31/12/02

BOVIS
HOMES

Annual report and accounts 2002



Bovis Homes Group PLC

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# Contents



# History of Bovis Homes

Bovis was founded in 1885 by Charles William Bovis and originally operated as a general builder. An early example of his work, a four storey brick built residential block finished in 1893, still stands in York Street, Marylebone, providing good evidence of the quality of work for which Charles Bovis became known.

Bovis grew in size incorporating a wide variety of business interests and in 1965 Bovis Homes was formed as a separate operation. In 1974 the Bovis Group was purchased by The Peninsular and Oriental Steam Navigation Company. Bovis Homes Group PLC was floated as an independent company on the London Stock Exchange in 1997. It is one of the leading housebuilders in the United Kingdom operating through regional offices which in turn are supported by area offices which effectively manage local operations. In addition there is a retirement homes business which is administered from the Registered Office in Kent.

The Group has a total professional in-house capability covering all aspects and functions of the business delivering an efficient service at a cost effective price, delivering shorter time scales and the ability to focus action where it is necessary.

A continuous improvement programme is operated in respect of all of the Group's processes which has, and will continue, to deliver significant results. The combined effect is to make the Group efficient and competitive.

# financial highlights

## pre tax profit £104.7m

2002 increased 31% to £104.7 million
(2001: £80.0 million)

## earnings per share 63.5p

2002 increased 29% to 63.5p
(2001: 49.4p)

## operating margin 23.8%

(2001: 23.8%)

## dividends 14.0p

2002 final dividend proposed of 9.4p net per ordinary share making 14.0p for the year (2001: 12.7p)

**A year of record profit performance accompanied by strong positive cash flow and increased landholdings.**

# Chairman's statement | Sir Nigel Mobbs

The Group has achieved a year of record performance. The good results announced at the interim stage were followed by a strong second half year performance, accompanied by positive cash flow and an increase in land held for development.

**Results >** Profit on ordinary activities before taxation for the year ended 31 December 2002 increased by 30.9% to £104.7 million, compared with £80.0 million in 2001. This result was achieved from total turnover of £461.3 million, 28.7% greater than the previous year.

An expanding part of the Group's business is related to the provision of affordable housing on land owned by third parties. This activity provides early positive cash flow and high return on capital employed. For the first time in the commentaries on the full year results of the Group, the turnover associated with this element of the business, some £8.0 million (2001: £7.0 million), has been separately identified from housing turnover. Housing turnover stood at £445.4 million compared with £334.5 million in 2001. This increase arose primarily from an 11% increase in the volume of legal completions and a 20% increase in average sales price.

For the year, the operating margin remained stable with the previous year at 23.8% whilst return on capital employed increased to 25.1%. Basic earnings per share improved by 28.5% to 63.5 pence per ordinary share.

**Dividend >** The Board proposes a final dividend for the year ended 31 December 2002 of 9.4 pence to be paid on 23 May 2003 to shareholders on the register at the close of business on 25 April 2003. This dividend, when added to the interim dividend of 4.6 pence paid on 22 November 2002, totals 14.0 pence for the year and is covered 4.5 times by the basic earnings per share of 63.5 pence. The total dividend per share for the year represents an increase of 10.2% over the total dividend for 2001.

**Market conditions >** Activity in the housing market during 2002 was strong with well publicised increases in house prices whilst property transactions in England and Wales increased by some 9% to 1.6 million transactions. According to the Office of the Deputy Prime Minister ('ODPM'), new private completions in Great Britain in 2002 increased by 7.6% to 150,800 units. Notwithstanding this increase, many forecasters are predicting a requirement to supply new housing over the next twenty years, in England alone, of some 225,000 homes per annum. Base interest rates at 4.0% remained unchanged during the financial year, and subsequent to the year end have been reduced by 25 basis points. Although house price increases have exceeded earnings growth during 2002 and as a result affordability as measured by the house price/earnings ratio has deteriorated, the competitive mortgage market and low base interest rates have ensured that buying a house with a mortgage remains approximately 39% cheaper than the average mortgage cost over the last twenty years.

At the end of the third quarter of 2002, affordability trend indicators reported that first year mortgage interest payments as a percentage of average net earnings for a two income couple was 17%. The same indicator reported 37% for 1990, the highest the indicator has recorded in the last twenty years, coinciding with the housing 'boom' of the late 1980s. The average figure for this indicator between 1983 and 2002 was 19.8%, some 2.8 percentage points higher than the latest published figure.

Notwithstanding that the demand versus supply relationship and affordability remain positive for the housing market, much of the resilience in the economy has been fuelled through consumer confidence which remained strong throughout 2002. Understandably, the geopolitical uncertainties in the Middle East have raised fears that consumer confidence may not remain so resilient.

**Strategy >** During 2002, the Group advanced its corporate strategy to grow the business organically whilst retaining its strong operating margins. This was, in part, facilitated through the launch of the Northern region which enjoyed a successful first full year of autonomy. The Group has now appointed a Managing Director to run its new Eastern region which will follow the now established regional development model pioneered by Northern. This will ensure that the Eastern region utilises internal services provided by other regions until such time as it reaches critical mass, thus maintaining tight cost control on the administrative overheads of this embryonic region. The expansion plan of the Group will involve further launches of regions, particularly in locations where the Group has a satellite office of an already established region. As always, this expansion will be subject to market conditions.

The financial objectives of the Group remain consistent, focusing on achieving strong operating profit margins, above target levels of return on capital employed and attention to sound management of health, safety and environmental matters. The Group has continued to invest in product innovation and research and development into build techniques with a view to enhancing profitability.

**The Board >** Further to the reconstitution of the Board on 1 February 2002, positions on the Board have remained unchanged. During 2002, Malcolm Harris continued to lead his executive team and Stephen Brazier became Group Operations Director on 1 February 2002. Previously, Stephen Brazier held the Board position of Regional Chairman. Ron Walford, having notified the Board of his intention to retire, did so effective from 30 June 2002. I would like to express my thanks to Ron Walford for his 30 years' service with the Group and for his wise and meaningful contribution to the Board. David Ritchie was appointed Finance Director effective from 1 July 2002, having previously been employed as the Group's Financial Controller. The three non-executive directors remained unchanged during 2002 including myself as Chairman.

**Corporate governance >** The Group continues to be committed to good corporate governance and applies the provisions of the Combined Code. After careful consideration of the Higgs Review (Review of the role and effectiveness of non-executive directors) issued in January 2003, the Group is generally supportive of the re-affirmation of the principles of best practice. However, the Board considers that certain recommendations contained in the report are too formulaic and prescriptive and as a result, if implemented, could lead to a control environment which subordinates the valuable judgement of the Board and a flexible and common sense approach to individual company circumstances. Consequently, the Board is making representations to the relevant authorities outlining its concerns. In raising these concerns, the Board aims to assist in the development of a strong corporate governance culture which in turn will assist the Group in its aim of maximising shareholder return.

**Employees >** On behalf of the Board I would like to thank all of our employees. It is only with their commitment, enthusiasm and expertise that the Group has been able to achieve the record profits during 2002. I am pleased that through their hard work our employees have been able to share in the success of the Group, historically by way of the Group's Profit Share Scheme and currently from the recently launched Share Incentive Plan. Many of the Group's employees hold shares in the Company and the strong take up for the Save As You Earn Share Option Scheme means that many employees are saving monthly to acquire shares. This will enable our employees to participate further in the future of the Company.

At the 2002 Annual General Meeting the Company passed a resolution approving and adopting a Share Incentive Plan. This plan has been launched and will allow the award of shares in the Company to employees based on performance. It will also provide employees with an opportunity to purchase shares in the Company each month.

**Prospects >** The housing market in 2002 witnessed a period of strong growth both in activity and in sales prices. It is unlikely that the growth in sales prices, reported by the Halifax for the year to December 2002 at 26.4%, will be repeated in 2003. A period of sales price growth more in line with earnings growth is expected and would most likely return a sense of stability to the housing market. The fundamentals of the housing market are sound with demand in the areas in which the Group operates exceeding supply and affordability remaining positive. Underlying retail price inflation in 2003 is expected to be benign, at or around the Government's target rate of 2.5%. This will support continued interest rate stability such that the cost of mortgage finance should not adversely affect affordability during 2003.

The Group's strategy is to offer good value housing in locations close to large conurbations within easy commuting distance and along strong employment corridors. The Group has no current developments in central London and monitors closely investment levels within the M25. This approach, established by the Group some years ago, minimises its exposure to changes in the housing market. The Group's trading experience to date in 2003 suggests that the housing market will be less buoyant than in 2002 but that demand in the sectors in which the Group specialises will remain firm and that prices will continue to rise.

**Nigel Mobbs**
Chairman

**Operating in a good housing market, with a stable economic environment, the Group delivered an excellent performance with all segments of the business increasing their profit.**

# Chief Executive's operational review | Malcolm Harris

**Trading Environment >** 2002 witnessed a stable economic environment with the base interest rate remaining at 4.0% throughout the year, high levels of employment and an average increase in earnings of 3.7%. This resulted in an improved level of consumer confidence. According to HM Land Registry, UK total property transactions were at the highest level since 1989 and it reported average price increases for the year ended 31 December 2002 for all properties of 22.2% broken down with new homes increasing by 13.5% and older properties increasing by 22.9%. This compared with an average increase of 26.4% for all properties as published by the Halifax and of 25.3% by the Nationwide. Looking over a twenty year period the average increase in house prices, as reported by the Halifax, was 6.8% compared with average earnings increases of 6.1%. Taking into account the value added through home extensions, loft conversions, refurbishment, conservatories and other value added items, it would appear that the average increase in house prices was broadly in line with the increase in earnings over this twenty year period. When comparing the combination of low interest rates, earnings growth and average sales price rises, the real cost of mortgages was approximately 39% cheaper during 2002 than the average cost over the last twenty years and in most areas of the country it was cheaper to buy than to rent.

**Group performance >** Operating in a good housing market the Group delivered an excellent performance with all segments of the business increasing their profit compared with the previous year. The overall result was the achievement of a record profit before taxation of £104.7 million, over 30% up on 2001. The return on average capital employed increased to 25.1%. Legal completion volumes improved by 10.7% to 2,556 homes. In addition, the Group legally completed 135 dwellings constructed on third party owned land. Positive cash flow was generated, resulting in a small net cash in hand position at the year end, albeit that additional investment was made in the Group's consented landholdings which increased to 10,716 controlled plots (including 473 plots of third party owned land). The Group also made significant further investment in its strategic landholdings which closed the year at 21,841 potential plots.

The Group's average house sales price at £174,300 increased by 20.3% compared with 2001. After taking account of an 11.5% increase in the average size of unit to 1,186 square feet, sales price per square foot, net of incentives, increased by 8.1%. The large increase in average unit size was as a result of the additional contribution from the Group's range of three storey townhouses and room in the roof homes which are now an integral part of the Group's product range. By comparison construction costs increased by 7.0% including specification upgrades and increases in taxation relating to aggregate tax, landfill tax and climate change levy.

### Product mix and average sales price

| Year ended 31 December | 2002 | | | 2001 | | |
|---|---|---|---|---|---|---|
| House type | % | Units | Average sales price £ | % | Units | Average sales price £ |
| Two bedroom | 10 | 271 | 108,300 | 17 | 420 | 97,100 |
| Three bedroom | 33 | 887 | 148,100 | 26 | 636 | 118,600 |
| Four bedroom | 27 | 728 | 186,600 | 34 | 834 | 165,400 |
| Five plus bedroom | 17 | 442 | 273,300 | 8 | 200 | 275,700 |
| Retirement Living | 4 | 114 | 172,800 | 5 | 110 | 160,200 |
| Group (exc. partnership housing) | | 2,442 | 179,000 | | 2,200 | 148,600 |
| Partnership housing | 4 | 114 | 73,600 | 5 | 109 | 69,600 |
| Group (exc. third party owned land units) | | 2,556 | 174,300 | | 2,309 | 144,900 |
| Third party owned land units | 5 | 135 | 59,300 | 5 | 120 | 58,700 |
| Group | 100 | 2,691 | 168,500 | 100 | 2,429 | 140,600 |

## Regional performance

### Unit completions and average sales price

| Year ended 31 December | 2002 Units | 2002 Average sales price £ | 2001 Units | 2001 Average sales price £ |
|---|---|---|---|---|
| Central | 660 | 191,900 | 769 | 150,000 |
| Northern | 244 | 134,100 | | |
| South East | 894 | 185,800 | 839 | 152,500 |
| South West | 644 | 155,500 | 591 | 124,500 |
| Retirement Living | 114 | 172,800 | 110 | 160,200 |
| **Group** (exc. third party owned land units) | **2,556** | **174,300** | **2,309** | **144,900** |
| Third party owned land units | 135 | 59,300 | 120 | 58,700 |
| **Group** | **2,691** | **168,500** | **2,429** | **140,600** |

All regions achieved a year on year increase in respect of volume and profit.

The new Northern region commenced operating independently from the Central region with effect from 1 January 2002. In its first year as a separate business it achieved 244 legal completions which compared with 156 legal completions reported within Central region's results in 2001.

The legal completions achieved on third party owned land were predominantly contributed by South West region with 116 legal completions. The balance of 19 units arose in South East region.

### Operating margins

| Year ended 31 December | 2002 % | 2001 % |
|---|---|---|
| Central | 31.1 | 26.4 |
| Northern | 17.5 | |
| South East | 22.2 | 25.1 |
| South West | 18.3 | 16.9 |
| Retirement Living | 29.5 | 25.6 |
| **Group** | **23.8** | **23.8** |

The operating margin for Northern region, shown separately for the first time, demonstrates a good performance as the results of the region have not been derived from selling houses on strategically sourced land and the region has absorbed a full overhead.

The South East region's operating margin was lower in 2002 compared with 2001 due to a reduction of legal completions arising from strategic sourced land compared with the previous year. A number of sites where planning consent had been delayed have now received consent, which will provide the region with the opportunity to increase its operating margin in 2003.

The South West region's figures included the 116 legal completions which were built on third party owned land. The operating profit margins from this area of the business are lower than from traditional private sector sales. However, it provides early positive cash flow and a high return on average capital employed.

## Land and planning

### Consented land bank

| Total plots as at 31 December | 2002 Plots | 2001 Plots |
|---|---|---|
| Central | 2,628 | 4,288 |
| Northern | 1,324 | |
| South East | 3,458 | 3,470 |
| South West | 2,514 | 2,200 |
| Retirement Living | 319 | 368 |
| Group (exc. third party owned land plots) | 10,243 | 10,326 |
| Third party owned land plots | | |
| South West | 473 | 116 |
| South East | - | 23 |
| Group | 10,716 | 10,465 |
| *Years' supply based upon legal completions in the year* (exc. third party owned land plots) | 4.0 | 4.5 |
| Years' supply based upon legal completions in the year (inc. third party owned land plots) | 4.0 | 4.3 |

The cost and time period involved in processing planning applications has again increased in 2002. The major problem that exists is with the process rather than the planning framework. The reduction in resources within many local authority planning and legal departments creates delays. Hopefully this will be re-balanced following substantial further increases in planning application costs. Despite these difficulties the Group once again managed to increase its landholdings with planning consent to 10,716 plots as at 31 December 2002 which represented approximately 4 years' supply based upon 2002 legal completion levels. The average plot cost of the consented land bank (excluding partnership housing) was £39,000 which represented 21.8% of the average sales price in the year of £179,000 (excluding partnership housing). The plots held with consent as at 31 December 2002 are anticipated to generate a high average sales price as new products are developed in prime locations.

The strategic landholdings as at the end of the financial year increased to 21,841 potential plots after transferring 459 plots from strategic land to consented land during the year at an average 33% discount to market value. A large number of strategic holdings are now at an advanced planning stage. We are therefore hopeful of an increase in the transfer of plots to consented land during 2003 and 2004.

Legal completions originating from strategic land contributed 39% (2001: 52%) of the Group's development profit in the year, and 33% (2001: 28.0%) of the legal completions in the year were built on previously used land.

## Strategic land bank

| Total potential plots as at 31 December | 2002 Plots | 2001 Plots |
|---|---|---|
| Central | 3,582 | 4,103 |
| Northern | 597 | |
| South East | 11,067 | 11,259 |
| South West | 6,472 | 4,485 |
| Retirement Living | 123 | - |
| **Group** | **21,841** | **19,847** |
| Years' supply based upon completions in the year | 8.1 | 8.2 |

Included in strategic land holdings are 10,843 potential plots in strategic "growth locations". Growth locations are areas designated for development within draft or adopted development plans by local, county or unitary planning authorities.

| Total potential plots as at 31 December | 2002 Plots | 2001 Plots |
|---|---|---|
| Central | 1,309 | 1,507 |
| Northern | 227 | |
| South East | 5,151 | 5,334 |
| South West | 4,033 | 1,486 |
| Retirement Living | 123 | - |
| **Group** | **10,843** | **8,327** |

Further to the publication of Planning Policy Guidance Note 3 (PPG3) the Group has invested in potential re-development sites, a number of which are allocated for residential use in current Development Plans and on which the Group anticipates receiving planning consent in the short to medium term.

**Research and development >** The Group undertakes continuous reviews of all of its activities with an objective of achieving a safe working environment whilst maximising efficiency and profitability. In addition to process reviews, an extensive research and development programme is underway relating to site based activities, the objective of which is to:

- achieve construction in all weather conditions;
- attain consistent high quality;
- maximise mechanical handling and use of factory finished components;
- minimise waste by utilising lean, efficient construction techniques;
- develop multi-skilled team working and new trade sequencing;
- achieve partnering agreements involving suppliers, skilled tradesmen, industry bodies and Government, to develop new products and methods of operating.

