.

3 OPERATING COSTS

	<u>1997</u> <u>£'000</u>	<u>1996</u> <u>£'000</u>
Administrative expenses	1,823	1,519
Other operating income	<u>(87)</u>	<u>(121)</u>
	<u>1,736</u>	<u>1,398</u>

4 INTEREST RECEIVABLE

	<u>1997</u> <u>£'000</u>	<u>1996</u> <u>£'000</u>
Other interest receivable	<u>10</u>	<u>7</u>

5 INTEREST PAYABLE

	<u>1997</u> <u>£'000</u>	<u>1996</u> <u>£'000</u>
Bank loans and overdrafts	8	6
Interest payable to group undertaking	236	197
Other interest payable	<u>-</u>	<u>3</u>
	<u>244</u>	<u>206</u>

ALFRED McALPINE HOMES SOUTHERN LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1997 (CONTINUED)

6 AMOUNTS WRITTEN OFF INVESTMENTS

	<u>1997</u> £'000	<u>1996</u> £'000
Provision against amount due from subsidiary undertaking	<u>102</u>	<u>-</u>

7 PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit is stated after charging/(crediting):

	<u>1997</u> £'000	<u>1996</u> £'000
Auditors' remuneration	20	20
Depreciation of tangible fixed assets	91	101
Operating lease rentals:		
Hire of plant and machinery	218	223
Other	173	195
Profit on disposal of tangible fixed assets	<u>(9)</u>	<u>(5)</u>

8 TAXATION

	<u>1997</u> £'000	<u>1996</u> £'000
Corporation tax at 31.5% (1996 - 33%)	1,457	1,540
Corporation tax prior year	(3)	(1)
Deferred tax (see note 15)	<u>(4)</u>	<u>1</u>
	<u>1,450</u>	<u>1,540</u>

9 DIRECTORS AND EMPLOYEES

	<u>1997</u> £'000	<u>1996</u> £'000
The emoluments of the directors of the company were:		
- Aggregate emoluments (excluding pension contributions)	<u>408</u>	<u>359</u>
<u>Highest paid director</u>		
- Total emoluments (excluding pension contributions)	<u>144</u>	<u>84</u>

Retirement benefits are accruing to 9 (1996: 10) directors under the defined benefit pension scheme.

The accrued annual pension entitlement of the highest paid director at 31 December 1997 was £3,889.

Average number employed during the year including directors:

Directors	9	10
Production	29	21
Administration and sales	<u>46</u>	<u>43</u>
	<u>84</u>	<u>74</u>

ALFRED McALPINE HOMES SOUTHERN LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1997 (CONTINUED)

9 DIRECTORS AND EMPLOYEES (Continued)

Employee costs during the year including directors:

	1997 £'000	1996 £'000
Wages and salaries	1,855	1,521
Social security costs	153	125
Pension costs	63	56
	<u>2,071</u>	<u>1,702</u>

10 TANGIBLE FIXED ASSETS

	Plant and machinery £'000	Fixtures, fittings, tools and equipment £'000	Total £'000
<u>Cost</u>			
At 1 January 1997	559	148	707
Additions	19	2	21
Disposals	<u>(42)</u>	<u>-</u>	<u>(42)</u>
At 31 December 1997	<u>536</u>	<u>150</u>	<u>686</u>
<u>Depreciation</u>			
At 1 January 1997	409	88	497
Provided during the year	75	16	91
Disposals	<u>(35)</u>	<u>-</u>	<u>(35)</u>
At 31 December 1997	<u>449</u>	<u>104</u>	<u>553</u>
<u>Net book value</u>			
At 31 December 1997	<u>87</u>	<u>46</u>	<u>133</u>
At 31 December 1996	<u>150</u>	<u>60</u>	<u>210</u>

11 STOCKS

	1997 £'000	1996 £'000
Land and work in progress	37,020	17,584
Finished goods and goods for resale	<u>618</u>	<u>475</u>
	<u>37,638</u>	<u>18,059</u>

ALFRED McALPINE HOMES SOUTHERN LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1997 (CONTINUED)

12 DEBTORS

	1997 £'000	1996 £'000
Trade debtors	1,092	2,601
Amounts owed by group undertakings	10	4,150
Other debtors	164	43
Prepayments and accrued income	56	75
Deferred taxation (note 15)	17	13
	<u>1,339</u>	<u>6,882</u>

Included within trade debtors is £266,222 (1996 - £218,705) which is receivable after one year.