During 2002 further progress has been made by the Group through increased usage of pre-assembled and pre-finished components. The results are shown in the table below.

| Component usage | Average total Year 2001 | Target Year 2002 | Average total Year 2002 |
|---|---|---|---|
| Factory pre-finished, pre glazed windows | 87% | 95% | 94% |
| Factory pre-finished soffits, fascias, barge boards | 87% | 95% | 96% |
| Factory pre-assembled, pre-finished GRP porches | 98% | 99% | 97% |
| Factory pre-assembled, pre-finished GRP dormers | 46% | 81% | 85% |
| Factory assembled pre-glazed external steel doorsets | 81% | 99% | 99% |
| Factory assembled internal doorsets | 16% | 62% | 65% |
| Factory assembled pre-glazed cassette doorsets | 71% | 88% | 82% |
| Factory assembled pre-glazed external feature doorsets | 77% | 92% | 96% |
| Factory pre-finished garage doors | 100% | 100% | 100% |
| Factory pre-fabricated engineered joist sets | 62% | 91% | 93% |
| Factory finished radiators | 100% | 100% | 100% |
| Factory pre-assembled stair parts/balusters | 98% | 100% | 99% |
| New technology snap fit plumbing | 82% | 97% | 99% |
| Factory pre-plumbed thermal store cylinders | 82% | 91% | 95% |

Due to these stated components now being specified in respect of all new developments, the objective set of increased usage of pre-assembled and pre-finished components has now been achieved.

The Group is participating in a number of research projects with the Building Research Establishment and has recently embarked upon a Partners In Innovation (P.I.I.) project: "Adding Value to UK Timber".

Bovis Homes has, during 2002, participated in the much publicised ZETHUS project (Zone for education and training in housing using systems) which is designed to publicly exhibit innovative technology.

Bovis Homes erected the first demonstration unit on the project campus utilising innovative construction materials and production techniques involving thin joint aircrete construction, brick slip cladding systems, solid walling, "Tilebricks" and large format storey height aircrete wall panels and aircrete stair parts, together with a high degree of factory pre-assembled, pre-finished components.

The unit is now nearing completion and other exhibitors are due to commence construction on site shortly.

**Partnership Developments >** Bovis Homes Partnership Developments is actively involved with housing associations, local authorities and other similar bodies providing quality new homes at affordable prices, for either rent or shared ownership, to communities throughout the country. The Group has total in-house capability to handle all aspects of each project including major regeneration schemes. In addition to design and build, there exists expertise to provide cross subsidies from the development and sale of open market housing and commercial buildings.

**Health, safety and environment >** Best practice in health, safety and environmental awareness and management is an important element in the continuing success of the Group. The objective is to maintain the highest practical levels of health and safety and effective environmental policies.

The Health, Safety and Environmental Consultative Committee oversees these important matters, formulating and promulgating policy to all stakeholders. The Committee is chaired by a Bovis Homes Limited director by annual rotation to ensure that fresh ideas and initiatives are constantly introduced, assessed and, where appropriate, implemented on a consistent basis. He is supported by a committee comprising Group employees from numerous disciplines complemented by the Health and Safety Director and external independent professional advisers. He reports formally to the Board through submission of a Health and Safety report tabled at each Board meeting.

Bovis Homes promotes all aspects of safety and environmental management throughout its operations in the interests of all stakeholders. Its record of success was once again recognised in 2002 with the Gold Medal Award from the Royal Society for the Prevention of Accidents and the National Award from the British Safety Council. Further details are available in the Group's free-standing Corporate Social Responsibility Report.

Bovis Homes' objective is to achieve sustainable construction and reduce environmental impact. The Group seeks to protect and, wherever possible, improve the environment by retaining mature landscaping and introducing new planting and habitats. It is also committed to planning for the most efficient and effective use of development land. The Group has introduced higher density properties with flexible accommodation which addresses the changing lifestyles of its customers, including the ability to work from home.

The Group has issued to employees an Environmental Management Manual containing the Environmental Policy, Environmental Effects Document and Best Practice Checklists. It is a comprehensive approach consolidating policies, procedures and systems, explaining how all employees can assist the Group in achieving its environmental aims and make a positive contribution to the environment.

**Legislation >** No improvement in the planning system was witnessed during 2002. A continuing lack of resources within many local authorities prevented the efficient processing of applications. Despite a substantial increase in planning application costs, which were initiated to fund additional staffing within both the planning and legal departments of local authorities, to date only the imposition of further costs, with no benefits, has transpired. The Planning and Compulsory Purchase Bill and the new Communities Bill are currently before Parliament and time will tell as to whether improvements will emanate from such legislation.

The housebuilding industry continues to be adversely affected by increased taxes levied by Government.

Aggregate tax > A new levy on aggregate materials of £1.60 per tonne was introduced in April 2002 which added considerable cost to all infrastructure, roads and sewers as well as general construction costs.

Landfill tax > The active waste tax was increased by a further £1.00 per tonne during 2002 and further increases are proposed for 2003 and 2004.

Climate change levy > Additional taxes have been imposed on electricity, gas, liquefied petroleum gas and solid fuels.

**Stamp duty >** All significant land purchases attract stamp duty at 4.0% and the majority have a non recoverable VAT element of 17.5% added. This is in addition to the stamp duty that purchasers pay upon legal completion of the home.

**Employee costs >** Employee and employer National Insurance costs will rise from 6 April 2003 adding an additional 1.0% to the cost of employment.

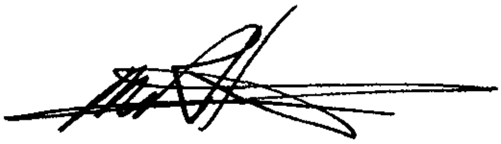
**Pension schemes >** Historical changes in the taxation treatment of pension schemes have imposed a considerable burden on the Group regarding contribution rates. Further adverse tax changes for pension schemes are currently being promulgated by the Inland Revenue which could add additional burdens.

**Group structure >** A framework is in existence to enable Group expansion. The new Northern region, based at Wilmslow, was established as a separate operation with effect from 1 January 2002 and a new Eastern region, operating from Cambourne, near Cambridge, was created with effect from January 2003. Initially this new region will utilise facilities and services available from existing regions.

Central region relocated to their new purpose built offices at Coleshill, near Birmingham, in the summer of 2002 achieving an improvement in operating efficiency, reduced running costs and a net cash saving resulting from the sale proceeds of Castle Bromwich Hall compared with the freehold cost of the new office.

**Employees >** Bovis Homes is a people business and I would like to thank all our employees for their contribution during the year. It is essential that the right individuals are recruited, trained and motivated. The objective is to ensure that the Group employs the highest calibre of employees who add value to the business and are sensitive to the demands and requirements of the Group's customers whilst having the entrepreneurial drive and flair to move the operation forward without compromising sound corporate governance.

**Outlook for 2003 >** The fundamentals affecting the industry remain sound. Household formation is increasing annually above the rate of new housing supply. High levels of employment, low interest rates and an increase in earnings above retail price inflation provide a solid base on which the industry can operate. The Group has commenced the new year with good landholdings, an excellent product range, efficient processes and a good sales position. The Group continues to be led by a capable management team who are supported by able, experienced and enthusiastic employees. The combined team has a clear commitment to deliver ongoing positive results for the Group's shareholders.



**Malcolm Harris**
Chief Executive

**A further year of growth has delivered record earnings per share and profits before taxation, with the Group ending the financial year with four years' land supply and net cash in hand.**

# Financial review | David Ritchie

**Overview >** A further year of growth has delivered record earnings per share and profits before taxation. Earnings per share increased by 28.5% to 63.5 pence per share and profit before taxation increased by 30.9% to £104.7 million. The Group maintained its four year land bank supply with 10,716 controlled plots with planning. These results were achieved whilst generating positive cash flow and ending the year with net cash in hand of £4.6 million.

The Group has adopted unchanged accounting policies for this financial year, although adjustment has been made to reflect the adoption of Financial Reporting Standard 19 ("FRS 19"), "Deferred tax". Comparative figures have been restated for the adoption of this new standard as necessary.

### Review of results

**Profit before taxation >** The profit on ordinary activities before taxation for the year ended 31 December 2002 amounted to £104.7 million. This compared with £80.0 million in the previous year and represented an increase of 30.9% year on year. There were no exceptional items during 2002 whilst 2001 included an exceptional profit of £1.2 million from the sale of one of the Group's freehold properties.

**Turnover >** Total turnover achieved was £461.3 million (2001: £358.5 million). Included within this figure was housing turnover of £445.4 million (2001: £334.5 million). The increase in housing turnover was primarily due to the 10.7% increase in unit legal completions to 2,556 units compared with 2,309 legal completions in 2001 and the increase in average sales price to £174,300 compared with £144,900 in 2001, an increase of 20.3%. Overall, the average sales price per square foot increased by 8.1% and the average size of unit by 11.5%.

In addition, the Group handed over 135 affordable units to housing associations where the Group constructed houses under JCT contracts on land owned by the housing association. This generated £8.0 million of turnover and compared with 120 units handed over in 2001 and £7.0 million of turnover. This turnover and associated units have in previous years been included within housing turnover. Given that the Group intends to focus more significantly on this element of its business, it was considered important to segregate it in this year's disclosure of results.

Taken together, total legal completions amounted to 2,691 units (2,556 units on owned land and 135 units on third party owned land) and compared with 2,429 legal completions in 2001 (2,309 units on owned land and 120 units on third party owned land). Total turnover from legal completions was £453.4 million compared with £341.5 million in 2001.

Land sales amounted to £4.4 million compared with £15.2 million in 2001 whilst other income mainly arising from sales of commercial interests was £3.5 million compared with £1.8 million in 2001.

**Operating profit >** The Group achieved an operating profit of £109.6 million, an increase of 28.6% over £85.2 million in the previous year, and achieved a stable operating margin of 23.8%.

Land sale profits less option costs was a net cost of £1.9 million in 2002 (2001: net profit of £2.7 million).

Administrative expenses as a percentage of turnover were 7.8%, an improvement of 0.6 percentage points compared with 8.4% in 2001. Administrative expenses increased to £36.0 million compared with £30.0 million in the previous year. The increase included additional headcount from the expansion of the regional structure. Average staff numbers in 2002 were 730 compared with 693 in 2001.

**Financing >** Net interest payable amounted to £4.9 million (2001: £6.4 million), and was covered 22 times by profit before interest.

**Taxation >** The corporation tax charge for the year amounted to £31.2 million, and was after crediting an adjustment in respect of prior years amounting to £0.3 million. In adopting the new accounting standard FRS 19 on deferred tax, the Group has recognised, through a prior year adjustment, a deferred tax asset of £0.6 million. This has increased the brought forward reserves of the Group by the same amount. At 31 December 2002, this deferred tax asset had reduced to £0.5 million resulting in a current year deferred tax charge of £0.1 million (2001 deferred tax charge: £0.3 million).

**Dividends >** Dividends paid and proposed totalled £16.4 million (2001: £14.5 million) resulting in a retained profit for the financial year of £57.1 million. The total annual dividend was covered 4.5 times by post tax earnings.

## Review of balance sheet

**Shareholders' funds >** Shareholders' funds increased during the year to £397.0 million as a result of retained earnings of £57.1 million and the issue of £4.3 million of share capital and share premium arising from the exercise of share options by employees. The prior year shareholders' funds has been restated given the adoption of FRS 19 on deferred taxation.

**Net cash in hand >** The Group ended the year with net cash in hand of £4.6 million having started 2002 with net borrowings of £57.2 million. The Group utilised its existing bilateral committed revolving loan facilities to varying degrees throughout 2002 such that the average net borrowing was £61.2 million. The Group had fixed rate borrowings at 31 December 2002 of £75.0 million, £55.0 million on five year fixed terms and £20.0 million on seven year fixed terms. Cash deposited on the money market amounted to £81.5 million and there was a small net operating overdraft of £1.9 million.

**Working capital >** Land increased from £397.9 million to £413.5 million, whilst there was a reduction in land creditors from £102.9 million to £94.7 million. Work in progress reduced from £143.9 million (including £23.7 million of part exchange properties) to £127.2 million (including £14.4 million of part exchange properties).

| As at 31 December | 2002<br>£m | 2001<br>£m | Increase/<br>(decrease)<br>£m |
|---|---|---|---|
| Land held for development | 413.5 | 397.9 | 15.6 |
| Land creditors | (94.7) | (102.9) | 8.2 |
| Net investment in land | 318.8 | 295.0 | 23.8 |
| Raw materials and work in progress | 112.8 | 120.2 | (7.4) |
| Part exchange properties | 14.4 | 23.7 | (9.3) |

The Group has maintained 4 years' supply of controlled land, based on the previous year's profit unit output, with 10,243 plots of owned land with planning consent and 473 plots of third party owned land which the Group controls through the establishment of JCT contracts with these third parties to construct affordable housing.

**Return on average capital employed >** Return on average capital employed for 2002 amounted to 25.1% based on the operating profit of the Group of £109.6 million and average capital employed of £436.5 million. For the fifth consecutive year, the Group has exceeded its objective of achieving a minimum return on capital employed of 20%.

## Cash flow and treasury

**Cash flow >** Cash inflow from operating activities amounted to £107.4 million (2001: £43.9 million). The strength of the cash flow in the year allowed the Group to reduce its net borrowings at 31 December 2001 of £57.2 million to the zero geared net cash in hand position of £4.6 million at 31 December 2002.

**Bank facilities and liquidity risk >** The Group held total bank facilities of £216.0 million at 31 December 2002, including £5.0 million of overdraft facility. The balance of the facilities were made up of bilateral committed revolving loan facilities held with seven banks, mainly five year facilities but with some seven year facilities. The earliest maturity date for these facilities is 10 December 2005 in respect of £35 million of facilities, with £124 million maturing on 9 January 2007, £20 million on 5 February 2007, £12 million on 3 May 2007 and £20 million on 10 December 2007. This compared with £160.0 million at 31 December 2001. During the year, two new banks were introduced to the Group through the establishment of five year facilities for £20 million and £12 million, whilst an existing bank facility maturing on 2 November 2002 was not renewed. On 10 January 2002, £80 million of the bilateral committed revolving loan facilities which were scheduled to mature on 2 November 2002 were cancelled early to facilitate the establishment of new bilateral committed revolving loan facilities amounting to £124 million.

Given the Group's net cash in hand position at 31 December 2002 and its moderate average net borrowing for 2002 of £61.2 million, the Group believes that total bank facilities of £216.0 million are sufficient to enable funding of foreseeable cash flows required for the medium term plans for the Group. As bilateral revolving committed loan facilities, of which £75.0 million are drawn down and fixed through interest rate swaps, there is considerable flexibility available to the Group to manage its borrowing needs.

**Interest rate risk >** By fixing £75.0 million of borrowings through interest rate swaps with varying maturities, the Group has made certain its interest costs on what is considered its core borrowing requirement. Borrowings in addition to this core borrowing are judged on a case by case basis at the time of drawing down the loans in terms of interest rate flexibility and loan maturity. The Group has the ability to borrow using its bilateral committed revolving loan facilities for as little as a few days or up to the period through to maturity of the relevant facility. The Group can decide with its various banks whether to fix the interest rate of borrowing through the further use of interest rate swaps, although care is taken to marry together the dates of draw down and maturity of the floating rate borrowing and interest rate swap.

**Fair value >** The fair value of the Group's fixed rate borrowings at 31 December 2002 exceeded its book value by £3.7 million. This reflected the movement in long term interest rates since these financial instruments were established. Further, the fair value of land creditors due after more than one year (deemed financial instruments under FRS 13: "Derivatives and Other Financial Instrument Disclosures") amounted to £13.4 million compared with their book value of £16.1 million, derived from the discounting of future cash flows in settling land creditors. The fair values of the Group's other long term assets and liabilities were not materially different from their book values.

**Accounting standards >** The Group has adopted the new accounting standard FRS 19: "Deferred tax", and has continued the stage implementation of FRS 17: "Retirement Benefits", in accordance with the standard.

In respect of FRS 17 an independent actuary has valued the Group's defined benefits scheme, as at 31 December 2002, on the basis defined in the standard. The valuation shows a deficit, net of deferred tax, on the scheme of £9.4 million, which is a disclosure item only in the 2002 Report and Accounts in accordance with the standard.

Under FRS 18: "Accounting Policies" the Group has reviewed its accounting policies to ensure that they remain the most appropriate to its particular circumstances for the purpose of giving a true and fair view.

As a result of the adoption of FRS 19, a previously unrecognised deferred tax asset has now been recognised and accounted for by way of a prior year adjustment increasing debtors due after more than one year and the profit and loss account reserve in the Group balance sheet.

**David Ritchie**
Finance Director

# Directors and officers

**Sir Gerald Nigel Mobbs (65)**
**Chairman (non-executive)**

Appointed as non-executive chairman in 1996. He is chairman of Slough Estates plc, a non-executive director of Barclays PLC, Woolwich plc and London Bioscience Innovation Centre Limited and is a director of Howard De Walden Estates Limited. He is Lord-Lieutenant of Buckinghamshire and Chairman of the Trustees of Historic Royal Palaces.

**Timothy David Melville-Ross (58)**
**Non-executive Director**

Appointed an independent non-executive director in 1997. He is the chairman of DTZ Holdings plc, Investors in People UK, Bank Insinger de Beaufort N.V. and Manganese Bronze Holdings p.l.c., and deputy chairman of Royal London Mutual Insurance. He was Director General of the Institute of Directors (1994 - 1999) and was previously chief executive of the Nationwide Building Society.

**Mark Patrick Nicholls (53)**
**Non-executive Director**

Appointed an independent non-executive director in 1997. He is a non-executive director of The City of London Investment Trust plc and the Portman Building Society. He was previously Head of Private Equity at the Royal Bank of Scotland and prior to that Head of Corporate Finance at Warburgs.

**Andrew Robert Apps (48)**
**BSc (Hons) C.Eng. M.I. Struct E.**
**Managing Director, Retirement Living**

Joined Bovis Homes in 1984 as a chartered structural engineer in the South East region having previously worked in private practice. He was appointed regional design manager, South East, in 1991, became social housing director, South East, in 1996 and sales and marketing director, South East in 1998. In 2001, he was appointed Managing Director, Retirement Living.

**Peter Dennis Baker (53)**
**Managing Director,**
**South West region**

Joined Bovis Homes in 1981 and became sales and marketing director, South West region in 1986 and Managing Director, South West region in 1988.

**Geoffrey Arthur Robert Coleman (50)**
**BA (Hons) DipTP MRTPI**
**Managing Director, South East region**

Joined Bovis Homes in 1986 as town planner, South East region having previously been employed by the House Builders Federation Limited as land and planning officer (NW region). In 1989 he was appointed associate director - town planning, became regional director - land and town planning in 1996 and was appointed Managing Director, South East region in 2002.

**Bovis Homes Group PLC Board of Directors**

Sir Nigel Mobbs
Tim Melville-Ross
Mark Nicholls
Malcolm Harris
Stephen Brazier
David Ritchie

**Bovis Homes Limited Board of Directors**

Malcolm Harris
Stephen Brazier
David Ritchie
Andrew Apps
Peter Baker
Geoff Coleman
David Durling
Mike Johnson
John Slater

**Group Company Secretary**

Martin Palmer

**alcolm Robert Harris (54)**
**CMA**
**hief Executive**

ommenced employment with Bovis omes in 1974. He was appointed to e Bovis Homes board in 1978 and ecame Chief Executive in 1996. e is a non-executive member of the onstruction Industry Training Board and non-executive director of the NHBC.

**Stephen Harvey Brazier (39)**
**BSc (Hons) FCA**
**Group Operations Director**

Joined Bovis Homes in 2001 as Regional Chairman and was appointed Group Operations Director in 2002. Previously group managing director of Taywood Homes where he worked since 1991 and was responsible for successfully expanding the business. He is a non-executive director of the House Builders Federation Limited.

**David James Ritchie (33)**
**BA (Hons) ACA**
**Finance Director**

Joined Bovis Homes in 1998 as the Group's Financial Controller and was appointed Finance Director in 2002. Previously, he was employed by KPMG involved in advising clients on acquisitions, disposals and flotations as well as audits.

**avid Daisley Durling (55)**
**anaging Director, Northern region**

oined Bovis Homes in 1997 as land and orthern director with Central region, nd became Managing Director of orthern region in 2000. He previously pent over 15 years in the housebuilding ndustry following a period working with rocter & Gamble.

**Brian Michael Johnson (55)**
**BA (Hons) DipTP MRTPI MCMI**
**Managing Director, Central region**

Commenced employment with Bovis Homes in 1984 as a divisional town planner, having previously worked in local government. He was appointed planning director in 1986 and director of technical services in 1990. In 1996 he was appointed Managing Director, Central region.

**John Slater-Fearn (39)**
**Managing Director, Eastern region**

Commenced employment with Bovis Homes in 1997 as marketing director, South West region. He was appointed sales and marketing director, South West region in 1998. He previously worked for 10 years in the oil industry, having trained as an engineer. He was appointed Managing Director, Eastern region in 2002.

**Martin Trevor Digby Palmer (44)**
**FCIS**
**Group Company Secretary**

Joined Bovis Homes in 2001 as joint Group Company Secretary and took sole responsibility as Group Company Secretary in 2002. Previously he was the group company secretary of London Forfaiting Company PLC from 1997 to 2001 and of London & Edinburgh Trust PLC from 1994 to 1997.

# Corporate governance policy guidelines

**Introduction >** These guidelines have been adopted by the Board. They provide guidance on how the principles of good Corporate Governance are applied by the Company. The Report on corporate governance is set out on pages 35 to 36.

The Board represents the interests of shareholders and other stakeholders through managing the business of the Group successfully; setting and achieving short, medium and long term objectives. The Board is responsible for monitoring and ensuring that senior management, organised in an established regional management structure, operate in accordance with the Group's policies and procedures and implement and execute the determined business strategies to achieve these objectives.

**Guidelines on important corporate governance issues**

**1 Board membership and balance >** The composition of the Board is reviewed on a regular basis to ensure that it remains appropriate for managing successfully the business activities of the Group. Consideration is given to the breadth of knowledge, diversity of skills and experience of executive and non-executive directors. The Board gives adequate consideration to planning for succession to executive director and senior management positions, ensuring that appropriate management development measures are in place.

**2 Board selection >** The Board receives recommendations on the appointment of directors from a Board committee, The Nomination Committee. This Board committee comprises the non-executive directors and the Chief Executive and will meet as required to consider proposed changes to Board membership.

**3 Non-executive director independence >** Non-executive directors are free from any business or other relationship which could materially interfere with the exercise of their independent judgement on matters under consideration by the Board. The receipt of fair remuneration and being a shareholder is not considered to prejudice independence or prevent a non-executive director from acting independently.

**4 Chairman and Chief Executive >** The roles of Chairman and Chief Executive are separate and there is a clear division of responsibility between the two roles. It is normal practice for the role of Chairman to be a non-executive position ensuring the presence of a senior independent director.

**5 Number of directors >** An appropriate balance between executive and non-executive directors is maintained and the size of the Board is set as necessary to achieve this. The number of non-executive directors is decided so as to provide the diversity of knowledge, skills and experience necessary for a sound independent contribution to the Board and the successful management of the Group's business. By way of guidance, neither the executive nor the non-executive element on the Board should exceed two thirds at any one time.

**6 Length of appointment >** Executive directors are employed on service contracts with notice periods which do not exceed one year. The normal retirement age for executive directors is 60. Non-executive directors' service agreements establish the length of their appointments at periods of up to three years and their notice periods up to twelve months. All directors are subject to retirement by rotation at least once in every three years at the Annual General Meeting. New directors appointed by the Board must be re-appointed by shareholders at the following Annual General Meeting.

**7 Director training >** On appointment, new directors are given a comprehensive induction to the Group's business activities, its policies and procedures and its management structure. As necessary, directors receive training to complement their roles on the Board.

**8 Director remuneration >** The Remuneration Committee in accordance with its terms of reference determines on behalf of the Board the broad policy for executive remuneration and the entire remuneration package for each of the executive directors. The Remuneration Committee comprises the non-executive directors. The Remuneration Committee meets as required. External advice is sought where appropriate to benchmark remuneration levels against comparable companies. Non-executive director remuneration is determined by the Board.

**9 Financial information and internal control >** The review of submissions for Board approval in respect of the Group's annual report and accounts, interim report, preliminary statement and other public financial information is the responsibility of a Board committee, the Audit Committee. The Audit Committee reviews the Group's system of internal control and oversees compliance therewith. The Audit Committee comprises the non-executive directors.

**10 Supply of information >** Senior management are responsible for providing the Board with appropriate, complete and timely information relevant to the Board's discharge of its responsibilities, the monitoring of the performance of business activities, including significant variances, and progress with the implementation of strategies. Directors have reasonable access to senior management to enable them to make further enquiries as they consider in their judgement appropriate.

**11 Board procedures and authorities >** The Chairman and Chief Executive determine the agenda for each Board meeting and the necessary papers are distributed in advance so that the matters contained can be properly considered by the directors. There is in place a schedule of matters reserved to the Board for decision, and detailed authorities, together with associated procedures, have been established for individual directors in the performance of their duties.

**12 Corporate policies >** The Board ensures that corporate policies and procedures on ethical and social matters, health and safety and the environment are maintained, reviewed and monitored on a regular basis.

# Shareholders' information

## Registered office (effective from 1 February 2002)

The Manor House
North Ash Road
New Ash Green
Longfield
Kent
DA3 8HQ

Registered number 306718 registered in England

## Financial calendar

| | |
|---|---|
| Annual report posted | 4 April 2003 |
| Annual General Meeting | 8 May 2003 |
| Payment of 2002 final dividend | 23 May 2003 |
| Announcement of 2003 interim results | September 2003 |
| Payment of 2003 interim dividend | November 2003 |
| Announcement of 2003 final results | March 2004 |
| Payment of 2003 final dividend | May 2004 |

## Analysis of shareholdings - at 31 December 2002

| Size of shareholding | Number of shareholders | % | Number of ordinary shares | % |
|---|---|---|---|---|
| 1 - 5,000 | 1,003 | 70.29 | 1,118,589 | 0.96 |
| 5,001 - 50,000 | 234 | 16.40 | 4,111,262 | 3.52 |
| 50,001 - 250,000 | 108 | 7.57 | 13,272,134 | 11.37 |
| 250,001 - 500,000 | 34 | 2.38 | 12,079,640 | 10.35 |
| 500,001 - 1,000,000 | 25 | 1.75 | 18,402,992 | 15.77 |
| 1,000,001 - and over | 23 | 1.61 | 67,732,968 | 58.03 |
| **Total** | **1,427** | **100.00** | **116,717,585** | **100.00** |

## Share prices (middle market) - Year to 31 December 2002

At end of year: 360p | Lowest: 331p | Highest: 469.5p

## Advisers

**Auditors**
KPMG Audit Plc

**Solicitors**
Freshfields Bruckhaus Deringer

**Financial advisers**
Hawkpoint Partners Limited

**Principal bankers**
Allied Irish Banks p.l.c.
Barclays Bank PLC
Danske Bank A/S
HSBC Bank plc
IntesaBci S.p.A.
Royal Bank of Scotland plc
Westdeutsche Landesbank

**Registrars**
Computershare Investor Services PLC
Owen House
8 Bankhead Crossway North
Edinburgh
EH11 4BR

**Joint Stockbrokers**
Deutsche Bank AG London
Winchester House
1 Gt Winchester Street
London
EC2N 2DB

ABN AMRO Hoare Govett
250 Bishopsgate
London
EC2M 4AA

# Report of the directors

The directors have pleasure in submitting the annual report of the Company and its subsidiaries to the shareholders, together with the audited accounts for the year ended 31 December 2002.

## Principal activities

The principal activity of the Company and its subsidiary undertakings has remained housebuilding in the UK. More details of the trading performance during the year and its prospects are included in the Chairman's statement, the Chief Executive's operational review and the Financial review.

## Results and dividends

Profit after taxation amounted to £73.5 million (2001: £56.3 million). An interim dividend of 4.6 pence net per share was paid on 22 November 2002 and it is proposed to pay a final dividend of 9.4 pence net per share on 23 May 2003 to shareholders on the register at the close of business on 25 April 2003.

## Directors

Details of the directors are shown on pages 28 and 29. On 3 January 2002 John Michael Emery retired from office and the Company and on 31 January 2002 Michael Sharpe retired from office and the Company. On 1 February 2002 Peter Dennis Baker resigned from office. On 30 June 2002 Ronald Norman Walford retired from office and the Company. David James Ritchie was appointed Finance Director on 1 July 2002.

Details of directors' emoluments, pension rights, service contracts and directors' interests in the ordinary shares of the Company are included in the Report on directors' remuneration on pages 37 to 46.

In accordance with the Articles of Association two directors, Malcolm Robert Harris and Mark Patrick Nicholls retire from office at the Annual General Meeting on Thursday 8 May 2003. Malcolm Robert Harris and Mark Patrick Nicholls being eligible offer themselves for re-appointment.

Having been appointed on 1 July 2002, in accordance with the Articles of Association David James Ritchie offers himself for re-election at the Annual General Meeting on Thursday 8 May 2003.

## Substantial shareholdings

At 7 March 2003, the following interests of 3% or more in the Company's issued share capital had been notified to the Company:

| Ordinary shares of 50p each | Number of shares held | % of issued share capital |
|---|---|---|
| Schroder Investment Management Ltd | 14,038,817 | 12.01% |
| Aviva plc | 8,112,387 | 6.94% |
| Threadneedle Asset Management | 4,667,000 | 3.99% |
| Legal & General Investment Management | 4,318,016 | 3.69% |

## Employees

The Group's employment policies do not discriminate between employees, or potential employees, on the grounds of sex, colour, creed or ethnic origin. It is Group policy to give full and fair consideration to the employment needs of disabled persons (and persons who become disabled whilst employed by the Group) where the requirements of the job may be adequately covered by these persons and to comply with any current legislation with regard to disabled persons.

It is the policy of the Group to train and develop employees to ensure they are equipped to undertake the tasks for which they are employed, and to provide the opportunity for career development equally and without discrimination.

# Report of the directors continued

### Employees continued

Information about the Group's performance and other matters is provided regularly by a news magazine, notice board bulletins and by consultations at staff meetings.

The Group operates both a defined benefit pension scheme and a defined contribution pension scheme.

The Company has a Save As You Earn Share Option Scheme, an Executive Share Option Scheme and a Long Term Incentive Plan to motivate employees and encourage strong involvement with the performance of the Group. Further to shareholder approval at last year's Annual General Meeting, the Group is proposing to operate a Share Incentive Plan during 2003. See note 21 to the accounts for details of the option schemes.

### Corporate and environmental policy

The Group, in carrying out its business activities, is pursuing its commitment to sustainable development and transparent corporate conduct in ethical and social matters, corporate governance, health and safety and the environment. Details are included in the Group's free-standing Corporate Social Responsibility Report dated 7 March 2003.

### Donations

The Group made charitable donations in the year amounting to £6,500 (2001: £575). No political donations were made in either year by the Group or Company.

### Suppliers

The Group's payment policy in respect of all suppliers is to settle agreed outstanding accounts in accordance with terms and conditions agreed with suppliers when placing orders.

Creditor days relating to trade creditors at the year end in respect of goods and services supplied in the normal course of trade amounted to 18 days (2001: 32 days). The calculation excludes land purchase creditors.

The aggregate amount owed to trade creditors by the Company was nil throughout 2001 and 2002.

### Authority to purchase shares

At a meeting on 7 March 2003, the Board resolved that a resolution be submitted to shareholders at the Annual General Meeting to be held on Thursday 8 May 2003 proposing the renewal of the authority to enable the Company to purchase up to 10% of its own shares. At the present time, the directors have no wish to exercise the authority to purchase any of the shares of the Company, but consider that it is appropriate to have the flexibility to do so.

### Auditors

The auditors, KPMG Audit Plc, have indicated their willingness to continue in office and, in accordance with the provisions of the Companies Act 1985, resolutions concerning their re-appointment and remuneration will be placed before the Annual General Meeting.

By Order of the Board
M T D Palmer
Company Secretary
7 March 2003

# Report on corporate governance

The Combined Code was issued by the London Stock Exchange in June 1998. It was supplemented by a publication entitled "Internal Control: Guidance for Directors on the Combined Code" (the Turnbull Guidance), published on 27 September 1999 to enable listed companies to comply with paragraph 12.43A (a) and (b) of the Listing Rules.

The Company has throughout the year applied the provisions of the Combined Code and complied therewith, as detailed below, apart from the following item. It does not think it necessary at this time to appoint a senior non-executive director as required by provision A.2.1 of the Combined Code as there is a strong and independent non-executive element on the Board including the Chairman who is accessible to shareholders.

## The Board

The Board comprises three executive directors Mr Malcolm Harris, Chief Executive, Mr Stephen Brazier, Group Operations Director and Mr David Ritchie, Finance Director, and three independent non-executive directors, Sir Nigel Mobbs, the Chairman, Mr Mark Nicholls and Mr Tim Melville-Ross. The current structure of the Board was established on 1 February 2002 following the retirements of Mr John Emery, Legal Director, on 3 January 2002 and Mr Mike Sharpe on 31 January 2002 and the resignation of Mr Peter Baker on 1 February 2002. On 30 June 2002 Mr Ron Walford retired from the Board as Finance Director. On 1 July 2002 Mr David Ritchie was appointed Finance Director. Consequently for most of 2002 there were three executive directors and three non-executive directors in office. The Board meets regularly with a formal schedule of matters specifically reserved to it for decision supported by timely and comprehensive board papers. These include agreeing objectives, strategy, budgets, risk tolerance, borrowing facilities, dividend policy, appointment of directors and determining fees payable to non-executive directors. All directors have the right both individually and collectively to consult the Company's professional advisers and, if they are not satisfied with the advice so received, to seek independent professional advice at the Company's reasonable expense. The services of the Company Secretary are also available to all directors. Training is made available to directors as and when required.

Executive and non-executive directors are subject to retirement by rotation every three years. Re-election is proposed where appropriate by the Nomination Committee and is voted on by the shareholders at the Annual General Meeting. All directors have notice periods of twelve months after the end of their first year's service. During the first year shorter notice periods apply. Non-executive directors are appointed for periods up to three years duration.

## Board committees

The Board is assisted by a Remuneration Committee, a Nomination Committee, and an Audit Committee. The membership of these committees comprises the three non-executive directors plus the Chief Executive in the case of the Nomination Committee. The Audit Committee is chaired by Mr Mark Nicholls and the Remuneration and Nomination Committees are chaired by Sir Nigel Mobbs. Each committee has written terms of reference from the Board as follows:

- the Remuneration Committee determines on behalf of the Board policy for the remuneration of executive directors. The policy is designed to attract and retain executive directors with the necessary abilities to maximise the performance of the Group for shareholders. The Remuneration Committee makes recommendations to the Board on the framework of executive remuneration and determines on the Board's behalf specific remuneration packages for each of the executive directors. In setting individual packages consideration is given to appropriate basic salary, benefits in kind, performance related bonuses, participation in any share option scheme, long term incentive plan, and pension scheme. The Remuneration Committee has access to both internal and external advice, including information on the remuneration of similar executives in comparable organisations;
- the Nomination Committee is required to consider, at the request of the Board or the Chairman, the appointment or re-appointment of a director to the Board and provide advice and recommendations thereon;

# Report on corporate governance continued

### Board committees continued

- the Audit Committee has specified duties which include a review of the Group's system of internal control and a review of the annual and half year results, statements and reports, before they are submitted to the Board. The committee is authorised to investigate any activity within its terms of reference, and has access to the internal auditors as well as external auditors and their reports to the Company, and outside legal or other independent professional advice. The duties of the Audit Committee also include monitoring the performance, independence and cost effectiveness of the external audit.

### Relations with shareholders

All shareholders are invited to the Company's Annual General Meeting which the full Board attends. The Board maintains regular contact with shareholders through presentations and meetings conducted by the Chief Executive and Finance Director, particularly in the period post announcement of interim and final results. Details of the presentations made to financial analysts in respect of interim and final results are reported on the Group's website www.bovishomesgroup.plc.uk.

### Internal control

The Board has overall responsibility for the system of internal control and has during the year reviewed the effectiveness thereof. It is able to report that the Company has complied with provision D.2.1 of the Combined Code throughout 2002 in accordance with the Turnbull Guidance.