13 CREDITORS (amounts falling due within one year)

	1997 £'000	1996 £'000
Bank overdraft	274	-
Trade creditors	17,046	8,020
Amounts owed to group undertakings	3,991	3,055
Corporation tax	1,450	1,541
Taxation and social security	48	240
Accruals and deferred income	1,998	1,545
	<u>24,807</u>	<u>14,401</u>

Included in trade creditors are £14,580,040 (1996 - £6,296,000) of land creditors which are secured on assets of the company.

14 CREDITORS (amounts falling due after more than one year)

	1997 £'000	1996 £'000
Trade creditors	<u>7</u>	<u>-</u>

15 DEFERRED TAXATION

	£'000
At 1 January 1997	13
Credit to profit and loss account	<u>4</u>
At 31 December 1997 (note 12)	<u>17</u>

The deferred tax asset arising has been recognised at a rate of 31% (1996 - 33%) of gross timing differences.

The full potential deferred tax asset comprises:

	1997 £000	1996 £000
Accelerated capital allowances	<u>17</u>	<u>13</u>

ALFRED McALPINE HOMES SOUTHERN LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1997 (CONTINUED)

16 SHARE CAPITAL

	<u>1997</u>	<u>1996</u>
Authorised, allotted and fully paid: 100 Ordinary shares of £1 each	<u>£100</u>	<u>£100</u>

17 PROFIT AND LOSS ACCOUNT

	£'000
At 1 January 1997	11,262
Retained profit for the year	<u>3,037</u>
At 31 December 1997	<u>14,299</u>

18 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<u>1997</u> £'000	<u>1996</u> £'000
Profit for the financial year	3,037	3,105
Opening shareholders' funds	<u>11,262</u>	<u>8,157</u>
Closing shareholders' funds (equity interests)	<u>14,299</u>	<u>11,262</u>

19 LEASING COMMITMENTS

	<u>1997</u>		<u>1996</u>	
	<u>Land and buildings</u> £'000	<u>Other</u> £'000	<u>Land and buildings</u> £'000	<u>Other</u> £'000
Operating leases which expire:				
Within one year	-	15	-	10
Between two and five years	95	112	97	78
Over five years	-	-	-	-
	<u>95</u>	<u>127</u>	<u>97</u>	<u>88</u>

20 PENSION COSTS

The company is a member of the Alfred McAlpine Retirement Benefits Plan (1973) which is a defined benefit pension scheme operated by the ultimate parent undertaking. Details of the scheme are provided in the notes to the accounts of Alfred McAlpine PLC.

21 CAPITAL COMMITMENTS

At 31 December 1997 the company had contracted for future capital expenditure of £23,000 (1996 - nil).

22 CONTINGENT LIABILITIES

The company is party to a composite guarantee and agreement for unlimited guarantees in respect of Alfred McAlpine Homes Holdings Limited group bank borrowings.

ALFRED McALPINE HOMES SOUTHERN LIMITED

NOTES TO THE ACCOUNTS - 31 DECEMBER 1997 (CONTINUED)

23 ULTIMATE PARENT UNDERTAKING

The immediate parent undertaking is Alfred McAlpine Homes Holdings Limited, a company registered in England. A copy of the group accounts of the immediate parent undertaking may be obtained from the Company Secretary, Alfred McAlpine Homes Holdings Limited, 8 Suffolk Street, London SW1Y 4HG.

The ultimate parent undertaking is Alfred McAlpine PLC, a company registered in England. A copy of the group accounts of the ultimate parent undertaking may be obtained from the Company Secretary, Alfred McAlpine PLC, 8 Suffolk Street, London SW1Y 4HG.