A key part of the system of internal control is the maintenance of a risks register. The Board regularly reviews this register to ensure that it properly identifies and grades the risks specific to the activities of the business. In this way it is able to reconsider its policies of risk tolerance. In setting these policies the Board aims to ensure that the Company is neither prevented from taking opportunities nor exposed to unreasonable risk. The system of internal control is designed to manage risk rather than eliminate it, consequently it can only provide reasonable but not absolute assurance against material misstatement or loss.

The Audit Committee reviews the system of internal control and reports to the Board thereon. It receives reports from the internal and external auditors and management which assess the efficiency of internal control and make recommendations for any improvements. The Chairman of the Audit Committee reports the outcome of committee meetings to the Board, and provides minutes of the meetings.

The Group has maintained throughout the year a control environment, with policies, procedures, processes and codes of conduct which are designed to identify, manage and mitigate risk over the range of business activities and improve business efficiency. As new procedures and working practices are adopted, risk factors are considered and internal controls embedded into the systems wherever possible.

The principal elements of the control environment are as follows:

- regular main Board meetings;
- regular Audit Committee meetings;
- an established management structure of operating regions and Retirement Living, with short lines of communication to the executive directors;
- regular regional board meetings, with comprehensive agendas dealing with all aspects of the business;
- defined operating guidelines and procedures with authorisation limits at appropriate levels across the Group;
- an internal audit department reporting regularly on compliance with procedures and authority limits;
- a regular self certification process in respect of internal control through the management structure;
- a comprehensive financial reporting system with actual performance compared with budgets and forecasts on a regular basis, each region and Retirement Living reporting through its local board; and
- a regular comparison of the Group's performance against industry statistics and competitors.

### Going concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the accounts.

# Report on directors' remuneration

## Introduction

The information included in this report is not subject to audit other than where specifically indicated.

## The Remuneration Committee

The Remuneration Committee is made up solely of independent non-executive directors with no personal financial interest other than as shareholders in the matters to be decided. The non-executive directors serving on the Remuneration Committee, throughout the financial year, were Sir Nigel Mobbs (Chairman of the Remuneration Committee), Mr Tim Melville-Ross and Mr Mark Nicholls. Meetings of the Remuneration Committee are held as and when appropriate and at least annually. The Remuneration Committee, from time to time, calls upon the advice and services of Mr Malcolm Harris (Chief Executive) on remuneration matters not pertaining to the remuneration or terms and conditions of his own employment. The Remuneration Committee has, on occasion, appointed the services of Towers Perrin to advise on director remuneration and the establishment of a long term incentive plan. Towers Perrin do not provide any other services to the Group. The Group Company Secretary, Mr Martin Palmer, acts as Secretary to the Remuneration Committee.

The Remuneration Committee determines the Company's policy for the remuneration of executive directors, having regard to the Directors' Remuneration Report Regulations 2002 (Schedule 7A of the Companies Act 1985) and the Combined Code and its provisions on directors' remuneration (Schedules A and B) appended to the UKLA Listing Rules.

## The remuneration policy

The Remuneration Committee settles and implements the remuneration policy for executive directors and senior executives. The Remuneration Committee takes independent professional advice where appropriate and has regard to information on compensation and salary levels in companies in the housebuilding sector and in other companies of comparable size, for executives with similar skills, qualifications and experience. The objectives of the remuneration policy are to:

- ensure that the individual rewards and incentives fairly relate to the performance of the individual, the Company and the interests of shareholders;
- maintain a package which enables the Company to attract, retain, and motivate executives of the appropriate calibre and experience to further the success of the Company.

The remuneration package consists of basic salary, performance bonus, health insurance, membership of the Bovis Homes Regulated Independent Car Scheme for Employees (BRICS), pension, participation in share options, a share incentive plan, and a long term incentive plan.

The Company employs a standard set of performance conditions for all executive directors in respect of the share option scheme and the long term incentive plan. These performance conditions are described under specific headings in this report. Granting of share options and awards under the long term incentive plan is at the discretion of the Remuneration Committee. The performance conditions are designed to challenge and motivate executive directors in the direction of improved profitability and enhanced shareholder return. The conditions are designed to require strong collective and individual performance from the executive directors before options and awards vest, whilst at the same time offering a credible opportunity for success.

For share options and awards under the long term incentive plan to vest an independent view provided by the Company's auditors, as independent experts, is required certifying achievement of the relevant performance conditions. This independent view is evidenced by the completion of formal certificates signed by the auditors. The performance conditions attaching to share options and awards under the long term incentive plan are selected intentionally to be derived from readily available information which is straightforward and transparent. This ensures that the auditors can make objective assessments of achievement against the performance conditions. There is currently no intention to amend or adjust the terms and conditions of any entitlement of a director to share options or awards under the long term incentive plan.

# Report on directors' remuneration continued

## The remuneration policy continued

The Remuneration Committee aim to balance appropriately those elements of a director's remuneration which are subject to explicit performance conditions, accepting that all remuneration is linked with ongoing appraisal of individual performance. In addition to basic salary and benefits in kind, each executive director can earn an annual performance bonus capped at a maximum of 50% of basic salary (60% for the Chief Executive), can be granted share options up to a maximum value equal to one year's basic salary (exercise price equal to market price on the date of grant), and can be allocated an award under the long term incentive plan up to a maximum value equal to 75% of basic salary. By virtue of the various elements of directors' remuneration subject to performance conditions, a significant part is not guaranteed.

The policy in respect of contracts of employment is one of rolling twelve month contracts with notice periods of up to twelve months. For non-executive directors these contracts are established for a period of up to three years duration. Details of these contracts and agreements are given later in this report.

## Performance graph

As required by the Directors' Remuneration Report Regulations 2002, the following table includes a performance graph comparing, over the last five financial years, the Total Shareholder Return of an ordinary share held in Bovis Homes Group PLC against the Total Shareholder Return of the FTSE Construction and Building Materials index. This comparable index is appropriate given that the Remuneration Committee has considered an appropriate comparator group of companies for benchmarking performance. This comparator group is currently made up of ten UK listed housebuilders, all of which are included in the FTSE Construction and Building Materials index. The ordinary shares of Bovis Homes Group PLC are included within the FTSE Building Materials and Construction Index. As such, the FTSE Construction and Building Materials Index is considered by the Remuneration Committee to be a representative comparator for Total Shareholder Return performance.

## Service agreements and terms of appointment

The executive directors entered into new service agreements on 1 July 2002 reflecting amended terms and conditions resulting from an update of the Bovis Homes Staff Handbook. The service agreements are rolling twelve month contracts with the following notice periods due from either employer or employee:

| Executive directors | Length of notice at 31 December 2002 |
|---|---|
| M R Harris | Twelve months |
| S H Brazier | Twelve months |
| D J Ritchie | Six months<br>*(as a result of less than one year's service on the Board)* |

# Report on directors' remuneration continued

## Service agreements and terms of appointment continued

In addition to their salaries, the executive directors are entitled to participate in the Bovis Homes' employee share schemes including the long term incentive plan, and to be considered for a bonus of up to 60% of annual salary in respect of the Chief Executive and 50% in respect of the other executive directors, dependent on the achievement of targets set down annually by the Remuneration Committee. They are also entitled to membership of the Bovis Homes Pension Scheme as a senior executive, and between 24 and 27 working days holiday per annum determined by length of service. The directors hold membership of the Bovis Homes Regulated Independent Car Scheme for Employees (BRICS). There are no specific provisions for compensation on early termination.

Mr Ron Walford, Mr John Emery, Mr Mike Sharpe and Mr Peter Baker held twelve month rolling contracts as executive directors of the Company. Mr Ron Walford retired on 30 June 2002, Mr John Emery retired on 3 January 2002 and Mr Peter Baker resigned on 1 February 2002. Mr Ron Walford, Mr John Emery and Mr Peter Baker did not receive any compensation on termination. Mr Mike Sharpe retired on 31 January 2002 and received compensation for loss of office, details of which are provided later in this report.

The non-executive directors have entered into service agreements for their services which are established for periods up to three years duration with notice periods, from either employer or employee, up to twelve months. The fees for their services were last reviewed with effect from 1 July 2000. In addition to his director's fee Sir Nigel Mobbs will continue to use his existing office and secretarial support at Slough Estates plc, and that company will be paid a fee of £15,000 per annum for these services.

## Directors' interests

The directors' interests in the share capital of the Company are shown below. All interests are beneficial.

| Ordinary shares of 50p each | At 31 December 2002 or earlier date of ceasing to be a director | | | | At 31 December 2001 or subsequent date of appointment | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of ordinary shares held | Number of shares under Executive Share Options | Number of shares under the Long Term Incentive Plan | Number of shares under Save As You Earn Options | Number of ordinary shares held | Number of shares under Executive Share Options | Number of shares under the Long Term Incentive Plan | Number of shares under Save As You Earn Options |
| Executive directors | | | | | | | | |
| M R Harris | **204,652** | **266,938** | **133,924** | **12,187** | 162,271 | 585,406 | 90,376 | 12,187 |
| R N Walford | **73,045** | **63,993** | **49,474** | **10,781** | 51,148 | 323,667 | 49,474 | 10,781 |
| D J Ritchie | **13,657** | **42,394** | **8,570** | **7,150** | 13,657 | 27,214 | 8,570 | 7,150 |
| S H Brazier | **5,000** | **83,769** | **50,024** | **-** | 5,000 | 44,506 | 27,906 | - |
| P D Baker | **62,765** | **84,567** | **40,118** | **10,781** | 62,765 | 84,567 | 40,118 | 10,781 |
| M Sharpe | **44,466** | **95,737** | **45,188** | **4,875** | 44,466 | 95,737 | 45,188 | 4,875 |
| J M Emery | **23,665** | **90,083** | **16,892** | **10,781** | 23,665 | 90,083 | 16,892 | 10,781 |
| Non-executive directors | | | | | | | | |
| Sir Nigel Mobbs | **25,000** | **-** | **-** | **-** | 25,000 | - | - | - |
| T D Melville-Ross | **5,000** | **-** | **-** | **-** | 5,000 | - | - | - |
| M P Nicholls | **5,000** | **-** | **-** | **-** | 5,000 | - | - | - |

Mr John Emery retired on 3 January 2002. Upon leaving 5,632 shares lapsed under the long term incentive plan and 1,961 shares lapsed under the Save As You Earn Option Scheme.

Mr Ron Walford retired on 30 June 2002. Upon leaving 16,323 shares lapsed under the long term incentive plan and 863 shares lapsed under the Save As you Earn Option Scheme.

Mr Mike Sharpe retired on 31 January 2002. Upon leaving 45,188 shares lapsed under the long term incentive plan and 1,614 shares lapsed under the Save As you Earn Option Scheme.

# Report on directors' remuneration continued

## Directors' emoluments (audited)

| Year ended 31 December | Salary/ fees 2002 £000 | Performance bonus 2002 £000 | Compensation for loss of office 2002 £000 | Benefits in kind 2002 £000 | Total 2002 £000 | Total 2001 £000 |
|---|---|---|---|---|---|---|
| Executive directors | | | | | | |
| M R Harris | 348 | 225 | - | - | **573** | 498 |
| R N Walford (retired 30 June 2002) | 91 | 45 | - | 29 | **165** | 263 |
| D J Ritchie (appointed 1 July 2002) | 65 | 63 | - | - | **128** | - |
| S H Brazier | 181 | 100 | - | - | **281** | 164 |
| P D Baker (resigned 1 February 2002) | 12 | 6 | - | - | **18** | 175 |
| M Sharpe (retired 31 January 2002) | 14 | - | 192 | - | **206** | 153 |
| J M Emery (retired 3 January 2002) | - | - | - | - | - | 150 |
| B M Johnson (resigned 2 May 2001) | - | - | - | - | - | 69 |
| J E Ditheridge (retired 31 March 2001) | - | - | - | - | - | 155 |
| Non-executive directors | | | | | | |
| Sir Nigel Mobbs | 60 | - | - | - | **60** | 60 |
| T D Melville-Ross | 22 | - | - | - | **22** | 22 |
| M P Nicholls | 24 | - | - | - | **24** | 24 |
| | 817 | 439 | 192 | 29 | **1,477** | 1,733 |
| Pension charge | | | | | **117** | 163 |
| Contribution to Funded Unapproved Retirement Benefits Scheme | | | | | **25** | 13 |
| | | | | | **1,619** | 1,909 |

Directors' emoluments are in the form of cash with the exception of the provision of health insurance. On his retirement, Mr Ron Walford received a gift from the Company in the form of a motor vehicle. The cost of this vehicle, being £28,742, has been included within his benefit in kind figure.

On 31 January 2002, by agreement with the Company, Mr Mike Sharpe retired from office and left the Company. He received compensation for loss of office in the sum of £191,598 based on a compromise agreement which allowed payment in lieu of notice period and associated pension contributions and benefits in kind during the notice period. Compensation for loss of office included amounts in respect of legal fees incurred by Mr Sharpe in being advised on his compensation entitlements and amounts in respect of outplacement counselling. The Board exercised its discretion and permitted Mr Sharpe to exercise his executive share options in accordance with the rules of the Executive Share Option Scheme.

### Performance bonus

The bonuses payable to executive directors have been determined by the Remuneration Committee by reference to challenging performance criteria including exceeding the previous year's profit before taxation by a specified percentage and the achievement of other strategic targets. These bonuses are capped at 60% of annual salary for the Chief Executive and 50% for the other executive directors. They include entitlement to benefit under the new Bovis Homes Group Share Incentive Plan amounting, for 2002, to a total of £9,255 (2001: under the previous profit sharing scheme of £34,674).

# Report on directors' remuneration continued

## Pension

All the executive directors are senior executive members of the Bovis Homes Pension Scheme. This is a contributory, defined benefit scheme which is funded, and approved by the Inland Revenue. Pensionable earnings are basic pay, and as a result of length of service there are no executive directors subject to the statutory earnings cap, with the exeption of Mr Stephen Brazier and Mr David Ritchie. Normal retirement age for senior executive members under the scheme is 60, and the accrual rate is 1/45th of final pensionable earnings for each year of service as a senior executive.

In previous year's accounts, disclosure of directors' pension benefits was made under the requirement of the UKLA Stock Exchange Listing Rules. These requirements are still in place, but it is now also necessary to make disclosures in accordance with the Directors' Remuneration Report Regulations 2002. The information below sets out the disclosures under the two sets of requirements.

### Directors' pension accruals under the UKLA Listing Rules (audited)

| | Age at 31 December 2002 | Employer contributions to pension scheme during the year £ | Director contributions to pension scheme during the year £ | Accumulated total accrued pension at 31 December 2002 or earlier date of ceasing to be a director £ p.a. | Accumulated total accrued pension at 31 December 2001 or subsequent date of appointment £ p.a. | Increase in accrued pension during the year (net of inflation) £ | Transfer value of increase (less Director contributions) £ |
|---|---|---|---|---|---|---|---|
| Executive directors | | | | | | | |
| M R Harris | **54** | 67,842 | 16,960 | **205,729** | 170,749 | 32,078 | 342,632 |
| R N Walford | **58** | 17,427 | 4,357 | **105,421** | 94,662 | 9,961 | 173,742 |
| D J Ritchie | **33** | 9,135 | 2,284 | **6,191** | 4,119 | 2,037 | 5,539 |
| S H Brazier | **39** | 18,147 | 4,537 | **3,647** | 1,411 | 2,212 | 6,452 |
| P D Baker | **53** | 2,156 | 539 | **55,093** | 54,283 | 732 | 7,105 |
| M Sharpe | **56** | 31,283 | 602 | **35,039** | 33,229 | 1,762 | 32,293 |
| J M Emery | **60** | - | - | **56,976** | 56,929 | 47 | 816 |

*Note 1: The accumulated total accrued pension as at 31 December 2001 has been adjusted for inflation in arriving at the increase in the accrued pension at 31 December 2002. The increase in accrued pension during the year excludes any increase due to inflation.*

*Note 2: The directors' pension accruals disclosure includes employer and director contributions for the period of the year in which the individual held office as a director.*

*Note 3: The transfer value has been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less directors' contributions.*

*Note 4: With the exception of Mr Stephen Brazier and Mr David Ritchie, the directors' pensionable earnings are not restricted to the statutory earnings cap. Mr Stephen Brazier is also entitled to benefits under a funded unapproved retirement benefits arrangement which is designed to provide pension benefits on his salary in excess of the earnings cap. Pension benefits under this arrangement accrue on a defined contribution basis and are in addition to the benefits mentioned above. The total employer's contribution to this arrangement during the year totalled £25,042.*

*Note 5: Mr Ron Walford retired on 30 June 2002 on a pension of £105,421 per annum. As at 31 December 2001, he had a deferred pension entitlement of £106,362 per annum or an immediate pension entitlement of £94,662 per annum after allowing for the early retirement reduction factor. The increase in the accrued pension of £9,961 per annum represents the increase (net of inflation) in his immediate pension entitlement.*

*Note 6: Mr Mike Sharpe retired on 31 January 2002 on a pension of £35,039 per annum. As at 31 December 2001, he had a deferred pension entitlement of £40,035 per annum or an immediate pension entitlement of £33,229 per annum after allowing for the early retirement reduction factor. The increase in the accrued pension of £1,762 per annum represents the increase (net of inflation) of his immediate pension entitlement.*

# Report on directors' remuneration continued

## Directors' pension accruals under Directors' Remuneration Report Regulations 2002 (audited)

| | Employer contributions to pension scheme during the year £ | Director contributions to pension scheme during the year £ | Accumulated total accrued pension at 31 December 2002 £ p.a. | Increase in accrued pension during the year £ | Transfer value of accrued pension at 31 December 2002 £ | Transfer value of accrued pension at 31 December 2001 £ | Increase in transfer value of increase (less Director contributions) £ |
|---|---|---|---|---|---|---|---|
| Executive directors | | | | | | | |
| M R Harris | 67,842 | 16,960 | **205,729** | 34,981 | **2,284,661** | 2,103,670 | 164,031 |
| R N Walford | 17,427 | 4,357 | **105,421** | 10,759 | **1,901,160** | 1,534,665 | 362,138 |
| D J Ritchie | 14,762 | 3,690 | **6,191** | 2,787 | **23,777** | 17,065 | 3,022 |
| S H Brazier | 18,147 | 4,537 | **3,647** | 2,236 | **18,120** | 9,149 | 4,434 |
| P D Baker | 27,341 | 6,835 | **63,834** | 9,551 | **642,340** | 630,110 | 5,395 |
| M Sharpe | 31,283 | 602 | **35,039** | 1,810 | **661,662** | 542,161 | 118,899 |
| J M Emery | - | - | **56,976** | 47 | **989,266** | 957,534 | 31,732 |

*Note 1: The transfer values have been calculated on the basis of actuarial advice in accordance with Actuarial Guidance Note GN11 less directors' contributions*

*Note 2: With the exception of Mr Stephen Brazier and Mr David Ritchie, the directors' pensionable earnings are not restricted to the statutory earnings cap. Mr Brazier is also entitled to benefits under a funded unapproved retirement benefits arrangement which is designed to provide pension benefits on his salary in excess of the earnings cap. Pension benefits under this arrangement accrue on a defined contribution basis and are in addition to the benefits mentioned above. The total employers contribution to this arrangement during the year totalled £25,042.*

## Long term incentive plan

### *Introduction*

A long term incentive plan for executive directors and senior executives was approved by shareholders at the 2000 Annual General Meeting and established on 10 May 2000. Under the rules of the scheme a participant may receive in respect of any year a maximum award of shares with a market value, when the award was made, not exceeding 75% of basic salary. Each award is made subject to the achievement of certain performance criteria and awards may only be exercised at the end of three years. There is no cost to the participants in the scheme to exercise the awards. The extent to which the awards may be exercised will be determined by two measures of performance; total shareholder return ('TSR') and earnings per share ('EPS') growth, each measured over a three year performance period and each relating to half of the shares awarded.

The TSR measure requires the comparison of the growth in the Company's TSR over a three year period to that of a group of comparator companies in the housebuilding industry specified by the Remuneration Committee at the start of the performance period. TSR is the aggregate of share price growth and dividends paid during the three year period (assuming that such dividends are reinvested in ordinary shares). The Company's ranking amongst the comparator companies will determine the percentage of the shares under the award which will vest, as follows:

| TSR ranking | % of total award which can be realised |
|---|---|
| 1st position | 50% of the shares in the award |
| 2nd position | 45% of the shares in the award |
| 3rd position | 37.5% of the shares in the award |
| 4th position | 30% of the shares in the award |
| 5th position | 20% of the shares in the award |
| 6th position | 15% of the shares in the award |

# Report on directors' remuneration continued

## Long term incentive plan continued

The group of comparator companies is as follows:

| Comparator companies | | | |
|---|---|---|---|
| Barratt Developments PLC | Bellway p.l.c. | The Berkeley Group plc | Crest Nicholson PLC |
| Persimmon plc | Redrow Group plc | Westbury plc | Wilson Bowden plc |
| Wilson Connolly Plc | George Wimpey PLC | | |

The EPS growth measure is based on the extent to which the Company's average annual EPS growth over the three year performance period falls between minimum and maximum EPS growth targets set by the Remuneration Committee as follows:

| EPS growth | % of total award which can be realised |
|---|---|
| Maximum EPS growth | 50% of the shares in the award |
| Minimum EPS growth | 20% of the shares in the award |

For the current outstanding awards, the minimum and maximum EPS growth targets are 4% and 10% above RPI respectively. Where EPS growth falls between the minimum and maximum EPS growth targets, the number of shares which can be realised will be determined on a straight line sliding scale. Where EPS growth falls below 4% above RPI, none of the shares in the award judged by reference to EPS growth can be realised.

The shares required to satisfy the awards have been purchased by the Bovis Homes Group Employee Trust. The grant price of the awards is set as the market value of the shares at the date the shares are purchased by the trustee. The cost of these shares is amortised through the profit and loss account over the three year performance period. The market value of the shares attributable to each director will be included in remuneration in the year in which the awards are exercised. An award may only be exercised within six months of the realisation date, the realisation date being the date of notification from the Trustee of the Bovis Homes Group Employee Trust that the award is realisable in whole or in part.

### *Awards (audited)*

During the year awards of 74,236 shares were granted to executive directors at 60% of basic salary under the 2002 Scheme, exercisable in 2005. The awards granted to executive directors under the 2002 Scheme were as follows:

| 2002 Scheme | Date of grant | Grant price | Number of shares |
|---|---|---|---|
| M R Harris | 2 April 2002 | 434.0p | **43,548** |
| D J Ritchie | 2 April 2002 | 434.0p | **8,570** |
| S H Brazier | 2 April 2002 | 434.0p | **22,118** |

# Report on directors' remuneration continued

## Long term incentive plan continued

The outstanding awards under the long term incentive plan for the executive directors were as follows:

| | 2000 Scheme | | 2001 Scheme | | 2002 Scheme | | At 31 December 2002 or earlier date of ceasing to be a director | | At 31 December 2001 or subsequent date of appointment | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares | £000 | Number of shares | £000 | Number of shares | £000 | Number of shares | £000 | Number of shares | £000 |
| Executive directors | | | | | | | | | | |
| M R Harris | 46,600 | 144 | 43,776 | 168 | 43,548 | 189 | **133,924** | **501** | 90,376 | 312 |
| R N Walford | 25,242 | 78 | 24,232 | 93 | - | - | **49,474** | **171** | 49,474 | 171 |
| D J Ritchie | - | - | - | - | 8,570 | 37 | **8,570** | **37** | 8,570 | 37 |
| S H Brazier | - | - | 27,906 | 96 | 22,118 | 96 | **50,024** | **192** | 27,906 | 96 |
| P D Baker | 21,358 | 66 | 18,760 | 72 | - | - | **40,118** | **138** | 40,118 | 138 |
| M Sharpe | 23,300 | 72 | 21,888 | 84 | - | - | **45,188** | **156** | 45,188 | 156 |
| J M Emery | 16,892 | 52 | - | - | - | - | **16,892** | **52** | 16,892 | 52 |

During the year amortisation charges were made through the profit and loss account equal to one third of the awards granted to senior management under the three existing schemes. These charges amounted to £526,634 and took into account charges for senior managers who served for part of the year. Included within this amortisation charge is a charge of £243,400 in respect of the executive directors who held office at 31 December 2002.

The measurement period and vesting date of each scheme are as follows:

| Year of scheme | Measurement period | Vesting date |
|---|---|---|
| 2000 Scheme | Three years ending 31 December 2002 | 11 May 2003 |
| 2001 Scheme | Three years ending 31 December 2003 | 21 March 2004/19 April 2004 |
| 2002 Scheme | Three years ending 31 December 2004 | 2 April 2005 |

For executive directors who have retired during the financial year, the outstanding awards have been adjusted to reflect lapses. Mr John Emery retired on 3 January 2002. Upon leaving 5,632 shares under the 2000 Scheme lapsed. Mr Ron Walford retired on 30 June 2002. Upon leaving 4,207 shares under the 2000 Scheme and 12,116 shares under the 2001 Scheme lapsed.

The entire awards made to Mr Mike Sharpe in the 2000 Scheme and 2001 Scheme lapsed on 31 January 2002 when he retired.

# Report on directors' remuneration *continued*

## Share options held by directors (audited)

All of the share options granted by the Company were granted at the market price prevailing on the date of grant, with the exception of Save As You Earn options which were granted at a 20% discount to the market price prevailing on the date of grant. There was no payment required to secure the grant of any share options. There was no change in the terms and conditions of either the Executive Share Option Scheme ('Exec') or the Save As You Earn Share Option Scheme ('SAYE') during the financial year.

| | Date of grant | Scheme | At 1 January 2002 or subsequent date of appointment | Granted/ (lapsed) in year | Exercised in year | At 31 December 2002 or earlier date of ceasing to be a director | Exercise price per share | Option exercise period |
|---|---|---|---|---|---|---|---|---|
| Executive directors | | | | | | | | |
| M R Harris | 8 Dec 1997 | SAYE | 12,187 | - | - | **12,187** | 160.0p | 2/05-7/05 |
| | 8 Dec 1997 | Exec | 315,000 | - | 315,000 | **-** | 200.0p | 12/00-12/07 |
| | 2 April 1998 | Exec | 80,768 | - | 80,768 | **-** | 260.0p | 4/01-4/08 |
| | 17 March 1999 | Exec | 78,420 | - | - | **78,420** | 278.5p | 3/02-3/09 |
| | 16 March 2000 | Exec | 81,218 | - | - | **81,218** | 295.5p | 3/03-3/10 |
| | 19 March 2001 | Exec | 30,000 | - | - | **30,000** | 384.5p | 3/04-3/11 |
| | 19 March 2002 | Exec | - | 77,300 | - | **77,300** | 407.5p | 3/05-3/12 |
| R N Walford | 8 Dec 1997 | SAYE | 10,781 | - | - | **10,781** | 160.0p | 7/02-12/02 |
| (retired 30/6/02) | 8 Dec 1997 | Exec | 172,500 | - | 172,500 | **-** | 200.0p | 12/00-12/07 |
| | 2 April 1998 | Exec | 44,230 | - | 44,230 | **-** | 260.0p | 4/01-04/08 |
| | 17 March 1999 | Exec | 42,944 | - | 42,944 | **-** | 278.5p | 3/02-3/09 |
| | 16 March 2000 | Exec | 43,993 | - | - | **43,993** | 295.5p | 3/03-3/10 |
| | 19 March 2001 | Exec | 20,000 | - | - | **20,000** | 384.5p | 3/04-3/11 |
| D J Ritchie | 16 March 2000 | Exec | 5,000 | - | - | **5,000** | 295.5p | 3/03-3/10 |
| (appointed 1/7/02) | 12 April 2000 | SAYE | 7,150 | - | - | **7,150** | 236.0p | 5/05-11/05 |
| | 19 March 2001 | Exec | 7,000 | - | - | **7,000** | 384.5p | 3/04-3/11 |
| | 19 March 2002 | Exec | 15,214 | - | - | **15,214** | 407.5p | 3/05-3/12 |
| | 17 September 2002 | Exec | - | 15,180 | - | **15,180** | 415.0p | 9/05-9/12 |
| S H Brazier | 19 April 2001 | Exec | 44,506 | - | - | **44,506** | 359.5p | 4/04-4/11 |
| | 19 March 2002 | Exec | - | 39,263 | - | **39,263** | 407.5p | 3/05-3/12 |
| P D Baker | 8 Dec 1997 | SAYE | 10,781 | - | - | **10,781** | 160.0p | 2/03-7/03 |
| (resigned 1/2/02) | 17 March 1999 | Exec | 37,342 | - | - | **37,342** | 278.5p | 3/02-3/09 |
| | 16 March 2000 | Exec | 37,225 | - | - | **37,225** | 295.5p | 3/03-3/10 |
| | 19 March 2001 | Exec | 10,000 | - | - | **10,000** | 384.5p | 3/04-3/11 |
| M Sharpe | 8 Dec 1997 | SAYE | 4,875 | - | - | **4,875** | 160.0p | 2/02-7/02 |
| (retired 31/1/02) | 2 April 1998 | Exec | 919 | - | - | **919** | 260.0p | 4/01-4/08 |
| | 17 March 1999 | Exec | 39,209 | - | - | **39,209** | 278.5p | 3/02-3/09 |
| | 16 March 2000 | Exec | 40,609 | - | - | **40,609** | 295.5p | 3/03-3/10 |
| | 19 March 2001 | Exec | 15,000 | - | - | **15,000** | 384.5p | 3/04-3/11 |
| J M Emery | 8 Dec 1997 | SAYE | 10,781 | - | - | **10,781** | 160.0p | 1/02-6/02 |
| (retired 3/1/02) | 2 April 1998 | Exec | 30,768 | - | - | **30,768** | 260.0p | 4/01-4/08 |
| | 17 March 1999 | Exec | 29,874 | - | - | **29,874** | 278.5p | 3/02-3/09 |
| | 16 March 2000 | Exec | 29,441 | - | - | **29,441** | 295.5p | 3/03-3/10 |

# Report on directors' remuneration continued

## Share options exercised in year (audited)

Dealings in shares through exercising of share options of the Company during the year by executive directors are summarised as follows:

| | Date of exercise | Scheme | Number of options | Exercise price | Shares retained | Gain on exercise £000 | Market price on exercise |
|---|---|---|---|---|---|---|---|
| M R Harris | 11 March 2002 | Exec | 315,000 | 200.0p | 29,000 | 718 | 428.0p |
| | 11 March 2002 | Exec | 69,230 | 260.0p | - | 116 | 428.0p |
| | 12 March 2002 | Exec | 11,538 | 260.0p | 11,538 | 20 | 433.0p |
| | | | **395,768** | | **40,538** | **854** | |
| R N Walford | 11 March 2002 | Exec | 172,500 | 200.0p | - | 393 | 428.0p |
| | 11 March 2002 | Exec | 32,692 | 260.0p | - | 55 | 428.0p |
| | 12 March 2002 | Exec | 11,538 | 260.0p | 11,538 | 20 | 433.0p |
| | 5 April 2002 | Exec | 42,944 | 278.5p | 8,516 | 60 | 418.0p |
| | | | **259,674** | | **20,054** | **528** | |

During the year ended 31 December 2001 gains arising from the exercise of share options by directors amounted to £562,000.

Other changes in the directors interests in the ordinary shares of the Company arose on 8 April 2002 with the allocation of shares under the Company's Profit Sharing Scheme. There were no changes in the holdings of ordinary shares of any of the directors between 31 December 2002 and 7 March 2003.

There were no other changes in the above holdings of share options between 31 December 2002 and 7 March 2003.

Share options held under the Executive Share Option Scheme can be exercised if the auditors have certified that the cumulative increase in annualised earnings per share exceeds the percentage increase in RPI by at least 4% per annum (2% per annum for share options granted before 2001) over three consecutive years. Assuming this condition is satisfied, share options may under normal circumstances, be exercised between the third and tenth anniversary from the dates of grant.

Share options held in the Save As You Earn Share Option Scheme, which are not subject to performance conditions, may under normal circumstances be exercised during the six months after maturity of the agreement. For directors who retired during the financial year, they had the opportunity to exercise their accrued rights under the Save As You Earn Share Option Scheme for the six months after their retirement. Hence, Mr Ron Walford, Mr Mike Sharpe and Mr John Emery exercised their accrued rights during 2002, the balance of their entitlement lapsing.

For those executive directors serving as at 31 December 2002, in respect of each director's holdings of Executive Share Options at 31 December 2002, £30,000 of share options were held under an Inland Revenue approved scheme.

The middle market price of the shares at 31 December 2002 was 360.0p (2001: 384.5p). During the year ended 31 December 2002 the share price recorded a middle market low of 331.0p and a high of 469.5p.

On behalf of the Board
**Nigel Mobbs**
Chairman of the Remuneration Committee
7 March 2003

# Statement of directors' responsibilities

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the Company and Group and of the profit or loss for that period. In preparing those accounts, 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 accounts; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the accounts comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

# Independent auditors' report to the members of Bovis Homes Group PLC

We have audited the financial statements on pages 49 to 70. We have also audited the information in the Report on directors' remuneration that is described as having been audited.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for opinions we have formed.

## Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report and the Report on directors' remuneration. As described on page 47 this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Report on directors' remuneration to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Group is not disclosed.

We review whether the statement on pages 35 and 36 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Listing Rules, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

## Basis of audit opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material 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 and the part of the Report on directors' remuneration to be audited.

## Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2002 and of the profit of the Group for the year then ended; and
- the financial statements and the part of the Report on directors' remuneration to be audited have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

**KPMG Audit Plc**
Chartered Accountants
Registered Auditor
7 March 2003

# Group profit and loss account

| For the year ended 31 December 2002 | Note | Continuing operations 2002 £000 | 2001 Restated (see note 2) £000 |
|---|---|---|---|
| Turnover | | **461,284** | 358,543 |
| Cost of sales | | **(315,668)** | (243,284) |
| Gross profit | | **145,616** | 115,259 |
| Administrative expenses | | **(36,025)** | (30,034) |
| Operating profit | 3 | **109,591** | 85,225 |
| Profit on sale of freehold property | 4 | **-** | 1,213 |
| Profit before interest | | **109,591** | 86,438 |
| Interest receivable and similar income | 5 | **807** | 172 |
| Interest payable and similar charges | 6 | **(5,695)** | (6,604) |
| Profit on ordinary activities before taxation | | **104,703** | 80,006 |
| Taxation on profit on ordinary activities | 7 | **(31,200)** | (23,677) |
| Profit on ordinary activities after taxation | | **73,503** | 56,329 |
| Dividends paid and proposed | 10 | **(16,365)** | (14,549) |
| Retained profit for the financial year | 22 | **57,138** | 41,780 |
| Basic earnings per ordinary share | 11 | **63.5p** | 49.4p |
| Diluted earnings per ordinary share | 11 | **63.0p** | 48.8p |

# Group statement of total recognised gains and losses

| For the year ended 31 December 2002 | Continuing operations 2002 £000 | 2001 Restated (see note 2) £000 |
|---|---|---|
| Profit for the financial year after taxation | **73,503** | 56,329 |
| Total recognised gains and losses relating to the year | **73,503** | 56,329 |
| Prior year adjustment to recognise deferred tax asset (see note 2) | **614** | - |
| Total recognised gains and losses recognised since the last annual report | **74,117** | 56,329 |

# Note of Group historical cost profits and losses

| For the year ended 31 December 2002 | Continuing operations 2002 £000 | 2001 Restated (see note 2) £000 |
|---|---|---|
| Profit on ordinary activities before taxation | **104,703** | 80,006 |
| Realisation of property revaluation gains of previous years | **-** | 614 |
| Historical cost profit on ordinary activities before taxation | **104,703** | 80,620 |
| Historical cost profit for the year retained after taxation and dividends | **57,138** | 42,394 |

# Group balance sheet

| For the year ended 31 December 2002 | Note | 2002<br>£000 | 2001<br>Restated (see note 2)<br>£000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 12 | **8,215** | 6,844 |
| Investments | 13 | **1,123** | 1,356 |
| | | **9,338** | 8,200 |
| **Current assets** | | | |
| Stocks and work in progress | 14 | **544,496** | 544,000 |
| Debtors due within one year | 15 | **13,185** | 10,134 |
| Debtors due after more than one year | 15 | **5,082** | 8,465 |
| Cash and short term deposits | | **81,548** | 6,386 |
| | | **644,311** | 568,985 |
| Creditors: amounts falling due within one year | 16 | **(163,224)** | (128,810) |
| Net current assets | | **481,087** | 440,175 |
| Total assets less current liabilities | | **490,425** | 448,375 |
| Creditors: amounts falling due after more than one year | 17 | **(91,657)** | (111,305) |
| Provisions for liabilities and charges | 18 | **(1,794)** | (1,552) |
| Net assets | | **396,974** | 335,518 |
| **Capital and reserves** | | | |
| Called up share capital | 20 | **58,359** | 57,444 |
| Share premium account | 22 | **138,974** | 135,571 |
| Revaluation reserve | 22 | **203** | 203 |
| Profit and loss account | 22 | **199,438** | 142,300 |
| Equity shareholders' funds | | **396,974** | 335,518 |

These accounts were approved by the board of directors on 7 March 2003 and were signed on its behalf by:

**M R Harris**
**D J Ritchie**
Directors

# Company balance sheet

| At 31 December 2002 | Note | 2002 £000 | 2001 £000 |
|---|---|---|---|
| **Fixed assets** | | | |
| Investments | 13 | **759** | 866 |
| | | **759** | 866 |
| **Current assets** | | | |
| Debtors due within one year | 15 | **218,376** | 209,653 |
| | | **218,376** | 209,653 |
| Creditors: amounts falling due within one year | 16 | **(10,928)** | (9,730) |
| Net current assets | | **207,448** | 199,923 |
| Total assets less current liabilities | | **208,207** | 200,789 |
| Creditors: amounts falling due after more than one year | 17 | **(590)** | (625) |
| Net assets | | **207,617** | 200,164 |
| **Capital and reserves** | | | |
| Called up share capital | 20 | **58,359** | 57,444 |
| Share premium account | 22 | **138,974** | 135,571 |
| Profit and loss account | 22 | **10,284** | 7,149 |
| Equity shareholders' funds | | **207,617** | 200,164 |

These accounts were approved by the board of directors on 7 March 2003 and were signed on its behalf by:

**M R Harris**
**D J Ritchie**
Directors

# Group cash flow statement

| For the year ended 31 December 2002 | Note | 2002 £000 | 2001 £000 |
|---|---|---|---|
| Net cash inflow from operating activities | 23 | 107,399 | 43,908 |
| Returns on investments and servicing of finance | | | |
| Interest received | | 667 | 172 |
| Interest paid | | (5,042) | (6,720) |
| | | (4,375) | (6,548) |
| Taxation paid | | (27,612) | (23,491) |
| Capital expenditure and financial investment | | | |
| Purchase of tangible fixed assets | | (2,706) | (3,368) |
| Sale of tangible fixed assets | | 327 | 4,797 |
| Purchase of fixed asset investments | | (400) | (668) |
| Sale of fixed asset investments | | 72 | 36 |
| | | (2,707) | 797 |
| Equity dividends paid | | (15,182) | (13,678) |
| Cash inflow before management of liquid resources and financing | | 57,523 | 988 |
| Management of liquid resources and financing | | | |
| Increase in short term deposits | 24 | (75,544) | (6,000) |
| Increase in borrowings | 24 | 12,000 | 2,000 |
| Issue of ordinary share capital | | 4,318 | 2,795 |
| | | (59,226) | (1,205) |
| Decrease in cash | 25 | (1,703) | (217) |

# Group reconciliation of movements in shareholders' funds

| For the year ended 31 December 2002 | 2002<br>£000 | 2001<br>Restated (see note 2)<br>£000 |
|---|---|---|
| Opening shareholders' funds<br>(restated to reflect recognition of deferred tax asset) | **335,518** | 290,943 |
| Issue of ordinary shares | **4,318** | 2,795 |
| Total recognised gains and losses for the year | **73,503** | 56,329 |
| Dividends paid and proposed | **(16,365)** | (14,549) |
| **Closing shareholders' funds** | **396,974** | 335,518 |

# Notes to the accounts

## 1 Basis of preparation

The Group accounts include the accounts of the Company and its subsidiary undertakings all of which are made up to 31 December 2002.

As provided for by Section 230 of the Companies Act 1985, a separate profit and loss account is not presented for the Company.

## 2 Accounting policies

*Convention*

The financial information is prepared under the historical cost convention, modified to include revaluation of the fixed asset properties and in accordance with applicable Accounting Standards. The Group has adopted the new accounting standard FRS 19: "Deferred tax" during the year. As a result of the implementation of this standard, a previously unrecognised deferred tax asset has been recognised. In the current year, a deferred tax asset of £481,000 has been recognised and the tax charge has been adjusted to take account of £133,000 (2001: £277,000) of deferred tax charge arising from the reversal of timing differences during 2002. The opening profit and loss reserve has been increased to reflect the opening deferred tax asset, which would have been recognised as at 31 December 2001, amounting to £614,000. The comparative figures for the year ended 31 December 2001 have been restated to reflect the recognition of the deferred tax asset. The Group has implemented stage two of the transitional rules of FRS 17: "Retirement Benefits" during the year. Required disclosures are included in note 28.

*Turnover and profits*

Turnover principally arises from the sale of residential properties and land. Turnover and profits in respect of house sales, land sales and land exchanges are taken at the time of legal completion of the sale. Turnover does not include the sale of properties accepted in part exchange. The net profits or losses arising on the sale of part exchanged properties are dealt with in cost of sales. Profits arising from land exchanges are recognised only when the profits are supported by cash generation.

*Taxation*

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Deferred tax is recognised on all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more, or a right to pay less, tax have occurred at the balance sheet date. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates enacted at the balance sheet date.

*Fixed assets and depreciation*

In complying with FRS 15: "Tangible Fixed Assets" revalued tangible fixed asset properties owned by the Group at 31 December 1999 are retained at their prevailing book values as at 31 December 1999. In doing so, the directors have carried out an impairment review as at 31 December 2002 and have confirmed the prevailing valuations as acceptable.

Depreciation is provided on freehold and long leasehold properties based upon the difference between book value and estimated residual value charged over the estimated useful life of the property. The directors are of the opinion that, having regard to estimated residual values, based on prices prevailing at the dates of acquisition or subsequent revaluation, and the estimated useful economic lives, any depreciation involved, either annual or cumulative, would not be material.

All the properties are subject to an annual impairment review. An impairment loss on a revalued property is recognised in the profit and loss account if it is caused by a clear consumption of economic benefits. Other impairments of revalued properties are recognised in the statement of total recognised gains and losses until the carrying amount of the property reaches depreciated historical cost and thereafter in the profit and loss account. Impairment losses on other properties held at cost are charged to the profit and loss account.

Plant and machinery is depreciated on a 33.3% reducing balance basis. Computer equipment is depreciated on a straight-line basis over three years. Office machinery is depreciated on a 25% reducing balance basis.

# Notes to the accounts continued

## 2 Accounting policies continued

### *Operating leases*

Rentals under operating leases are charged to the profit and loss account as incurred.

### *Stocks and work in progress*

Development properties are recorded at cost.

Land held for development, including land in the course of development until legal completion of sale, is recorded at cost and contains no addition for overheads. Land acquired on deferred terms through the use of bills of exchange is included based on the face value of the bill.

Options purchased in respect of land are capitalised and amortised over the life of the option to enable full amortisation at the date the option period ends. Options are reviewed for impairment on a regular basis and provision made accordingly to reflect loss of value. The remaining amortised value of the option at the date of exercise is included within the cost of land purchased as a result of the option.

Raw materials and consumables are recorded at cost as invoiced by suppliers.

Housing stocks and properties taken in part exchange are valued at the lower of cost and net realisable value.

Work in progress is valued at prime cost of labour and materials with an addition for overheads other than those for general administration. Progress payments received and receivable from contracts are deducted from work in progress.

Provision is made, where appropriate, to reduce the value of stocks and work in progress to estimated realisable value.

### *Bills of exchange*

Bills of exchange accepted by the Group in connection with the purchase of land on deferred terms are included at the face value of the bill from the date of acceptance.

### *Pensions*

Pension contributions for the Bovis Homes Pension Scheme, a defined benefits scheme, are charged to the profit and loss account on a basis which spreads the cost over the employees' expected average working lives with the Group. Pension contibutions for the Bovis Homes Group Personal Pension Plan, a defined contribution scheme, are charged to the profit and loss account as incurred.

### *Segmental information*

As the Group's main operation is that of a housebuilder and it is located entirely within the United Kingdom, no segmental analysis is required.

## 3 Operating profit

Operating profit is stated after charging/(crediting):

| | | 2002<br>£000 | 2001<br>£000 |
|---|---|---|---|
| Auditors' remuneration (audit fees) | – Group | **93** | 88 |
| | – Company | **5** | 5 |
| Depreciation of tangible fixed assets | | **1,110** | 1,746 |
| Hire costs of plant and machinery | | **1,520** | 1,063 |
| Hire of other assets | | **1** | 4 |
| Rental income (included in turnover) | | **(250)** | (273) |

Fees charged by the auditor and its associates during the year in respect of non-audit work for taxation advice and compliance were £31,000 (2001: £32,200).

# Notes to the accounts continued

## 4 Profit on sale of freehold property

| | 2002 £000 | 2001 £000 |
|---|---|---|
| Net proceeds | - | 2,513 |
| Net book value | - | (1,250) |
| Delapidations provision | - | (50) |
| Profit on sale | - | 1,213 |

On 2 July 2001, Castle Bromwich Hall, the regional office for the Group's Central region, was sold for net proceeds of £2,513,000 realising a profit on disposal of £1,213,000. The Central region remained in tenancy of the property until July 2002, under a one year tenancy agreement with the new owners. During this period of tenancy, the new offices which now house the regional operation were being constructed by the Group on a site at Coleshill, near Birmingham.

## 5 Interest receivable and similar income

| | 2002 £000 | 2001 £000 |
|---|---|---|
| Income from short term deposits | **807** | 172 |

## 6 Interest payable and similar charges

| | 2002 £000 | 2001 £000 |
|---|---|---|
| Amounts payable on bank loans and overdrafts | **5,695** | 6,604 |

## 7 Taxation on profit on ordinary activities

| UK Corporation Tax | 2002 £000 | 2001 £000 |
|---|---|---|
| Current tax for the year | **31,403** | 23,728 |
| Adjustment in respect of prior years | **(336)** | (328) |
| Total current tax | **31,067** | 23,400 |
| Deferred tax charge from reversal of timing differences | **133** | 277 |
| | **31,200** | 23,677 |

During the year prior year tax positions were finalised leading to the release of a tax provision amounting to £336,000 (2001: £328,000). A deferred tax charge of £133,000 (2001: £277,000) arose as a result of the reversal of timing differences during the year.

| Current tax reconciliation | 2002 £000 | 2001 £000 |
|---|---|---|
| Profit on ordinary activities before tax | **104,703** | 80,006 |
| Current tax at 30% (2001: 30%) | **31,411** | 24,002 |
| Effects of: | | |
| Capital allowances in excess of depreciation | **(77)** | (49) |
| Movements on disallowed provisions | **(56)** | (228) |
| Profit on sale of fixed assets | - | (318) |
| Other | **125** | 321 |
| Adjustments in respect of prior years | **(336)** | (328) |
| Total current tax | **31,067** | 23,400 |

# Notes to the accounts continued

## 8 Directors and employees

The weekly average number of employees of the Group, all of whom were engaged in the United Kingdom on the Group's principal activity, together with staff costs, are set out below:

| | 2002 | 2001 |
|---|---|---|
| **Average staff numbers** | **730** | 693 |

| Staff costs | £000 | £000 |
|---|---|---|
| Wages and salaries | **22,934** | 18,855 |
| Social security costs | **1,888** | 1,886 |
| Other pension costs | **2,230** | 1,842 |
| **Total staff costs** | **27,052** | 22,583 |

Information relating to directors' emoluments, compensation for loss of office, long term incentive plan, share options (including gains thereon) and pension entitlements appears in the Report on directors' remuneration on pages 37 to 46.

## 9 Pensions

The required disclosures under FRS17: "Retirement Benefits" are included in note 28. The following disclosures are based on the accounting rules under SSAP24: "Accounting for pension costs".

The Bovis Homes Pension Scheme is an occupational pension scheme providing benefits based on employees' length of service and final average earnings. The assets of the Scheme are held in a trust separately from the Company.

The Group paid contributions during 2002 equal to the 2002 pension cost of £2,215,772 (2001: £1,842,337). The 2002 pension cost is based on the results of the actuarial valuations completed at 30 June 2001, carried out by an independent qualified actuary.

The 2001 actuarial valuation revealed that the pension cost was 20% of pensionable earnings less lower earnings limit adjustments where appropriate. The 2001 valuation used the projected unit method, the assets were taken into account at their market value and the assumptions used to value the Scheme's liabilities were as follows:

| 2001 valuation assumptions | | % per annum |
|---|---|---|
| Discount rate | - for past service | 6.0 |
| | - for future service | 6.5 |
| Rate of increase in earnings | | 4.0 |
| Rate of increase in pensions | - for service to 5 April 1997 | 2.25 |
| | - for service from 6 April 1997 | 2.5 |
| Rate of price inflation | | 2.5 |

At the date of the 2001 valuation (30 June 2001) the market value of the Scheme's assets was £31.0 million and the actuarial value of the Scheme's assets represented 97.5% of the value of the benefits that had accrued to members after allowing for expected future increases in earnings.

The Bovis Homes Group Personal Pension Plan is a defined contribution scheme established on 1 January 2002 for new employees joining the Group. The Group paid contributions during 2002 of £14,242 (2001: £nil).

# Notes to the accounts continued

## 10 Dividends

| | 2002 £000 | 2001 £000 |
|---|---|---|
| Prior year final dividend under accrued | **113** | 20 |
| Interim paid of 4.6p per share (2001: 4.2p) | **5,340** | 4,800 |
| Final proposed of 9.4p per share (2001: 8.5p) | **10,912** | 9,729 |
| | **16,365** | 14,549 |

## 11 Earnings per ordinary share

Basic earnings per ordinary share for the year ended 31 December 2002 is calculated on profit after tax of £73,503,000 (2001: £56,329,000) over the weighted average of 115,667,157 (2001: 113,977,097) ordinary shares in issue during the year.

Diluted earnings per ordinary share is calculated on profit after tax of £73,503,000 (2001: £56,329,000) over the diluted weighted average of 116,616,844 (2001: 115,391,819) ordinary shares potentially in issue during the year. The diluted average number of shares is calculated in accordance with FRS 14: "Earnings Per Share". The dilutive effect relates to the average number of potential ordinary shares held under option during the year. This dilutive effect amounts to the number of ordinary shares which would be purchased using the aggregate difference in value between the market value of shares and the share option exercise price. The market value of shares has been calculated using the average ordinary share price during the year. Only share options which have met their cumulative performance criteria as at the year end have been included in the dilution calculation. There is no dilutive effect on the profit after tax used in the diluted earnings per share calculation.

The weighted average number of shares excludes shares held in employee share trusts where dividends have been waived.

Reconciliation of weighted average number of shares between basic and diluted methods

| | Weighted average number of shares 2002 | 2001 |
|---|---|---|
| Basic method | **115,667,157** | 113,977,097 |
| Dilutive effect of share options | **949,687** | 1,414,722 |
| **Diluted method** | **116,616,844** | 115,391,819 |

# Notes to the accounts continued

## 12 Tangible fixed assets

| Group | Freehold land and buildings £000 | Plant and machinery £000 | Fixtures and fittings £000 | Total £000 |
|---|---|---|---|---|
| **Cost or valuation** | | | | |
| At 1 January 2002 | 4,186 | 5,185 | 1,541 | 10,912 |
| Additions | 1,327 | 1,224 | 225 | 2,776 |
| Disposals | - | (868) | (42) | (910) |
| **At 31 December 2002** | **5,513** | **5,541** | **1,724** | **12,778** |
| **Depreciation** | | | | |
| At 1 January 2002 | - | 3,072 | 996 | 4,068 |
| Charge for the year | - | 870 | 240 | 1,110 |
| On disposals | - | (584) | (31) | (615) |
| **At 31 December 2002** | **-** | **3,358** | **1,205** | **4,563** |
| **Net book value** | | | | |
| **At 31 December 2002** | **5,513** | **2,183** | **519** | **8,215** |
| At 31 December 2001 | 4,186 | 2,113 | 545 | 6,844 |

In complying with the transitional arrangements of FRS15: "Tangible Fixed Assets", previously revalued fixed asset properties held at the year end and owned by the Group at 31 December 1999 are retained at their prevailing book values as at 31 December 1999. The directors have undertaken an impairment review on these fixed assets as at 31 December 2002. Based upon the results of the impairment review, the net book values of all properties have been retained at the values prevailing during the year.

Additions included during the year in freehold land and buildings relate to the finishing costs of the new regional offices under construction at Coleshill, near Birmingham, the completion of an extension to the Group's registered office at New Ash Green in Kent and the purchase of an area office in Yorkshire for the Northern region.

The historical cost of property at 31 December 2002 was £5,310,000 (2001: £3,983,000).

# Notes to the accounts continued

## 13 Investments

| | Percentage shareholding % | Group 2002 £000 | Group 2001 £000 | Company 2002 £000 | Company 2001 £000 |
|---|---|---|---|---|---|
| **Subsidiary undertakings** | | | | | |
| Interest in subsidiary undertakings' shares at cost | 100 | - | - | **284** | 284 |
| **Associated undertakings - share of net assets** | | | | | |
| Bishops Park Limited | 50 | **4** | 4 | - | - |
| CCB Stevenage Limited | 33 | **13** | 13 | - | - |
| Haydon Development Company Limited | 39 | **4** | 4 | - | - |
| **Other investments** | | | | | |
| Listed investments at cost | | **2** | 2 | - | - |
| Own shares held in Bovis Homes Group Employee Trust | | **625** | 751 | - | - |
| Own shares held by Qualifying Employee Share Ownership Trust at cost | | **475** | 582 | **475** | 582 |
| | | **1,123** | 1,356 | **759** | 866 |

The subsidiary and associated undertakings in which the Group has interests are incorporated in Great Britain. In each case their principal activity is related to housebuilding and estate development. In all cases, shareholdings in associated undertakings are in ordinary shares.

The associated undertakings proposed no dividends in the year ended 31 December 2002 nor in the year ended 31 December 2001.

The Company has twenty one subsidiaries, of which there are three active operating subsidiaries, as disclosed in note 29.

Ordinary shares in the Company held in the Bovis Homes Group Employee Trust for the long term incentive plan are accounted for as investments. During 2002 shares with a value of £400,000 were purchased through the long term incentive plan and £526,634 (2001: £302,947) was amortised through the profit and loss account. This charge is levied based on the amount required to amortise all outstanding awards over three years from the start of the financial year in which the award is made. At 31 December 2002 the Bovis Homes Group Employee Trust held 456,668 shares (2001: 365,417 shares) with a market value of £1,644,005 (2001: £1,405,028) based on the closing middle market price of 360p (2001: 384.5p). The trust has waived the rights to dividends on the shares held.

The Qualifying Employee Share Ownership Trust was established in 1999. This trust holds ordinary shares in respect of Save As You Earn share options on behalf of the employees and reflects a commitment to transfer the ordinary shares to the employees. When employees exercise their options under the Save As You Earn Share Option Scheme, the trust transfers ordinary shares held in the trust to the employees, and reflects satisfaction of the trust's commitment. At 31 December 2002 the trust held 174,434 shares (2001: 213,576 shares) with a market value of £627,962 (2001: £821,200) based on the closing middle market price of 360p (2001: 384.5p). The trust has waived the rights to dividends on the shares held.

# Notes to the accounts continued

## 14 Stocks and work in progress

| Group | 2002 £000 | 2001 £000 |
|---|---|---|
| Raw materials and consumables | **2,905** | 2,684 |
| Work in progress - housing | **109,906** | 117,464 |
| Part exchange properties | **14,407** | 23,715 |
| Land held for development | **413,494** | 397,910 |
| Development properties | **3,784** | 2,227 |
| | **544,496** | 544,000 |

## 15 Debtors

| | Group | | Company | |
|---|---|---|---|---|
| | 2002 £000 | 2001 £000 | 2002 £000 | 2001 £000 |
| **Amounts falling due within one year** | | | | |
| Trade debtors | **10,864** | 7,095 | **-** | - |
| Amounts due from subsidiary undertakings | **-** | - | **205,376** | 197,653 |
| Other debtors | **1,920** | 2,319 | **-** | - |
| Prepayments and accrued income | **401** | 720 | **-** | - |
| Dividends receivable | **-** | - | **13,000** | 12,000 |
| | **13,185** | 10,134 | **218,376** | 209,653 |
| **Amounts falling due after more than one year** | | | | |
| Trade debtors | **-** | 3,049 | **-** | - |
| Other debtors | **4,601** | 4,802 | **-** | - |
| Deferred taxation | **481** | 614 | **-** | - |
| | **5,082** | 8,465 | **-** | - |
| | **18,267** | 18,599 | **218,376** | 209,653 |

### Deferred taxation - Group

| | Excess depreciation over capital allowances £000 | Other timing differences £000 | Total £000 |
|---|---|---|---|
| At 1 January 2002 | 489 | 125 | 614 |
| Charge to profit and loss account | (77) | (56) | (133) |
| **At 31 December 2002** | **412** | **69** | **481** |

# Notes to the accounts continued

## 16 Creditors: amounts falling due within one year

| | Group 2002 £000 | Group 2001 £000 | Company 2002 £000 | Company 2001 £000 |
|---|---|---|---|---|
| Bank loans and overdrafts (see note 19) | **1,935** | 8,614 | - | - |
| Trade creditors secured on land | **4,396** | 8,658 | - | - |
| Other trade creditors | **75,419** | 80,626 | - | - |
| Bills of exchange payable | **43,985** | - | - | - |
| Other creditors | **65** | 93 | - | - |
| Other taxation and social security | **599** | 532 | - | - |
| Accruals and deferred income | **8,557** | 6,657 | **16** | - |
| Corporation tax | **17,356** | 13,901 | - | 1 |
| Dividends payable | **10,912** | 9,729 | **10,912** | 9,729 |
| | **163,224** | 128,810 | **10,928** | 9,730 |

Bills of exchange relate specifically to land purchase and are included at their face value.

Trade creditors secured on land relate to land creditors secured by bank bond.

## 17 Creditors: amounts falling due after more than one year

| | Group 2002 £000 | Group 2001 £000 | Company 2002 £000 | Company 2001 £000 |
|---|---|---|---|---|
| Bank loans (see note 19) | **75,000** | 55,000 | - | - |
| Trade creditors secured on land | **189** | 5,032 | - | - |
| Other trade creditors | **15,878** | 6,663 | - | - |
| Bills of exchange payable | - | 43,985 | - | - |
| Other creditors | **590** | 625 | **590** | 625 |
| | **91,657** | 111,305 | **590** | 625 |

Trade creditors secured on land relate to land creditors secured by bank bond.

All amounts are payable within five years.

## 18 Provisions for liabilities and charges

| Group | Other provisions £000 | Deferred tax £000 | Total £000 |
|---|---|---|---|
| At 1 January 2002 | 1,552 | - | 1,552 |
| Transfer from profit and loss account in year | 395 | - | 395 |
| Amounts used in year | (153) | - | (153) |
| **At 31 December 2002** | **1,794** | - | **1,794** |

Other provisions relate to known claims or remedial works on site. A number of these provisions relate to historical issues where outstanding decisions have delayed their resolution whilst the remainder relate to current issues which are being resolved and on which expenditure will be incurred over the course of the next financial year.

# Notes to the accounts continued

## 19 Financial instruments

The Group's financial instruments comprise cash and liquid resources, bank loans and overdrafts, and various items such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

Short term debtors and creditors have been excluded from all the financial instrument disclosures.

Throughout the period under review, the Group's policy has been that no trading in financial instruments shall be undertaken.

The Group has no exposure to currency risk as all its financial assets and liabilities are denominated in sterling.

The Group has various bilateral committed revolving loan facilities. At 31 December 2002 these facilities totalled £211 million with seven banks. These facilities are split into five tranches:

| Facility | Set up date | Maturity date |
|---|---|---|
| £35 million | 11 December 2000 | 10 December 2005 |
| £20 million | 11 December 2000 | 10 December 2007 |
| £124 million | 10 January 2002 | 9 January 2007 |
| £20 million | 6 February 2002 | 5 February 2007 |
| £12 million | 3 May 2002 | 2 May 2007 |

At 31 December 2002, £136 million of these facilities remained undrawn. The facilities which mature on 10 December 2005 and 10 December 2007 were fully drawn. Of the facility which matures on 9 January 2007, £20 million was drawn.

Financial assets and liabilities of the Group at 31 December 2002 comprised:

| | 2002<br>£000 | 2001<br>£000 |
|---|---|---|
| Cash balances | **4** | 386 |
| Short term deposits | **81,544** | 6,000 |
| Bank overdraft and bank loans repayable within one year | **(1,935)** | (8,614) |
| Bank loans repayable after more than one year | **(75,000)** | (55,000) |
| Other debtors falling due after more than one year | **5,082** | 8,465 |
| Other creditors due after more than one year | **(16,657)** | (12,320) |
| Bills of exchange payable after more than one year | **-** | (43,985) |

The interest rate profile of the Group's financial liabilities at 31 December 2002 was as follows:

| | 2002<br>£000 | 2001<br>£000 |
|---|---|---|
| Floating rate | **1,935** | 614 |
| Fixed rate | **75,000** | 63,000 |
| No interest | **16,657** | 56,305 |
| | **93,592** | 119,919 |

The interest rate profile of the Group's financial assets at 31 December 2002 was as follows:

| | 2002<br>£000 | 2001<br>£000 |
|---|---|---|
| Fixed rate | **81,544** | 6,384 |
| No interest | **5,086** | 8,467 |
| | **86,630** | 14,851 |

# Notes to the accounts continued

## 19 Financial instruments continued

The maturity of the Group's financial liabilities at 31 December 2002 can be analysed as follows:

| | 2002 £000 | 2001 £000 |
|---|---|---|
| One year or less, or on demand | **1,935** | 8,614 |
| More than one year but not more than two years | **7,821** | 55,377 |
| More than two years but not more than five years | **83,836** | 35,928 |
| More than five years | **-** | 20,000 |
| | **93,592** | 119,919 |

The floating rate bank overdraft is subject to interest rates related to bank base rate and is repayable on demand. The fixed rate financial assets relate to cash placed on the money market. These sums earn interest based on interest rates set by contract and have short term fixed periods to maturity.

At 31 December 2002 the Group held borrowings of £75 million. These borrowings, although repayable at dates in 2003 are drawn down through bilateral committed revolving loan facilities which mature at dates after 31 December 2003. The borrowings are capable of being refinanced under these facilities and are therefore disclosed as liabilities due after more than one year.

Of the £75 million of borrowings, £35 million is repayable on 11 June 2003 and attracts a fixed rate of interest of 6.57% per annum, £20 million is repayable on 11 June 2003 and attracts a fixed rate of 6.70% per annum and £20 million is repayable on 10 January 2003 and attracts a fixed rate of interest of 6.09% per annum. All of these loans have interest rates which are based on floating interest rates prevailing at the dates of drawing down, however, the rates of interest are fixed through interest rate swap arrangements.

The interest rate swap arrangements which fix the interest rates payable on £55 million of the Group's borrowings were established on 11 December 2000, £35 million fixed for a five year period and £20 million fixed for a seven year period. The swap arrangements are recalculated on a semi annual basis to fix the interest rates at 6.57% and 6.70% respectively. The interest rate swap arrangements which fix the interest rates payable on the remaining £20 million of the Group's borrowings were established on 10 January 2002 for a five year period. These swap arrangements are calculated on a semi annual basis to fix the interest rate at 6.09%.

The weighted average interest rate applying to borrowings as at 31 December 2002 was 6.48% (2001: 6.34%) and the weighted average maturity period of borrowings was 3.8 years (2001: 4.2 years).

The Group has not entered into derivative transactions other than the interest rate swap arrangements.

Other debtors and other creditors due after more than one year are not subject to interest.

Other than the Group's borrowings, amounts due after one year relate almost exclusively to sums due on land purchase contracts. These sums are generally due for payment based upon details included within the land purchase contract and their maturity is therefore certain.

The fair value of land creditors due after more than one year amounted to £13.4 million compared with their carrying value of £16.1 million. The fair value was derived from the discounting of future cash flows in settling land creditors.

The fair value of the Group's fixed rate borrowings, fixed by interest swap arrangements, repayable after more than one year amounted to £78.7 million compared with their carrying value of £75.0 million. The increase in fair value over book value reflected the cost of borrowing prevailing at 31 December 2002 as against the fixed rate of borrowings arising from the swap arrangements. The fair value differences of the long term financial liabilities are not required to be accounted for within the profit and loss account. The differences as disclosed will reverse as these liabilities near their maturity.

There were no material differences between the book value and fair value of the Group's financial assets due after more than one year. The fair value was calculated by discounting expected cash flows arising on such financial assets.

# Notes to the accounts continued

## 20 Called up share capital

| | 2002 £000 | 2001 £000 |
|---|---|---|
| **Authorised** | | |
| 150,000,000 ordinary shares of 50p each | **75,000** | 75,000 |
| **Allotted, called up and fully paid** | | |
| 116,717,585 ordinary shares of 50p each | **58,359** | 57,444 |

### Analysis of movement in share capital

| | Number | £000 |
|---|---|---|
| At 1 January 2002 | 114,888,712 | 57,444 |
| Issued on exercise of executive share options (for cash consideration of £4,318,000) | 1,828,873 | 915 |
| **At 31 December 2002** | **116,717,585** | **58,359** |

# Notes to the accounts continued

## 21 Share options

At the year end the outstanding options to purchase ordinary shares in Bovis Homes Group PLC, in accordance with the terms of the applicable schemes were as follows:

| Scheme | Date of grant | Number of shares under option at 31 December 2002 | Number of shares under option at 31 December 2001 | Exercise price per share |
|---|---|---|---|---|
| Executive Share Option Scheme | 8 December 1997 | **116,292** | 959,436 | 200.0p |
| | 2 April 1998 | **119,413** | 375,934 | 260.0p |
| | 18 September 1998 | **-** | 102,000 | 200.0p |
| | 17 March 1999 | **365,873** | 1,042,755 | 278.5p |
| | 17 September 1999 | **42,952** | 74,909 | 291.0p |
| | 16 March 2000 | **470,167** | 485,167 | 295.5p |
| | 19 March 2001 | **352,809** | 372,709 | 384.5p |
| | 19 April 2001 | **44,506** | 44,506 | 359.5p |
| | 19 March 2002 | **682,085** | - | 407.5p |
| | 17 September 2002 | **15,180** | - | 415.0p |
| Save As You Earn Share Option Scheme | 8 December 1997 | **394,485** | 432,708 | 160.0p |
| | 13 April 1999 | **138,379** | 150,487 | 223.0p |
| | 12 April 2000 | **164,021** | 190,785 | 236.0p |
| | 11 April 2001 | **116,028** | 135,531 | 304.0p |
| | 10 April 2002 | **121,166** | - | 348.5p |

During the year a number of options under both schemes have lapsed as employees have left the Group.

Under the Executive Share Option Scheme, options are granted on a discretionary basis relative to executives' seniority within the Group. The options can be exercised if the auditors have certified that the cumulative increase in annualised earnings per share exceeds the percentage increase in the Retail Price Index by at least 4% per annum (2% per annum for share options granted before 2001) over three consecutive financial years. Assuming this condition is satisfied options may, under normal circumstances, be exercised between the third and tenth anniversary from the dates of grant shown above. As at 7 March 2003 options granted on 8 December 1997, 2 April 1998, 18 September 1998, 17 March 1999 and 17 September 1999 have satisfied the condition. 2,711,400 options were granted on 8 December 1997, followed by further grants of 705,364 options on 2 April 1998, 118,750 options on 18 September 1998, 1,108,051 options on 17 March 1999, 74,909 options on 17 September 1999, 495,167 options on 16 March 2000, 384,709 options on 19 March 2001, 44,506 options on 19 April 2001, 690,919 options on 19 March 2002 and 15,180 options on 17 September 2002.

The rules of the Save As You Earn Share Option Scheme specify that, under normal circumstances, options may be exercised after five years or seven years depending on which savings contract is chosen by the employee. The option period then extends for six months from the appropriate date. 574,964 options were issued on 8 December 1997, followed by a further grant of 184,635 options on 13 April 1999, 247,457 options on 12 April 2000, 142,191 options on 1 April 2001 and 129,803 options on 10 April 2002. The Group has employed the exemption under The Urgent Issues Task Force Abstract 17 "Employee share schemes" from charging the discount on Save As You Earn options to the profit and loss account.

Details of share options held by directors are included in the Report on directors' remuneration on pages 37 to 46.

# Notes to the accounts continued

## 22 Reserves

| | Group | | | Company | |
|---|---|---|---|---|---|
| | Share premium account £000 | Revaluation reserve £000 | Profit and loss account £000 | Share premium account £000 | Profit and loss account £000 |
| At 1 January 2002 (as restated) | 135,571 | 203 | 142,300 | 135,571 | 7,149 |
| Retained profit for the year | - | - | 57,138 | - | 3,135 |
| Shares issued in year | 3,403 | - | - | 3,403 | - |
| **At 31 December 2002** | **138,974** | **203** | **199,438** | **138,974** | **10,284** |

The profit before dividends for the Company amounted to £19,500,000 (2001: £18,003,000) out of which dividends of £16,365,000 were paid or proposed (2001: £14,549,000).

The information necessary to calculate the amount to be disclosed as the net cumulative goodwill written off before 23 December 1989 cannot be obtained without unreasonable expense and delay.

## 23 Reconciliation of operating profit to operating cash flows

| | 2002 £000 | 2001 £000 |
|---|---|---|
| Operating profit | **109,591** | 85,225 |
| Depreciation and amortisation | **1,636** | 2,050 |
| Profit on disposal of non property tangible fixed assets | **(19)** | (67) |
| Increase in stocks | **(496)** | (85,415) |
| Decrease/(increase) in debtors | **332** | (4,430) |
| (Decrease)/increase in creditors | **(3,645)** | 46,545 |
| **Net cash inflow from operating activities** | **107,399** | 43,908 |

## 24 Reconciliation and analysis of net funds/(debt)

| Reconciliation of net cash flow to movement in net funds/(debt) | 2002 £000 | 2001 £000 |
|---|---|---|
| Decrease in cash in the year | **(1,703)** | (217) |
| Cash outflow from change in net debt | **63,544** | 4,000 |
| Change in net debt | **61,841** | 3,783 |
| Opening net debt | **(57,228)** | (61,011) |
| **Closing net funds/(debt)** | **4,613** | (57,228) |

| Analysis of net debt funds/(debt) | Cash £000 | Bank overdraft £000 | Short term deposits £000 | Borrowings £000 | Total net funds/(debt) £000 |
|---|---|---|---|---|---|
| Balance at 1 January 2002 | 386 | (614) | 6,000 | (63,000) | (57,228) |
| Change in net debt | (382) | (1,321) | 75,544 | (12,000) | 61,841 |
| **Balance at 31 December 2002** | **4** | **(1,935)** | **81,544** | **(75,000)** | **4,613** |

# Notes to the accounts continued

## 25 Cash flow

| | 2002 £000 | 2001 £000 |
|---|---|---|
| Balance at beginning of year | **(228)** | (11) |
| Net cash outflow | **(1,703)** | (217) |
| Balance at end of year | **(1,931)** | (228) |

Analysis of balances:

| | 2002 £000 | 2001 £000 |
|---|---|---|
| Cash | **4** | 386 |
| Bank overdraft | **(1,935)** | (614) |

## 26 Financial and capital commitments

| Group | 2002 £000 | 2001 £000 |
|---|---|---|
| Group capital expenditure - contracted but not provided | **76** | 944 |

Annual commitments in respect of operating leases are as follows:

| | Land and buildings | | Plant and equipment | |
|---|---|---|---|---|
| | 2002 £000 | 2001 £000 | 2002 £000 | 2001 £000 |
| Expiring within one year | **-** | 79 | **-** | - |
| Expiring between two and five years | **85** | 26 | **-** | - |
| Expiring after five years | **52** | 52 | **-** | - |
| | **137** | 157 | **-** | - |

The Company has no financial or capital commitments.

## 27 Contingent liabilities

The Group has contingent liabilities in respect of bonds and other agreements entered into in the normal course of business and the Company has guaranteed the performance of certain of these agreements entered into by its subsidiary companies. The Company has guaranteed the repayment of bank loans made to one of its subsidiaries under bilateral loan facility agreements which amounted to £75 million at 31 December 2002 (2001: £63 million). The Company has also guaranteed the payment of bills of exchange accepted by one of its subsidiaries, such guarantees amounting to £44.0 million at 31 December 2002 (2001: 44.0 million).

# Notes to the accounts continued

## 28 Pension commitments

The disclosures required under the transitional arrangements within the accounting standard FRS 17: "Retirement Benefits" have been calculated by an independent actuary based on the most recent full actuarial valuation at 30 June 2001 updated to 31 December 2002. The results of the calculations and the financial assumptions used at 31 December 2002 were:

| Financial assumptions | | At 31December 2002 % per annum | At 31 December 2001 % per annum |
|---|---|---|---|
| Discount rate (based on FRS 17's required use of AA bond rates) | | **5.6** | 5.8 |
| Rate of increase in earnings | | **3.8** | 3.8 |
| Rate of increase in pensions | - for service to 5 April 1997 | **2.1** | 2.1 |
| | - for service from 6 April 1997 | **2.3** | 2.3 |
| Rate of price inflation | | **2.3** | 2.3 |

| Scheme assets and expected rate of return | At 31 December 2002 | | At 31 December 2001 | |
|---|---|---|---|---|
| | Expected rate of return | Market value £m | Expected rate of return | Market value £m |
| Equities | 8.2 | 20.99 | 7.3 | 26.59 |
| Bonds | 5.0 | 5.55 | 5.2 | 3.52 |
| Other | 3.8 | 0.07 | 4.3 | 0.18 |
| Total | | **26.61** | | **30.29** |

**Components of defined cost for the year ended 31 December 2002**

*Analysis of amounts charged to operating profit*

| For the year ended 31 December 2002 | £m |
|---|---|
| Current service costs | 2.50 |
| **Total charged to operating profit** | **2.50** |

*Analysis of the amount charged to other finance income*

| For the year ended 31 December 2002 | £m |
|---|---|
| Interest on pension scheme liabilities | 1.95 |
| Expected return on assets in the pension scheme | (2.19) |
| **Net credit to other finance income** | **(0.24)** |

| | |
|---|---|
| **Total profit and loss charge before deduction of tax** | **2.26** |

**Analysis of the amount recognised in the Statement of total recognised gains and losses**

| For the year ended 31 December 2002 | £m |
|---|---|
| Loss on asset | 7.51 |
| Experience loss on liabilities | 0.37 |
| Loss on change of assumptions (financial and demographic) | 1.60 |
| **Total loss recognised in the Statement of total recognised gains and losses** | **9.48** |

# Notes to the accounts continued

## 28 Pension commitments continued

### History of experience gains and losses (current year only)

| | For the year ended 31 December 2002 | Total |
|---|---|---|
| **Loss on plan assets** | | |
| Amount (£m) | **7.51** | 7.51 |
| Percentage of scheme assets at year end (%) | **28.2** | 28.2 |
| **Experience loss on plan** | | |
| Amount (£m) | **0.37** | 0.37 |
| Percentage of scheme liability at year end (%) | **0.9** | 0.9 |
| **Total actuarial loss recognised** | | |
| Amount (£m) | **9.48** | 9.48 |
| Percentage of scheme liabilities at year end (%) | **23.6** | 23.6 |

### Reconciliation of the balance sheet

| | At 31 December 2002 £m | At 31 December 2001 £m |
|---|---|---|
| Total market value of Scheme assets | **26.61** | 30.29 |
| Actuarial value of the Scheme liabilities | **(40.10)** | (34.26) |
| Deficit in the Scheme | **(13.49)** | (3.97) |
| Related deferred tax asset | **4.05** | 1.19 |
| **Net pension deficit** | **(9.44)** | (2.78) |

### Analysis of the movement in deficit in the scheme during the year

| For the year ended 31 December 2002 | £m |
|---|---|
| Deficit in the Scheme at beginning of year | **(3.97)** |
| Contributions paid | **2.22** |
| Current service cost | **(2.50)** |
| Other finance income | **0.24** |
| Actuarial loss | **(9.48)** |
| **Deficit in the Scheme at year end** | **(13.49)** |

## 29 Principal operating subsidiaries

The principal operating subsidiaries of the Company at 31 December 2002, all of which were incorporated in England and Wales, were as follows:

| | Proportion of equity held | Principal activity |
|---|---|---|
| Bovis Homes Limited | 100% | Housebuilding and estate development |
| Bovis Homes Developments Limited | 100% | Housebuilding and estate development |
| Unitpage Limited | 100% | Housebuilding and estate development |

# Five year record

| Years ended 31 December | 2002 £m | 2001 Restated (note 1) £m | 2000 Restated (note 1) £m | 1999 Restated (note 1) £m | 1998 Restated (note 1) £m |
|---|---|---|---|---|---|
| **Turnover and profit** | | | | | |
| Turnover | **461.3** | 358.5 | 305.0 | 277.8 | 234.3 |
| Operating profit | **109.6** | 85.2 | 70.7 | 56.9 | 45.1 |
| Exceptional profit | **-** | 1.2 | - | - | - |
| Profit before interest | **109.6** | 86.4 | 70.7 | 56.9 | 45.1 |
| Net interest | **(4.9)** | (6.4) | (3.6) | (1.5) | (0.1) |
| Profit before taxation | **104.7** | 80.0 | 67.1 | 55.4 | 45.0 |
| Taxation | **(31.2)** | (23.7) | (19.5) | (17.4) | (14.3) |
| Profit after taxation | **73.5** | 56.3 | 47.6 | 38.0 | 30.7 |
| Dividends | **(16.4)** | (14.5) | (13.3) | (12.2) | (11.3) |
| Retained profit for year | **57.1** | 41.8 | 34.3 | 25.8 | 19.4 |
| **Balance sheet** | | | | | |
| Equity shareholders' funds | **397.0** | 335.5 | 290.9 | 255.6 | 229.8 |
| Add borrowings | **76.9** | 63.6 | 62.0 | 2.6 | 7.2 |
| Capital employed | **473.9** | 399.1 | 352.9 | 258.2 | 237.0 |
| **Returns** | | | | | |
| Operating margin (note 2) | **23.8%** | 23.8% | 23.2% | 20.5% | 19.3% |
| Return on shareholders' funds (note 3) | **18.5%** | 16.9% | 16.3% | 15.1% | 13.6% |
| Return on capital employed (note 4) | **25.1%** | 23.0% | 23.1% | 23.0% | 20.1% |
| **Homes (including units sold on third party owned land)** | | | | | |
| Number of unit completions | **2,691** | 2,429 | 2,360 | 2,429 | 2,303 |
| Average sales price (£'000) | **168.5** | 140.6 | 123.3 | 109.4 | 96.8 |
| **Ordinary shares** | | | | | |
| Earnings per share (p) | **63.5** | 49.4 | 42.2 | 33.8 | 27.2 |

*Note 1: The comparatives have been restated to reflect the effect of adopting FRS 19: "Deferred tax".*

*Note 2: Operating margin has been calculated as operating profit over turnover.*

*Note 3: Return on shareholders' funds has been calculated as profit after interest and tax over closing shareholders' funds.*

*Note 4: Return on capital employed has been calculated as profit before interest and tax over the average of opening and closing shareholders' funds plus debt.*

# Notice of meeting

NOTICE IS HEREBY GIVEN that the 2003 Annual General Meeting of Bovis Homes Group PLC will be held at The Institute of Directors, 116 Pall Mall, London SW1Y 5ED on Thursday 8 May 2003 at 12 noon for the following purposes:

## Resolution

### Ordinary business

1 To receive and adopt the audited accounts of the Company for the year ended 31 December 2002 and the reports of the directors and auditors.

2 To approve the report on directors' remuneration for the year ended 31 December 2002.

3 To declare the final dividend recommended by the directors.

4 To re-appoint Malcolm Robert Harris as a director of the Company, who retires by rotation.

5 To re-appoint Mark Patrick Nicholls as a director of the Company, who retires by rotation.

6 To re-appoint David James Ritchie as a director of the Company, appointed by the Board of Directors since the last Annual General Meeting.

7 To re-appoint KPMG Audit Plc as auditors of the Company.

8 To authorise the directors to determine the remuneration of the auditors.

### Special business

As special business to consider and, if thought fit, to pass the following resolutions:

9 **Ordinary resolution**

That, in substitution for the existing authority for the purposes of Section 80 of the Companies Act 1985 ("the Act") conferred upon the directors by a resolution passed at the Annual General Meeting of the Company held on 7 May 2002, the directors be and they are hereby generally and unconditionally authorised in accordance with Section 80 of the Act to allot relevant securities (which for the purposes of this resolution shall have the same meaning as in Section 80(2) of the Act) of the Company provided that:

(i) the maximum amount of relevant securities that may be allotted pursuant to the authority given by this resolution shall be up to an aggregate nominal amount of £16,530,849.50 being equal to the unissued share capital of the Company;

(ii) subject as provided in sub-paragraph (iii) below, such authority shall expire at the conclusion of the Annual General Meeting of the Company in 2004 or fifteen months from the date of this resolution, whichever is the earlier, but may be previously revoked or varied by an ordinary resolution of the Company;

(iii) such authority shall permit and enable the directors to make an offer or agreement before the expiry of such authority, which would or might require relevant securities to be allotted after such expiry and to allot such securities pursuant to any such offer or agreement as if such authority had not expired; and

(iv) in relation to the grant of any rights to subscribe for, or to convert any security into, shares in the Company, the reference in this resolution to the maximum amount of relevant securities that may be allotted is to the maximum amount of shares which may be allotted pursuant to such rights.

# Notice of meeting continued

**10 Special resolution**

That the directors pursuant to the general authority conferred on them by ordinary resolution number 9 above be and are hereby empowered pursuant to Section 95 of the Companies Act 1985 ("the Act") to allot equity securities (as defined in Section 94(2) of the Act) for cash as if Section 89(1) of the Act did not apply to any such allotments, such power to expire at the conclusion of the Annual General Meeting of the Company in 2004 or fifteen months from the date of this resolution, whichever is the earlier (but so as to enable the Company, before the expiry of such power, to make offers or agreements which would or might require equity securities to be allotted after such expiry and to enable the directors to allot equity securities in pursuance of such offers or agreements as if the power conferred thereby had not expired) and to be limited to:

(i) the allotment of equity securities in connection with an invitation or offering by way of rights to ordinary shareholders where the equity securities respectively attributable to the interest of all ordinary shareholders are proportionate (as nearly as may be practicable) to the respective numbers of ordinary shares held by them, subject to such exclusions or other arrangements as the directors may deem necessary or expedient to deal with fractional entitlements or problems arising under the laws of any overseas territory or the requirements of any regulatory authority or any stock exchange; and

(ii) the allotment otherwise than pursuant to sub-paragraph (i) above of equity securities up to an aggregate nominal amount of £2,923,457 being 5% of the issued share capital of the Company.

**11 Special resolution**

That the Company be and is hereby granted general and unconditional authority, for the purposes of Section 166 of the Companies Act 1985 ("the Act"), to make market purchases (within the meaning of section 163(3) of the Act) of the ordinary shares of 50 pence each in its capital PROVIDED THAT:

(i) this authority shall be limited so that the number of ordinary shares of 50 pence each which may be acquired pursuant to this authority does not exceed an aggregate of 11,693,830 ordinary shares and shall expire at the conclusion of the next Annual General Meeting of the Company in 2004 (except in relation to the purchase of ordinary shares the contract for which was concluded before such time and which is executed wholly or partly after such time ); and

(ii) the maximum price which may be paid for an ordinary share shall not be more than 5% above the average of the market values for an ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Company agrees to buy the ordinary shares and the minimum price which may be paid for an ordinary share shall be 50 pence in each case exclusive of expenses.

Bovis Homes Group PLC
The Manor House
North Ash Road
New Ash Green
Longfield
Kent DA3 8HQ

By Order of the Board

M T Q Palmer
Company Secretary
4 April 2003

# Notice of meeting continued

Notes:

(i) Only holders of ordinary shares entered on the register no later than 6.00 pm on 6 May 2003 will be entitled to attend or vote at the meeting or any adjournment thereof. Such members of the Company may appoint one or more proxies (whether members or not) to attend and, on a poll, to vote instead of the member. The instrument appointing a proxy, and the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority must be received at the office of the Company's Registrar, Computershare Investor Services PLC, PO Box 1075, Bristol BS99 3FA, not less than 48 hours before the time for holding the meeting. Completion of the proxy form will not preclude a member from attending and voting in person instead of his/her proxy. The Company will announce the level of proxy votes for and against each resolution once the resolution has been voted on by a show of hands, except where a poll is called. When announcing a decision on a poll, the Company will disclose the total number of votes in favour and against.

(ii) The following documents will be available for inspection at the Company's registered office, during normal business hours, 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) directors' service contracts (other than contracts expiring or determinable within one year without payment of compensation); and

(b) the register of directors' interests.

(iii) Shareholders (and any proxies or representatives they appoint) agree, by attending the meeting, that they are expressly requesting and that they are willing to receive any communications (including communications relating to the Company's securities) made at that meeting.

# Explanatory notes to the notice of meeting

### Item 1: Report and accounts

The directors must present to shareholders at the Annual General Meeting the report of the directors and the accounts of the Company for the year ended 31 December 2002. The report of the directors, the accounts and the report of the Company's auditors on the accounts are contained within the annual report and accounts.

### Item 2: Directors' remuneration

The directors are now required to present the report on directors' remuneration, which sets out remuneration policy, to shareholders for approval.

The report on directors' remuneration can be found on pages 37 and 46 of the report and accounts.

### Item 3: Final dividend

Subject to the declaration of the final dividend at the meeting, the dividend will be paid on 23 May 2003 to shareholders on the register at the close of business on 25 April 2003.

### Items 4, 5 and 6: Re-appointment of directors

The Company's Articles of Association require that at every Annual General Meeting one third of the directors who are subject to retirement by rotation shall retire from office. Malcolm Robert Harris and Mark Patrick Nicholls will retire by rotation and offer themselves for re-appointment.

The Company's Articles of Association also require that any director appointed by the Board since the last Annual General Meeting shall hold office only until the next following Annual General Meeting. Accordingly, David James Ritchie will offer himself for re-appointment.

Brief details of all the directors are to be found on pages 28 and 29 of the report and accounts.

### Items 7 and 8: Re-appointment of auditors and auditors' remuneration

The auditors of a company must be re-appointed at each general meeting at which accounts are presented. Resolution 7 proposes the re-appointment of the Company's existing auditors, KPMG Audit Plc, for a further year. Resolution 8 gives authority to the directors to determine the auditors' remuneration.

### Items 9: Authority to allot shares

Resolution 9 renews the authority given to your Directors at the last Annual General Meeting to allot relevant securities in accordance with Section 80 of the Companies Act 1985, such authority to expire at the conclusion of the next Annual General Meeting (or, if earlier, 15 months from the date of the resolution). The directors intend to seek renewal of this authority at subsequent Annual General Meetings.

The authority sought is limited to an aggregate nominal amount of £16,530,849.50 being 28.27% of the Company's total ordinary share capital in issue as at 7 March 2003.

The Board has no specific plans to exercise this authority other than in connection with the employee share schemes. However, it wishes to obtain the necessary authority from shareholders so that allotments can be made (should it be desirable and should suitable market conditions arise) at short notice and without the need to convene an Extraordinary General Meeting of the Company which would be both costly and time consuming.

### Item 10: Disapplication of pre-emption rights

Resolution 10 empowers the directors (until the conclusion of the next Annual General Meeting in 2004) to make limited allotments of ordinary shares for cash other than according to the statutory pre-emption rights, which require a company to offer all allotments of ordinary shares for cash proportionately to existing shareholders first. This power would provide the directors with the flexibility to act in the best interests of shareholders when opportunities arise, so that:

(i) the Company can follow normal practices in the event of a rights issue; and

(ii) ordinary shares may be issued wholly for cash other than proportionately to existing ordinary shareholders up to a maximum of 5% of the Company's total ordinary share capital in issue as at 7 March 2003.

# Explanatory notes to the notice of meeting continued

There are presently no plans to allot ordinary shares wholly for cash other than in connection with the employee share schemes. Shares allotted under an employee share scheme are not subject to statutory pre-emption rights.

The authority sought by Resolution 10 will last until the conclusion of the next Annual General Meeting, (or, if earlier, 15 months from the date of the resolution). The directors intend to seek renewal of this power at subsequent Annual General Meetings.

## Item 11: Authority to purchase own shares

In accordance with Article 45 the directors are seeking authority to enable the Company to make market purchases of up to 11,693,830 of its own shares representing approximately 10% of the Company's total ordinary share capital in issue as at 7 March 2003. Before exercising such authority, the directors would ensure that the Company was complying with the current relevant UK Listing Authority and ABI guidelines. No purchases would be made unless the effect would be to increase the earnings per share of the remaining shareholders and the directors consider the purchases to be in the best interest of shareholders generally. The directors have no present intention of making such purchases but, in view of the strong balance sheet position, would like to have the flexibility to consider such purchases in the future.

The maximum price per share for any purchase would not be in excess of 5% above the average of the market values for an ordinary share of the Company derived from the London Stock Exchange Daily *Official List* for each of the five business days immediately preceding the day on which the ordinary shares are purchased. The minimum price would be 50 pence being the nominal value of each ordinary share. The authority will only be valid until the conclusion of the next Annual General Meeting in 2004.

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